

## Element Reports Record Quarter, Raises 2022 Guidance

- *Second quarter net revenue grew 22.4% over last year and 10.5% from last quarter to \$288.1 million, Element's highest quarterly revenue on record*
- *The Company's scalable operating platform magnified this net revenue growth into strong pre-tax income and AOI growth, expanding pre-tax income margin to 51.9% and operating margin 385 bps from Q2 last year to 57.6% for the quarter*
- *The 11% reduction in common shares resulting from Element's buyback programs over the last 22 months amplified these results into all-time highs of \$0.26 EPS, \$0.29 adjusted EPS and \$0.37 FCF per share*
- *Element returned \$212.1 million cash to shareholders in the quarter through dividends, and buybacks of (i) common shares under the Company's NCIB and (ii) its Series I preferred shares in their entirety at quarter-end*
- *The Company significantly advanced its capital-lighter business model in the second quarter, with Services revenue growing 32.6% from Q2 last year and 13.8% over last quarter to \$150.0 million, and syndications totaling \$791.1 million of assets sold, enhancing Element's return on common equity and pre-tax return on common equity to 11.3% and 16.8%, respectively*
- *Element raised full-year 2022 results guidance to indicate net revenue will grow 10-12%, AOI 13-17%, adjusted EPS 22-27% and FCF per share 21-26% over full-year 2021 results*

**TORONTO, ON, August 10, 2022** - Element Fleet Management Corp. (TSX:EFN) ("Element" or the "Company"), the largest pure-play automotive fleet manager in the world, today announced record financial and operating performance for the three months ended June 30, 2022 and raised the Company's full-year 2022 results guidance.

Second quarter net income of \$111.1 million represents \$0.26 on a per share basis. Q2 adjusted operating income ("AOI") of \$165.9 million was \$39.4 million higher than Q2 last year ("year-over-year") and \$23.1 million higher than last quarter ("quarter-over-quarter"). Q2 AOI represents \$0.29 of adjusted EPS - 9 cents per share growth year-over-year and 5 cents quarter-over-quarter.

Element grew free cash flow ("FCF") per share 11 cents year-over-year and 8 cents quarter-over-quarter to \$0.37 for Q2, demonstrating the cash generating capability of the Company's business model.

"By delivering consistent, superior service to our clients while helping them navigate the challenges of this uncertain economic environment, Element produced record results in the second quarter and first half of this year," said Jay Forbes, President and Chief Executive Officer of the Company. "From the early days of transformation to our current pursuit of organic growth, our strategy has always been focused on our clients, anticipating and exceeding their needs and expectations. In 2022, this client-centric approach has seen our team of fleet experts assisting clients adapt to a convergence of factors - inflation, rising interest rates, supply chain disruptions and the lingering impacts of the pandemic - keeping their fleets and their drivers safe and productive. Our success in doing so is evidenced in our first half results and updated guidance for 2022."

## **Revised 2022 guidance**

Element expects to deliver better full-year 2022 performance than previously guided and will provide increased full-year 2023 results guidance alongside next quarter's results.

For 2022, Element expects full-year net revenue to grow 10-12% year-over-year, with the Company's scalable operating platform magnifying that growth into 13-17% AOI growth on the same basis, implying 54-55% operating margins.

Free cash flow per share is expected to grow 21-26% year-over-year to \$1.27-1.32 for 2022. Adjusted EPS is similarly expected to grow 22-27% year-over-year, to \$1.03-1.07 for 2022.

Both adjusted EPS and FCF per share growth are underpinned by ongoing common share buybacks pursuant to the Company's normal course issuer bid ("NCIB"), the upshot of which is a projected weighted average outstanding common share count of between 390 and 400 million for full-year 2022.

The revised 2022 guidance set out here includes net revenue (and resulting operating income and cash flow) from Element actions being taken this year that are not expected to generate similar levels of net revenue next year or in subsequent years. The Company provides more details - including 2022 guidance excluding such net revenue (and accompanying operating income and cash flow) - in its Supplementary Information document for the second quarter, available on Element's website.

## **Profitable revenue growth atop a scalable operating platform**

Element's second quarter net revenue grew 22.4% year-over-year and 10.5% quarter-over-quarter to \$288.1 million, led by services revenue growth of 32.6% year-over-year and 13.8% quarter-over-quarter.

