SG Fleet Group
Integrated Mobility

ASX Announcement

SG Fleet delivers $25.4m profit, helped by continued strong performance of Corporate business and accelerating recovery in Novated

- **1H21 Reported NPAT $25.4m (1H20: $24.5m) vs. AGM guidance of $22-24m**
- **No JobKeeper payments received**
- **Order pipeline elevated – benefits to flow into future periods**
- **Fully franked interim dividend of 7.192cps / 65% pay-out ratio reinstated**

16 February 2021

SG Fleet Group Limited ('SG Fleet' / ASX: SGF) has reported a Net Profit After Tax ('NPAT') of $25.4 million for the six-month period ended 31 December 2020 ('1H21'). No JobKeeper payments were received during the period. NPAT was higher than the $24.5 million achieved in the prior corresponding period ('1H20'), which was unaffected by the COVID-19 crisis. The result exceeded the $22-24 million guidance range provided at the Company's AGM in October 2020, helped by a continued strong residual value environment in the final months of the period.

Total net revenue for the half year was $98.2 million, up 1.3% on 1H20. Reported Earnings Per Share was 9.71 cents, up 3.9% on 1H20. SG Fleet's Board has declared a fully franked interim dividend of 7.192 cents per share[1], after reinstating its policy of paying out 65% of NPATA in dividends.

Diversified portfolio helps business emerge in better shape from COVID-19

SG Fleet's Chief Executive Officer, Robbie Blau, noted that the first half of the 2021 financial year still stood in the context of COVID-19. "Demand disruptions continued to occur, notably during the Victoria lockdowns, but I am happy to report that the good performance we delivered in the second half of 2020 has ensured we were able to make further progress during the first half of 2021, beyond what we expected halfway through that period," he said.

The strong performance of the Corporate businesses in Australia, the UK and New Zealand helped offset the anticipated lower deliveries in the Novated business in the third quarter. Results were also supported by exceptional residual value conditions throughout the period.

"Again, as a Group, we benefited from the diversification and the natural hedge of our business portfolio," Mr Blau said. "As the current supply issues dissipate, we will start to see the positive impact of the business won over the past year flow into the current and future periods."

Australia

Although economic activity and resulting demand were impacted in certain segments, the Company's diversified customer and product portfolio and its strong position in the essential services and government space meant that SG Fleet's Corporate business continued its strong performance from the early stages of the COVID-19 crisis.

[1] Record date 16 March 2021, Payment date 13 April 2021

Tender activity levels in 1H21 were again higher than in the previous period, and the Company continued to increase its win rate, across both the Corporate and Novated business. In addition, multiple contract renewals added further to the growth in the Company's customer book. The business delivered a number of large sale and leaseback deals during the period as companies continued to focus on cash flow management and balance sheet optimisation.

"The flipside of these high activity levels is that everyone is scrambling for new vehicle stock. We are obviously keen to fill the large wins we have had over the past 12 months, but the reality is that deliveries will continue to spill into future periods," Mr Blau noted.

Product penetration, as defined by the number of products taken up by a single customer, continued its rise. "Close to half of our customers now take up multiple products. This was about a third just two periods ago. What we are seeing now is that small-to-medium sized businesses are also starting to opt for a more comprehensive service arrangement," Mr Blau observed.

The fortunes of SG Fleet's Novated business changed for the better halfway through the period. The lifting of most COVID-19 restrictions resulted in a rebound in enquiries to pre-COVID levels or better in the second quarter. As was the case in the Corporate business, supply challenges stopped the business from fully benefiting from this improvement in terms of delivery numbers.

Mr Blau noted: "Deliveries for the period were down, but the pipeline of orders yet to be delivered is strong and, even more promisingly, lead numbers are currently higher than in the previous corresponding period. So as supply improves, we should see a strong catch-up effect."

The Company continued to work with its lenders and with drivers in industries most affected by COVID-19 to manage the impact of redundancies on novated leases. Inevitably, many drivers had to early-terminate their leases, which affected total fleet numbers. "Staff worked tirelessly to find solutions for affected drivers and their efforts have received due recognition from our customers," Mr Blau said.

"We are increasingly seen as a valued partner in managing people's household costs by taking care of one of their major expense items, the family car. Our strong Net Promotor Scores indicate we have further improved our reputation by providing customers with the advice and help they needed through these challenging times," Mr Blau noted.

United Kingdom

SG Fleet's UK business faced a challenging environment during the period, with multiple lockdowns resulting in a stop-start economy. "Not all industries suffered as a consequence, and our business is seeing certain sectors starting to pick up activity levels as they anticipate a return to normality at some stage. There is some evidence that the mood in the UK is improving as the Brexit situation has played out and as hopes increase that the current vaccine program will help control COVID-19," Mr Blau said.

The focus of the UK business during the period was on maintaining service levels and on fulfilling deliveries for the wins achieved in the second half of 2020 and in the reported period. The disruption of manufacturing of vehicles and parts in certain regions complicated these efforts to an extent.

As was the case in Australia and New Zealand, balance sheet optimisation strategies by customers resulted in strong interest in sale and leasebacks. Significant progress was also made in terms of upsell of a wider range of products and services, such as short-term rental, the Motrak telematics solutions and the Novalease salary packaging offering.

"I am very proud of the way in which our UK leadership team and staff continue to bravely address the challenges they face, growing the business in the process and significantly enhancing the reputation and standing of SG Fleet in that market," Mr Blau said.

New Zealand

The impact of COVID-19 on SG Fleet New Zealand was limited and the business largely operated on a business-as-usual basis. Stock availability was challenging, particularly in higher volume models.

Tender activity remained strong, and in addition to the ongoing pursuit of opportunities, the business saw a greater appetite from customers for funding and sale and leasebacks. "Conversion to funded fleets and sale and leasebacks have traditionally been a strength of ours in this market, so we are obviously taking full advantage of the higher demand," Mr Blau noted.

The business was also successful in retaining one of its large marquee customers, and this on a longer-term contract. "I should emphasise this was not retained on price but on the basis of the quality of the services we were already providing. This certainly confirmed our standing in that market and our ability to punch well above our weight, something that is being recognised by other, prospective customers," Mr Blau said.

Strong second half expected

"During the period, our Australian Corporate business continued its progress from the previous half and Novated leads recovered to pre-COVID levels and beyond in the fourth quarter of the calendar year. Additional growth in delivery numbers has been delayed by supply disruptions, but this will spill over into future periods. The UK made further progress despite the harsher conditions over there and in New Zealand, our business has been not been overly impacted by COVID-19.

"We continue to be very successful with our tenders, and our widening products and services range is well received by a growing number of our customers. While COVID-19 might have triggered some of this demand, the resulting trends in terms of requirements are very much here to stay. Our investments in Carly and DingGo are performing well, and we continue to develop next generation solutions, including in the low emission vehicle space. All of this has put us in a very strong position for the future," Mr Blau noted.

"At this stage, we believe the current residual value environment will continue through the third and fourth quarter. While supply issues are expected to remain, our focus will be on getting new orders in, and judging from the full opportunities pipeline in all of our businesses, we are confident that we will grow our order book strongly. We anticipate a very good second half, subject to current trends continuing. However, taking into account the strong first half performance, it is unlikely that we will see our typical first half / second half profit split," Mr Blau concluded.

This announcement was authorised for release by the Company Secretary of SG Fleet Group Limited.

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