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AUSTRALIA | NEW ZEALAND

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FLEETPARTNERS GROUP REPORTS 1H23 RESULTS

FleetPartners Group Limited (ASX: FPR, "Group", formerly Eclipx Group Limited) today releases its results for the half-year ended 31 March 2023

Highlights for the half-year ended 31 March 2023 ("1H23")

- Assets under Management or Financed ("AUMOF") of $1.9 billion up 2%[1] compared to prior comparative period, 1H22 ("pcp"), despite continuing supply constraints in key vehicle segments.
- New Business Writings ("NBW") orders taken in 1H23 were at record levels, up c.1.3x indexed to 1H19 levels[2], indicative of the underlying commercial growth of the Group driven by strong customer demand and a proxy for NBW growth in a non-constrained supply environment.
- NBW down 3%[3] compared to pcp, due to continuing supply constraints in key vehicle segments.
- NBW order pipeline (undelivered NBW orders) now at a record 3.0x indexed to FY19 levels[4] as orders growth continues to exceed NBW deliveries.
- Operating expenses of $41.5 million in line with FY23 guidance and expected to be up 2-3% for the full year. The Group continues to demonstrate a disciplined approach to cost management in the face of broad-based inflationary pressure.
- End of lease income (EOL) per vehicle at $7,658, remaining elevated relative to pre-COVID-19 levels, with the number of vehicles sold down 20% due to delivery delays for replacement vehicles.
- Net operating income ("NOI") of $108.6 million down 19% compared to pcp, primarily due to fewer EOL vehicles being sold due to delivery delays, and the normalisation of maintenance income in line with previously communicated expectations.
- Net Profit After Tax excluding Amortisation ("NPATA") of $42.6 million, down 31% compared to pcp driven predominantly by lower EOL, as expected.
- Cash conversion of 141% reflecting strong organic capital generation.
- Net cash of $39.4 million providing balance sheet flexibility to pursue future organic and inorganic opportunities as they emerge and capital management.

Capital management – 1H23 share buy-back (up to $43 million) to be conducted in 2H23

- A total on-market share buy-back of $43 million has been declared, made up of:
  - $28 million representing 65% of 1H23 NPATA, being the top end of the Group's targeted capital payout range;
  - $10 million representing an incremental 25% of 1H23 NPATA above the target payout range, as a special share buy-back, reflecting ongoing confidence in the Group's balance sheet and liquidity; and
  - $5 million carried forward from the 2H22 buy-back, that was not utilised during 1H23.

- To the extent the share buy-back cannot be completed in 2H23, the Board will consider alternative options for returning the remaining amount to shareholders.

Strategic Pathways progress and Accelerate program

- Significant progress made with Strategic Pathways, our growth strategy designed to expand market share in our target markets of Corporate, Small Fleets and Novated. NBW orders up 1.3x indexed to 1H19.
- Momentum building in Novated, with NBW growth of 12%[1] compared to pcp and NBW orders up 1.8x indexed to 1H19. Novated experienced a significant increase in demand for battery electric vehicles ("BEVs") and plug-in hybrid electric vehicles ("PHEVs") following the introduction of the Electric Car Discount during the half, with these NBW orders up 27x compared to 1H21 and up 4x compared to 1H22.
- NBW orders in Corporate & Small Fleets across Australia and New Zealand were up 1.2x indexed to 1H19 levels, however due to ongoing new car delivery delays, NBW were down 9%[3].
- Strong start to the Accelerate program, delivering against key early milestones, including migration of Fleet NZ customers from FleetPlus to FleetPartners, and the Group rebrand to FleetPartners.
- Continued progress with our ESG program in 1H23 with the publication of the Group's inaugural Sustainability Report, endorsement of its Reflect Reconciliation Action Plan and retention of its WGEA certification.

Group performance

AUMOF ended the half-year at $1.9 billion up 2%[1] compared to pcp. The Group's NBW performance ensured the second consecutive year of AUMOF growth, despite being significantly impacted by the ongoing delays to new vehicle supply.

In line with the Group's strategy of directing more NBW to warehouse funding, on balance sheet funded AUMOF (warehouse and ABS) increased by 5%. On balance sheet funded leases generate a higher overall return over their term than P&A funded leases.

Underlying customer demand remained strong, with NBW orders in 1H23 up 1.3x compared to pre-COVID-19 levels[2] and NBW order pipeline up 3.0x[4]. Both results represent record highs.

The Group delivered NBW of $322.5 million, down 3%[3], a strong result in the context of ongoing vehicle supply chain disruption, stemming from a global production backlog, compounded by shipping shortages and port congestion.

The Group's focus on cost management continued in 1H23, with operating expenses of $41.5 million. The half-year run rate has the Group on track for $82-$83 million for the full year which would represent a 2%-3% increase compared to FY22.

The average EOL per vehicle during 1H23 was $7,658, remaining elevated relative to pre-COVID-19 levels as a result of ongoing supply constraints. The performance was flat compared to 2H22 and down 13% compared to pcp.

Supply constraints also resulted in vehicles at end of lease being extended as customers await replacements, driving a decrease of 20% in EOL units disposed compared to pcp.

NOI pre-EOL and provisions margin of 7.70% was within the expected normalised range (7.50 – 7.75%), reducing from the elevated 8.21% in pcp due to the normalisation of maintenance activity due to increased fleet utilisation following COVID-19 lock-downs and some maintenance cost inflation. As a result, NOI pre-EOL and provisions was down 7%.