Net revenue growth was demonstrably profitable as quarter-over-quarter pre-tax income and AOI growth rates - at 19.2% and 16.2%, respectively - were both materially higher than quarter-over-quarter net revenue growth. Pre-tax income margin expanded to 51.9% and operating margin expanded 281 basis points to 57.6% for the quarter.

Element's Q2 EPS were \$0.26 and adjusted EPS were \$0.29, the latter up 9 cents per share or 45.0% year-over-year and 5 cents or 20.8% quarter-over-quarter.

## **A capital-lighter business model**

Element's sale of fleet assets to third parties - financial buyers with a lower cost of capital - is one of two thrusts of the Company's capital-lighter business model, and advances several aspects of Element's profitable growth strategy:

- Syndication generates a highly profitable, recurring revenue stream for the Company;
- Syndication accelerates revenue recognition (while improving economics) and increases the velocity of cash flow; and
- Syndication alleviates the need the Company would otherwise have (as a growing business) to increase its on-balance-sheet funding and therefore retain equity to manage the resulting pressure on leverage. Instead, syndication has allowed Element to grow while significantly

lowering its tangible leverage ratio and, at the same time, returning \$334.2 million cash to shareholders in the first half of 2022.

Element syndicated \$791.1 million of assets in the second quarter, generating \$14.8 million of revenue or a 1.9% "yield" on assets syndicated.

The second thrust of Element's capital-lighter business model is services revenue growth, because services revenue has much lower funding needs than net financing revenue: only the net working capital required to procure parts and services for clients.

Second quarter services revenue increased \$36.9 million or 32.6% year-over-year and \$18.2 million or 13.8% quarter-over-quarter due largely to:

- A. The speed at which Element is converting new client and share of wallet wins into active services being provided to new and existing clients (penetration);
- B. Element clients' increasing use of services (utilization) due to increased vehicle activity levels in general, and - due to the ongoing, unprecedented OEM production delays - the advanced average age of clients' vehicles in particular; and
- C. Parts and labour cost inflation across Element's networks of supplier-partners.

The Company's MD&A and Supplementary Information documents for the quarter contain further details of Q2 services revenue composition and growth.

Element's advancement of its capital-lighter business model enhances ROE: year-over-year at June 30, return on common equity had improved to 11.3% and pre-tax return on common equity had improved 90 basis points to 16.8%.

### **Growing free cash flow per share and the return of capital to shareholders**

Element generated \$0.37 of FCF per share in the second quarter; 42.3% or 11 cents per share growth year-over-year and 27.6% or 8 cents growth quarter-over-quarter.

Per share growth is aided by Element's return of capital to common shareholders through buybacks pursuant to the Company's NCIB. Combined with Element's dividend payout, the Company returned \$62.1 million cash to common shareholders in the second quarter.

## Adjusted Operating Results as reported

(in \$000's for stated values, except per share amounts)	Three-month periods ended			Six-month periods ended	
	June 30, 2022	March 31, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	\$	\$	\$	\$	\$
<b>Net revenue</b>					
Servicing income, net	150,037	131,842	113,185	281,879	227,674
Net financing revenue	123,252	115,181	109,352	238,433	220,372
Syndication revenue, net	14,844	13,777	12,865	28,621	35,954
<b>Net revenue</b>	<b>288,133</b>	<b>260,800</b>	<b>235,402</b>	<b>548,933</b>	<b>484,000</b>
<b>Adjusted operating expenses<sup>1</sup></b>					
Salaries, wages and benefits	77,786	76,212	72,654	153,998	146,279
General and administrative expenses	28,944	27,797	25,826	56,741	52,972
Depreciation and amortization	15,456	13,935	10,410	29,391	20,936
<b>Adjusted operating expenses</b>	<b>122,186</b>	<b>117,944</b>	<b>108,890</b>	<b>240,130</b>	<b>220,187</b>
<b>Adjusted operating income</b>	<b>165,947</b>	<b>142,856</b>	<b>126,512</b>	<b>308,803</b>	<b>263,813</b>
Provision for taxes applicable to adjusted operating income	42,317	37,147	32,577	79,464	64,705
Cumulative preferred share dividends	8,103	8,103	8,103	16,206	16,206
After-tax adjusted operating income attributable to common shareholders <sup>1</sup>	115,527	97,606	85,833	213,133	182,902
Weighted average number of shares outstanding [basic]	398,242	401,575	428,646	399,899	433,547
<b>After-tax adjusted operating income per share<sup>1</sup> [basic]</b>	<b>0.29</b>	<b>0.24</b>	<b>0.20</b>	<b>0.53</b>	<b>0.42</b>

