SG Fleet Group
Integrated Mobility

ASX Announcement

SG Fleet Reports $29.4m Profit

- **1H19 NPAT $29.4m (-6.7% vs. 1H18)**
- **EPS 11.33cps (-8.0% vs. 1H18)**
- **Fully franked interim dividend of 8.169cps**
- **Corporate, UK and NZ businesses performing well**
- **External factors impact Consumer business**

19 February 2019

SG Fleet Group Limited ('SG Fleet' **/** ASX: SGF) has reported a Net Profit After Tax ('NPAT') of $29.4 million for the half year period ending 31 December 2018 ('1H19').

Total revenue for the reported period was $248.7 million[1], 1.9% lower than the restated number for the previous corresponding period ('1H18')[2], predominantly as a result of lower new vehicle deliveries, and in particular novated deliveries.

Reported Earnings Per Share ('EPS') was 11.33 cents. The Board of SG Fleet has declared a fully franked interim dividend of 8.169 cents per share[3].

Consumer challenges offset strong Corporate performance

SG Fleet's Chief Executive Officer, Robbie Blau, noted the strong performance of the Company's corporate tool-of-trade business and offshore operations. "Without doubt, our mixed portfolio has helped us contain the impact of the performance of the novated business. The operating conditions we experienced during the period in the consumer auto environment were some of the worst we have encountered for a decade or so," he commented.

"We flagged at our AGM that the performance of our novated business was reflecting the slump in private new car sales and that pattern continued in the second quarter of the financial year. This offset the strong showing of other parts of the business," Mr Blau said.

Australia

Business conditions were relatively stable during the period. However, the healthy economy and strong unemployment figures did not flow through to consumer spending and there was a clear weakness in retail.

"In the absence of wage growth and in the context of the perceived negative wealth effect resulting from the housing downturn, consumers just aren't spending or are delaying purchase decisions. This is particularly the case for larger ticket items, with private new vehicle sales down 11.5% nationally during the period," Mr Blau noted.

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[1] As a result of new accounting standard AASB 15, end of lease income has been grossed up, resulting in a larger total revenue number.

[2] Restated 1H18 Total Revenue 253.5m vs. 154.2m reported at time of 1H18 results announcement

[3] Record date 28 March 2019 / Payment date 18 April 2019

The growth of the Company’s Corporate business continued, with a number of new contracts won across a variety of sectors, including local government. Increased traction was also achieved with small and medium-size businesses.

“Importantly, we have continued to solidify our relationship with existing customers. We had a number of significant long-term contract extensions in both the government and the private sector, confirming once again that our customers are very happy with our products and our service,” Mr Blau said.

SG Fleet’s widening range of products and services also contributed to growth in the business. The Company launched the Inspect365 Chain-of-Responsibility product, which was well received by existing and new customers. Its car sharing product is seeing growing demand from corporate and government customers, as are the Company’s electric vehicle and mobility consultancy services.

The Consumer business faced challenging conditions during the period. While further new employer accounts were won, employees tended to delay purchase decisions because of poor sentiment. As a result, new novated sales were down 4.1% on 1H18. Profitability was also impacted by the lowering of commissions on the Company’s extended warranty product, first flagged at the 2018 full year results announcement.

Mr Blau said: “The business was affected by an unusual combination of external challenges. We are experiencing a cyclical downturn in car demand and at the same time, we are seeing the impact of the financial services reviews. The credit process environment has added further pressure to this, with some banks’ approval processes lengthening considerably. There is no doubt this has affected our ability to close novated deals during the period”.

United Kingdom

SG Fleet’s UK business did not see a marked impact from Brexit, growing profits by 50% and in doing so becoming an increasingly important contributor to the Group’s profitability. It achieved further sizeable tool-of-trade wins and continues to roll out its successful personal contract hire schemes.

“Short-term rental has also been a growth area and we have been successful in winning a number of opportunities in this space. We intend to grow this product further in coming periods,” Mr Blau noted.

“The outlook for us in the UK is very good. We have now integrated the acquired businesses, we are all on one system platform, and we are promoting one single brand to the market place. In short, we are a larger player than before, with a strong order book, and we are looking to build on that,” he said.

New Zealand

In New Zealand, SG Fleet continues to widen its footprint. As was the case in previous periods, a typical pattern has been that of companies that outsource fleet management now also requesting funding solutions. A number of new customer wins were registered and the business was able to convert some panel structures into sole supply arrangements to its benefit. Demand for higher-end services such as telematics, driver safety and alternative fuel consulting continues to grow.

“Just as was the case in Australia, we received strong endorsement from our customers, both government and corporate, in the shape of lengthy contract extensions,” Mr Blau noted.

Targeting customer growth and services expansion

Mr Blau said: “We continue to see tough conditions in our Consumer business and we are working on dealing with the challenges faced. In addition, we have a number of ongoing programs in place that are focused on operational excellence and greater efficiency in all our geographies, and across both our Corporate and Consumer business”.

“Promisingly, in our Corporate business, we are seeing a strong pipeline of tender opportunities and we now have an ever-widening range of value-add solutions to promote,” he noted.

“In the Consumer business, we are working with our funders to improve credit processes and address their impact on our ability to sign up new leases. We commenced a full review of our add-on insurance product portfolio late last year and aim to finish this process by the end of the current period,” he said.

“On the innovation front, I am particularly buoyed by the good response to the new products our dedicated team has brought to market and I look forward to the contributions these and future innovations will make to both the quantum and quality of our earnings going forward. We will of course also continue to keep an eye out for inorganic growth opportunities,” Mr Blau added.

”As to the outlook for the remainder of this financial year, the main factors impacting the performance of our Consumer business are still in play. At the time of the AGM, we anticipated a stronger skew towards the second half than has historically been the case. We expect an improvement in the second half, but given the persistent presence of the headwinds in the Consumer business first flagged back then, we believe that the first half - second half split will be closer to that achieved in previous years,” Mr Blau concluded.

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