SG Fleet Group
Integrated Mobility

ASX Announcement

Second Half Performance Improvement Brings SG Fleet Profit to $60.5m

- **FY19 Reported NPAT $60.5m / Underlying NPAT $64.5m (FY18: $67.5m)**
- **Fully franked final dividend of 9.52cps / FY19 total 17.689cps**
- **Proactive addressing of headwinds yields profit improvement on 1H**
- **Operating conditions remain challenging in Consumer business**
- **Positive performance from Corporate, UK and New Zealand businesses**

22 August 2019

SG Fleet Group Limited ('SG Fleet' **/** ASX: SGF) has reported a Net Profit After Tax ('NPAT') of $60.5 million for the 2019 financial year ('FY19'). Underlying NPAT, which excludes a non-cash impairment related to the Company's move to a single brand in its Consumer business, was $64.5 million. Reported and Underlying NPAT in the prior corresponding period ('FY18') was $67.5 million.

Total revenue for the full financial year was $509.7 million, 1.1% lower than in the previous year. Revenue was kept relatively stable despite the continuation of challenging conditions for the Consumer business as the Company further improved product and services penetration.

Reported Earnings Per Share ('EPS') was 23.20 cents (FY18: 26.30 cents). SG Fleet's Board has declared a fully franked final dividend of 9.52 cents per share[1], bringing the total dividend for FY19 to 17.689 cents per share (FY18: 18.738 cents per share).

2H improvement as operational measures yield results

SG Fleet's Chief Executive Officer, Robbie Blau, noted that the Company's efforts to proactively deal with the challenges encountered in the first half had produced a better performance in the second period of the financial year.

"The first six months was a tough period for us, with a perfect storm of external factors impacting our Consumer business. While these factors are still very much at play, we have been better at growing our customer book, penetration of additional products and services has increased, and we have become more efficient in how we operate and bring these products to market. All of these advances are here to stay and will continue to have a positive impact in future periods," Mr Blau said.

Australia

Despite a temporary bounce in business and consumer sentiment in the aftermath of the election and the first interest rate cut, the Australian market environment remained largely unchanged. Retail conditions similar to those last seen during the GFC were reflected in the 10% decline in private new vehicle sales on FY18. This also meant residual values of second hand vehicles remained strong.

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[1] Record date 19 September 2019, Payment date 10 October 2019

SG Fleet's Corporate business continued to record wins across a range of contract sizes and different industries, further diversifying its customer book. The Direct Business in particular showed good progress. The Company saw an acceleration of the penetration trends reported in previous periods and accessories income again grew strongly. While the opportunities pipeline remains healthy, decision processes continue to be slow, often delaying tender outcomes.

The Consumer business was successful in addressing some of the first half challenges, producing an improvement in its performance despite retail sentiment continuing to impact demand. While overall private new car sales declined sharply again in the January to June period, the decline in new novated sales during the same period was limited to 2%. Promisingly, the business was able to grow both the pool of employees eligible for novated leases and revenue from add-on products and services.

"Our Corporate business repeated its good performance from the first half and our Consumer business made clear progress on the previous period. This demonstrates the continued presence of the longer-term structural trends supporting demand for our services," Mr Blau said. "It is also evidence of our ability to generate healthy profits even in tough conditions."

United Kingdom

In the UK, business confidence generally remained poor in the context of continued Brexit uncertainty. New vehicle registrations were mixed, with consumers hesitant but businesses relatively steady, as evidenced by the resilience of fleet registrations overall, and vans in particular. On the back of tax changes incentivising low emission vehicle use, as well as the expanding range of available models, interest in EVs continues to grow in the UK.

SG Fleet's UK business had another busy period on-boarding wins and successfully pursuing additional contracts in both the tool-of-trade and personal contract hire segments. Affinity schemes, while small, have been a success with a range of organisations and the Company is looking at opportunities to roll out the model more widely. Further growth is expected from newly signed customers that will roll onto the book in the current period.

"After a significant profit increase in the first half, we have made further progress in the second half in the UK," Mr Blau noted.

New Zealand

Following a number of periods with strong economic growth, New Zealand is slowing down, with business confidence and new vehicle registrations declining in tandem. Tender activity in fleet management and leasing held up well, particularly in the private sector, although there is evidence of greater price sensitivity.

SG Fleet's local business continued to do well despite this environment, successfully converting fleet customers to funded as well as winning additional managed business.

Mr Blau said: "Our New Zealand business is very much seen as a high value-add provider and this continues to help us open doors. Opportunities continue to arise for us across a range of industries here and we expect to make good progress again in the current period."

Building a better platform to invest and create new opportunities

SG Fleet previously indicated its intent to diversify its funding methods and introduce a greater degree of on-balance sheet funding. In addition, the Company flagged at the half year results that it would be reviewing its portfolio of add-on insurance products.

“As a result of this review, we are launching a re-designed protected lease product. Together with the continuous roll-out of other new products and services with a predominantly annuity profile, the goal is to further reduce sensitivity to external factors and create a more stable and lower risk revenue profile. We are also taking this opportunity to further improve the value we offer to our customers,” Mr Blau commented.

“In terms of our revenue profile, these initiatives will lead to a spreading out, over the life of a typical lease, what previously would have been upfront income reflected entirely in the year of origination. As a consequence, we estimate that about $15 to 20 million of FY20 income will now shift to future years. It is important to note that the spreading of income over the life of a secured lease is not a loss of income but a beneficial conversion to annuity revenue and a stabilisation of revenue streams,” he said.

“Of course, we target a good level of organic growth on an ongoing basis. The objective of these initiatives is to augment that organic growth further by improving the positioning of our products,” Mr Blau added.

“This greater revenue stability will create a better platform on which to grow and invest in our business, and expand our offering in a rapidly changing environment in which we are generating an increasing range of opportunities. That objective is further supported by the steady stream of the products our recently established Innovation Hub is bringing to market,” he said.

“We believe we are entering an exciting stage in our evolution: an increased rate of innovation and successful product launches, a strengthening of our position as an industry leader with a clear strategic vision, and a further improvement in the quality, resilience and visibility of our revenue streams,” Mr Blau concluded.

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