## Adjusted Operating Results in constant currency<sup>2</sup>

(in \$000's for stated values, except per share amounts)	Three-month periods ended			Six-month periods ended	
	June 30, 2022	March 31, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	\$	\$	\$	\$	\$
<b>Net revenue</b>					
Servicing income, net	150,037	132,450	115,969	281,879	229,522
Net financing revenue	123,252	115,655	110,608	238,433	219,376
Syndication revenue, net	14,844	13,864	13,348	28,621	36,477
<b>Net revenue</b>	<b>288,133</b>	<b>261,969</b>	<b>239,925</b>	<b>548,933</b>	<b>485,375</b>
Salaries, wages and benefits	77,786	76,640	74,120	153,998	147,075
General and administrative expenses	28,944	27,935	26,359	56,741	53,341
Depreciation and amortization	15,456	14,012	10,606	29,391	20,994
<b>Adjusted operating expenses</b>	<b>122,186</b>	<b>118,587</b>	<b>111,085</b>	<b>240,130</b>	<b>221,410</b>
<b>Adjusted operating income</b>	<b>165,947</b>	<b>143,382</b>	<b>128,840</b>	<b>308,803</b>	<b>263,965</b>
Provision for taxes applicable to adjusted operating income	42,317	37,279	33,176	79,464	63,216
Cumulative preferred share dividends	8,103	8,103	8,103	16,206	16,206
After-tax adjusted operating income attributable to common shareholders	115,527	98,000	87,561	213,133	184,543
Weighted average number of shares outstanding [basic]	398,242	401,575	428,646	399,899	433,547
<b>After-tax adjusted operating income per share [basic]</b>	<b>0.29</b>	<b>0.24</b>	<b>0.20</b>	<b>0.53</b>	<b>0.43</b>

<sup>1</sup> Please refer to the Descriptions of Non-GAAP Measures section of the MD&A for a description of this non-GAAP measure.

<sup>2</sup> Please refer to the Effect of Foreign Currency Exchange Rate Changes section of the MD&A for reconciliations of certain non-GAAP "constant currency" measures to their counterpart IFRS measures as reported.

## CEO LETTER TO SHAREHOLDERS

My fellow shareholders,

As an organization, we pride ourselves on our “say:do ratio”, consistently doing exactly what we said we would as we transformed the company and pivoted to growth. And while our confidence in these actions to create meaningful value never wavered, we nonetheless sought your patience and understanding as exogenous factors masked or delayed the full realization of this value. Your shared belief in our strategy has been much appreciated by the team and, with the release of our second quarter results, well-rewarded. That which we knew to be true is now readily observable to all: Element Fleet Management has never performed better nor been better-positioned for continued success.

Building on the success of our strong first quarter, and with the impact of the pandemic and supply chain disruptions continuing to wane, our strategy delivered outstanding second quarter performance:

- a. We grew revenues, achieving record quarterly services revenue, net financing revenue, and net revenue;
- b. We demonstrated the scalability of our operating platform, generating our best quarterly operating margin ever;
- c. We validated the value of our capital-lighter strategy, delivering the highest pre-tax return on common equity we've ever generated; and
- d. Through the combination of the aforementioned, we attained unprecedented levels of quarterly free cash flow and adjusted earnings per share.

While broad macroeconomic challenges are holding many companies back, Element's strategy allows us to forge ahead. We are distinctively well-positioned to weather (if not benefit from) these challenges, making Element both a safe-haven and a source of low-risk growth for investors in these turbulent times.

### Looking ahead

Element's success in the first half of this year is the result of staying true to our strategy despite the unforeseen challenges of the pandemic and an industry-first supply chain disruption. Accordingly, with service activity exceeding pre-pandemic levels (and growing) and with vehicle manufacturers gradually returning to full production, we expect Element will continue to grow, delivering strong results through 2022, 2023 and beyond.

We increased our full-year 2022 results guidance today, and believe our existing 2023 guidance to be understated. We will provide wholly revised 2023 guidance in November as part of our Q3 disclosures.

In short, 2022 has gone from a “good” to a “great” year and set up 2023 and beyond for even better performance.

Amid so much economic uncertainty – continuing waves of COVID-19, ongoing supply chain issues, rising interest rates, the rapid onset of inflation, and the threat of recession – you may wonder what gives me so much confidence in such a positive outlook for Element.

