SG Fleet Group
Integrated Mobility

ASX Announcement

Stronger Second Half Pushes SG Fleet Profit to $67.7m

- **FY18 NPAT $67.7m, up 13.6% on FY17**
- **EPS 26.38cps (up 11.9%)**
- **Fully franked final dividend of 9.958cps / FY18 total 18.738cps (up 11.5%)**
- **Growth in product & services penetration key driver of profitability**
- **Increased contribution from UK and New Zealand businesses**

14 August 2018

SG Fleet Group Limited (‘SG Fleet’ **/** ASX: SGF) has reported a Net Profit After Tax (‘NPAT’) of $67.7 million for the 2018 financial year (‘FY18’), up 13.6% on the prior corresponding period (‘FY17’).

Total revenue for the reported period was $316.5 million, up 7.9% on the previous financial year. Growth in both profit and revenue was higher than fleet growth as a result of increased penetration of the Company’s add-on products and services within its customer base and higher end of lease income.

Expenses increased by 8.4% to $220.2 million. This was largely driven by an increase in fleet management costs, as well as higher depreciation and amortisation as a result of further growth in average on-balance sheet lease assets.

Reported Earnings Per Share (‘EPS’) reached 26.38 cents, up 11.9%. SG Fleet’s Board has declared a fully franked final dividend of 9.958 cents per share[1], bringing the total dividend for FY18 to 18.738 cents per share, up 11.5% on FY17.

Addressing of 1H challenges delivers improved performance

SG Fleet’s Chief Executive Officer, Robbie Blau, noted that the Company successfully addressed a number of challenges encountered towards the end of the first half to deliver a better performance in the second period and continued revenue and profit growth for the full year. “We had strong contributions from the acquisitions made in the UK in the previous year, as well as from our New Zealand operations. The main theme of the year across all geographies has been the continued growth in the products and services we provide to our customers,” Mr Blau said.

Australia

The Australian economic climate improved towards the end of the first half, however, reflecting a lag in the retail industry overall, private car sales were down when compared to the 2017 financial period. Overall, the industry continued to benefit from a steady stream of new opportunities in a competitive environment. While a number of regulatory reviews impacted pricing in some product areas in the first half, no significant developments regarding the Company’s immediate regulatory environment occurred later in the year. As reported at the half

[1] Record date 25 September 2018, Payment date 16 October 2018

year, the lowering of commissions on extended warranty products, in line with regulatory reviews, impacted performance in the novated segment.

“Key features in our Corporate business this year have been a further strengthening of relationships with major customers as well as greater product penetration,” Mr Blau noted. “We generated increased traction for our technology-based solutions and other add-ons with both corporate and government customers as they upped their overall spend on our services to access the cost savings we generate on their behalf. This has allowed us to grow overall profit independently of vehicle numbers growth,” he said.

Some of the growth in extensions that held back vehicle growth was attributable to the end of local vehicle manufacturing, which led customers with ‘buy local’ fleet policies to delay replacements. This backlog is expected to clear progressively. At the start of the year, the heavy commercial segment proved challenging in terms of winning contracts at reasonable returns. However, this behaviour abated somewhat, benefiting the business’ performance in the second half.

The Consumer business was successful in signing up new employers, growing the total pool of employees eligible for novated leases. Conversion into novated drivers continued to be challenging, with subdued consumer sentiment a factor in lease take-up. Conversion of upsell opportunities was strong, however. “The improvement we made to the management of our product mix has yielded positive results for us,” Mr Blau commented. “Encouragingly, the sale of accessories to novated drivers has been buoyant. In addition, we rolled out our well-established car buying and disposal services to both individual drivers and the wider employee base of our customers,” he said.

Integration of the nlc business neared its completion during the reported period. The remaining two phases of the IT system migration will be completed within the current financial year.

United Kingdom

The economic climate in the UK saw some improvement during the year and this was reflected in an uptick in interest in both tool-of-trade, particularly light commercials, and salary packaging services. Personal contract hire products also continued to gain momentum. “This is one of several promising growth areas for us in the UK,” Mr Blau said. “We have launched personal leasing products to individual consumers, as well as van-based schemes into the owner/driver segment via franchise and trade association affiliations,” he noted.

Overall, the business continued to build out its customer book, breaking into a number of new industry sectors and locations, in both tool-of-trade and salary packaging. The SME segment, which accounts for a very significant part of the UK economy, is seen as a further avenue to future growth.

Mr Blau also noted that low emission vehicles continued to be a hot topic in the UK. “We are currently working with a major national utility company to raise awareness and promote electric vehicles, providing us with a great opportunity to benefit from their strong brand presence and get our own brand in front of a wider audience,” he said.

Integration of the Fleet Hire and Motiva businesses progressed rapidly throughout the year. The Motiva system migration is on track for completion in the current half year period.

New Zealand

The New Zealand economy saw a relatively lengthy period of strong growth and this positive mood was reflected in healthy tender activity, providing continued opportunities for SG Fleet’s local operations. “As was the case in Australia, we saw a trend towards higher value-add solutions in this market. Given our positioning as a specialised provider to blue chip companies, this is a development that suits us well,” Mr Blau commented.

The business had wins in multiple sectors and further developed its reach within government on the back of previous achievements in that segment, including amongst key entities such as the Transport Ministry, the Defence Force and KiwiRail. The recognition of the quality of the Company’s products and services was also reflected in panel accounts activity, with SG Fleet consistently winning a large share of orders.

Efficiency drive continues

During the year, the Company embarked on a group-wide efficiency drive to further simplify, automate and digitise its processes. “Many of our operational processes constitute a significant workload and cost for the business, and they shape the quality of the customer experience. Offering our customers an enhanced experience remains a major focus for us,” Mr Blau noted. “Our efficiency program is an opportunity for SG Fleet to improve its operating rhythm, make progress across multiple efficiency measures and optimise the way we deliver to our customers,” he said.

Additional growth layers as FY19 progresses

“During the 2018 financial year, we successfully integrated a number of businesses while maintaining focus on the performance of our ongoing operations. We acted decisively to address some challenges in the first half and, in addition to achieving our objectives for the second half, we were able to partially offset the impact of these early headwinds,” Mr Blau commented.

“Growth in the current financial year will come primarily from ongoing activities, supplemented by further product and services expansion, as well as any acquisitions. Innovation remains a key driver in this process and to enhance that focus, we have established a dedicated innovation hub within the Group. Many of the products we have already brought to market are only in the early stages of adoption, and that adoption is now accelerating. We expect this to continue in future years as we bring our mobility services solutions to market. Both developments add growth layers to our existing activities, as will any acquisitions. This is very much a natural progression of our current model,” he said.

“Our financial health remains strong and we can readily fund new strategic initiatives, both organically and inorganically. We have the strong support of our majority shareholder, Super Group and we intend to be an active participant in any emerging corporate activity,” Mr Blau concluded.

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