SG Fleet Group
Integrated Mobility

ASX Announcement

SG Fleet Reports $24.5m Profit

- **Total revenue $250.2m (+0.6% vs. 1H19)**
- **NPAT $24.5m (-16.6% vs. 1H19)**
- **Fully franked interim dividend of 6.943cps**
- **FY20 Underlying NPAT forecast $48m-$51m**

18 February 2020

SG Fleet Group Limited ('SG Fleet' **/** ASX: SGF) has reported a Net Profit After Tax ('NPAT') of $24.5 million for the half year period ended 31 December 2019 ('1H20').

Total revenue was $250.2 million, 0.6% higher than in the previous corresponding period ('1H19'). Net revenue was impacted by lower vehicle deliveries and changes to the Company's add-on insurance portfolio, including the conversion of some products from up-front to annuity income.

Reported Earnings Per Share was 9.35 cents. The Board of SG Fleet has declared a fully franked interim dividend of 6.943 cents per share[1].

Good activity levels in Corporate offset by intensifying external pressures in Novated

SG Fleet's Chief Executive Officer, Robbie Blau, commented: "While we achieved growth in total revenue and again saw healthy activity levels in our Corporate tool-of-trade business, we faced a number of external pressures, including from the credit environment and poor motor vehicle sales. The improvement seen at the start of the reported period in our Consumer novated area did not carry through into the second quarter. In fact, consumer sentiment, private new car sales, and the credit environment weakened again late in the period and this impacted our financial performance, as foreshadowed at our previous results announcement," he said.

"At that time, we announced a move towards an annuity income generating insurance product as well as the introduction of more on-balance sheet funding. Whilst the implementation of securitisation has taken longer than planned, it is fair to say that the impact of changes to the insurance products has been greater than expected. However, we are decreasing our reliance on upfront income and penetration of annuity-style products is increasing, helped by the strong relationships we have within our customer base," Mr Blau noted.

Australia

Despite some economic uncertainty, the Australian Corporate business continued to see a strong pipeline of opportunities. However, tender decisions are taking longer to materialise, partly reflecting the increasing range and complexity of the products and services requested. Both the longer decision timeframes and continued high levels of extensions impacted vehicle delivery numbers during the period.

[1] Record date 26 March 2020 / Payment date 16 April 2020

“We recorded additional wins late in the reported period and we have again seen a number of major contracts that were renewed without going to tender, a strong endorsement of our product and service quality and evidence of the stickiness of our customer base. These wins will be running on in the current period. We also expect a number of tender decisions to come through in the next few months,” Mr Blau noted.

The Company’s product offering continues to shift away from pass-through products to hi-tech solutions developed by its in-house innovation team, with customers showing an increasing appreciation of the benefits of using tech solutions to optimise their fleets.

“One striking feature of the past period has been the number of innovation presentations we have delivered for existing and prospective customers. These presentations position us well for future business as we establish relationships with potential customers and create interest for new solutions with customers already on our books,” Mr Blau said. “The outlook for our Corporate business remains positive on the customer and product front,” he noted.

In the Consumer business, improvements seen in the early months dissipated later in the reported period, with negative consumer sentiment triggering further weakness in private new car sales. This resulted in lower novated sales, although – as in previous periods – the Company performed better than the broader consumer sales market. A deteriorating credit environment late in the period further affected the business’ ability to close deals.

“We were not immune to the insurance product margin pressure experienced by the industry,” Mr Blau said. “We exited a couple of smaller add-on insurance products and the new product mix, including the new annuity style products, is still being fine-tuned so penetration hasn’t settled yet. These changes to our product portfolio will of course deliver benefits in future periods,” he noted.

“The combination of all of these factors made this another challenging period for the Consumer business. However, we are dealing with these impacts by growing our product portfolio and by laying the groundwork for improved conversion in future periods,” Mr Blau said.

United Kingdom

The underlying performance of the UK business was positive again during the period, but some weakness in demand for short-term rentals and a challenging residual value environment in the lead-up to the election negated some of the business’ continued operational progress. While uncertainty kept the country’s overall fleet registrations flat, the Company bucked that trend and grew registrations by 4%.

“It has obviously been an eventful six months in the UK and the uncertainty surrounding the elections continued to flatten confidence early on. Since then, we are seeing some settling of the economy and without doubt, business feels more positive now. Residual values are holding up better as well,” Mr Blau observed.

“We have kept very busy and the new business pipeline continues to grow. Fully maintained contract hire wins were achieved for sizeable fleets in a number of industries. In addition to signing up new accounts, our focus is on enhancing our customer ties by supplying an increasing number of products,” Mr Blau observed.

New Zealand

In New Zealand, business confidence was somewhat muted but tender activity remained positive. The Company continued to pursue emerging opportunities, avoiding excessive price competition where possible.

The key development for the New Zealand business during the period was the win of the Northpower contract, one of the largest fleets in the country. The 1,200-asset contract came onto the book during the current half.

"The win has really made an impression on our industry, and we have been getting numerous calls from other potential customers. This business continues to punch well above its weight, and we will obviously look to take full advantage of the reputational benefits of this development in the pursuit of further opportunities," Mr Blau commented.

Strengthening position in changing industry environment

The Company previously flagged that changes to its insurance product portfolio and the introduction of securitisation would have a $15 to $20 million impact on revenues. With the securitisation implementation still ongoing and changes to insurance products having a greater effect than anticipated, the Company expects the impact to be at the top-end of this range and is correspondingly forecasting Underlying NPAT for the 2020 financial year to be in the range of $48 million to $51 million.

"While we are currently not immune to the headwinds affecting our industry, ultimately these initiatives will reduce our sensitivity to external factors and create a more stable revenue profile," Mr Blau commented.

"Our objective remains to build growth on what is a very sticky customer base by maintaining our above-market share win rates and by achieving greater penetration for a widening range of technology-driven, high value-add products and services. We again stepped up the rate of launches during the period and our third-party technology investments are performing well. This will further support our objective of creating sustainable growth," he said.

"It is a challenging time for our industry and the way we generate revenue and profits is clearly shifting. There is no doubt that the Corporate tool-of-trade business in our diversified portfolio is helping us counteract some of the headwinds in the Consumer space and we believe this presents an opportunity to strengthen our position and emerge from this period a more resilient business," Mr Blau concluded.

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