Portfolio quality continues to be strong with 90+ day arrears at 35bps, below pre-COVID-19 levels and the average since September 2016.

NPATA was $42.6 million in the half-year, down 31% compared to pcp and largely driven by a decline in EOL vehicles sold during the half due to supply delays.

Balance sheet & capital management

The Group achieved strong organic cash generation of $62.0 million, with cash conversion of 141%. As of 31 March 2023, the Group's balance sheet had a net cash position of $39.4 million, reflecting a $295.5 million reduction in net debt since March 2019.

During the half, the Group successfully executed on the issuance of a $350 million Australian asset-backed securitisation, providing funding flexibility and capacity to support growth plans.

The Group commenced its on-market share buy-back program during FY21. Since that time, the Group has returned a total of $123.1 million to shareholders and cancelled 55 million shares, representing an 18% permanent reduction in share capital.

Given the Group continues to be a beneficiary of the Australian Federal Budget's Temporary Full Expensing policy, it does not have distributable franking credits, and is not expected to accrue franking credits until FY26 at the earliest. Therefore, the Board believes a return of capital to shareholders is best achieved through an on-market share buy-back, in the absence of a better use of capital.

The Board has declared an on-market share buy-back program of up to $43 million, reflecting:

- $28 million or 65% of 1H23 NPATA ($42.6 million), being the top end of the Group's targeted capital pay-out range;
- $10 million, or an incremental 25% of 1H23 NPATA above the target pay-out range, as a special share buy-back; and
- $5 million carried forward from the FY22 buy-back, that was not utilised during 1H23.

To the extent the share buy-back cannot be completed in 2H23, the Board will consider alternative options for returning the remaining amount to shareholders.

Strategic Pathways and Accelerate

The Group has made significant progress with Strategic Pathways, a strategy designed to expand into new and existing target markets of Corporate, Small Fleets and Novated. The strategy has focused on developing sales and distribution capabilities in order to drive further penetration into these markets.

This strategy is now firmly embedded in the business, with growing evidence of positive strategic momentum. In particular, New Zealand 'Corporate & Small Fleets' grew 1H23 NBW orders to 1.9x 1H19 levels[2] and Novated grew 1H23 NBW orders to 1.8x 1H19 levels[2], with the Group holding a record NBW order pipeline at 31 March 2023, representing 3.0x pre-COVID-19 levels[4].

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 NBW order pipeline, recent tender wins, and new and current customer activity.

The Group launched the Accelerate program during 1H23. The objective of this three-year business transformation program is to consolidate multiple operating systems, thereby removing duplication of brands, systems and processes to enhance the profitability benefits currently being delivered by Strategic Pathways. The program is expected to improve customer outcomes, enhance employee engagement, and deliver an annualised operating expense reduction of $6 million by mid-FY25, at an estimated total investment of $25 million. During 1H23 the Group achieved key early milestones associated with the program, including migration of Fleet NZ customers from FleetPlus to FleetPartners, and the Group rebrand to FleetPartners.

The Group is a market leader in New Zealand, where the demand for Hybrid ("HEV"), Plug-in Hybrid ("PHEV") and Battery Electric Vehicles ("BEV") has been stimulated by legislation supporting low and no emission vehicles. These cars currently represent 50% of our New Zealand business NBW order pipeline. The introduction of the Electric Car Discount in Australia during 1H23 has stimulated demand for BEVs and PHEVs in Australia. As a result, NBW orders for these vehicles in 1H23 increased to 27.4x 1H21 levels in Novated.

ESG and sustainability are central to the Group's strategy and values. During 1H23, the Group published its inaugural Sustainability Report, received endorsement of its Reflect Reconciliation Action Plan and retained its WGEA certification.

Outlook

The Group is in a strong position from a financial and strategic perspective, reinforced by the underlying strength of the 1H23 result. The financial position of the Group has never been better, with no net debt (net cash: $39.4 million), providing balance sheet flexibility for future organic and inorganic opportunities as they emerge.

The Group plans to continue delivering incremental EPS growth through disciplined capital management, including on-market share buy-backs and investment in strategic opportunities such as Strategic Pathways and Accelerate, that deliver strong returns and sustainable EPS benefits for shareholders. Since the commencement of the buy-back program, the Group has cancelled 55 million shares, representing an 18% permanent reduction in share capital, which is expected to reach c. 25% on completion of the declared $43 million target buy-back.

Order activity is showing significant strength and NBW order pipelines across the Group's segments are at record highs, which is expected to support asset and revenue growth in future periods as the supply chain normalises.

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

Investor call and webcast

Damien Berrell (CEO) and James Owens (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/10030290-jk23lk.html

You will receive a calendar invite and a unique code which is to be quoted when dialling into the call.

If you'd like to ask a question, please dial "*1" (star, 1) on your telephone keypad.

Open Briefing Live

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1. Excluding FleetChoice NT (FCNT), which was dissolved in March 2022 in line with the Group's strategy to exit low returning products.
2. NBW orders benchmarked to 1H19 to demonstrate the underlying level of demand, absent the impacts of supply constraints, versus pre-COVID-19 levels.
3. Excluding FCNT NBW and sale and leasebacks (1H22: $25.7m; 1H23: $0.2m).
4. NBW order pipeline benchmarked to Sep-19 to compare current levels against typical levels in an unconstrained supply environment, with FY19 representing the last full financial year prior to the emergence of the COVID-19 pandemic.