The short answer is “understanding”.

### **Confidence born of understanding**

As I've shared with you before, I pitched Element's Chairman in early 2018 on a client-centric transformation plan that would surface this organization's considerable unrealized potential and reshape Element into the vibrant market leader it was built to be.

While I studied Element closely in preparing my proposal, I was a stranger to the industry, reverse-engineering a *prima facie* attractive business model from the outside.

As we transformed and strengthened the business over the last four years, my colleagues and I became increasingly aware of the myriad safeguards and self-leveling attributes of Element's business model, and the ensuing strength and resilience of this enterprise.

Leaning on another core cultural attribute - transparency - we share these learnings with our stakeholders through our public disclosures. Multiple internal teams collaborate tirelessly every quarter to develop and evolve our disclosures to illuminate the unobvious features of Element's model and further everyone's understanding (without compromising our commercial competitiveness in the process).

Allow me to reiterate some of the features of our business that I believe particularly relevant to the current environment.

- a. [We are generally agnostic to changes in benchmark interest rates](#), whether up or down, given our matched-funding strategy.
- b. [Our business benefits from inflation](#) as the higher capital cost of vehicles generate additional financing income and our “cost-plus” model results in higher services revenue, offsetting inflationary pressures on operating costs. That said, the financial benefits to Element from inflation remain aligned with our clients' interests, because...
- c. ...our chief value proposition is the material reduction of clients' total cost of fleet operations – by up to 20% from self-managed fleet levels. This proposition is acutely compelling in an inflationary and/or recessionary environment.
- d. The ~1.5 million vehicles we manage are essential to our blue-chip client base, providing (i) continuity of demand for both vehicle replacements and service consumption, and (ii) a low risk of credit losses.
- e. Element's net revenue, operating income and cash flow have proven resilient. Despite COVID-19 lockdowns and “shelter in place” edicts throughout 2020, our annual net revenue declined just 3.1% that year, adjusted operating income declined 2.4% and free cash flow per share decreased 3 cents year-over-year.

We view the impacts of the pandemic on our 2020 business as akin to a severe and prolonged economic downturn. Element's business model withstood those circumstances that year while we accelerated the organization's transformation program and initiated the pivot to our current, successful focus on organic revenue growth.

- f. Our business model is replete with self-leveling attributes. For instance, as an industry-first delay in vehicle production created an immediate and sustained drop in new vehicle originations (and an attendant deferral of revenue and cash flow), we also experienced (i) an

increase in used vehicle values, which generated extraordinary gains on the sale (GOS) of end-of-lease vehicles in ANZ; and (ii) a rapid increase in maintenance and operating costs as fleet vehicles age beyond their optimal point of replacement. The heightened services revenue from maintaining and managing older vehicles, combined with higher net finance revenue from elevated GOS, have largely offset the financial headwinds to Element from the OEM production delays.

The above list is predominantly populated by “defensive” characteristics of Element’s business model, and is far from exhaustive.

My confidence in our company’s sustained success is further enhanced by:

- a. [our revitalized Commercial teams’ proven ability to deliver organic net revenue growth](#);
- b. [our scalable platform, which magnifies revenue growth to expand operating margins](#);
- c. [our people’s ability to deliver a consistent, superior client experience with passion](#);
- d. [our record Order backlog](#);
- e. [the growth and strength of our operations in Mexico and ANZ](#);
- f. the opportunities revealing themselves in this first inning of fleet electrification; and
- g. the industry consolidation happening in the U.S. and Canada.

This, too, is far from an exhaustive list.

I hope our efforts to include you on our learning journey over the last four years have given you the same confidence in Element’s outlook as we - your leadership team - enjoy today, one born of a deep understanding of this company’s many special qualities.

As always, if there is anything we can do to help you improve your understanding of our operations, our organization, or our industry, please let us know. We are always delighted to spend time with our investors (current and prospective).

Until next quarter,

Jay

## Conference Call and Webcast

A conference call to discuss these results will be held on Wednesday, August 10, 2022 at 7:00 p.m. Eastern Time.

The conference call and webcast can be accessed as follows:

**Webcast:** <https://services.choruscall.ca/links/elementfleet2022Q2.html>

**Telephone:** [Click here](#) to join the call most efficiently,  
or dial one of the following numbers to speak with an operator:

Canada/USA toll-free: 1-800-319-4610

International: +1-604-638-5340

The webcast will be available on the Company's website for three months thereafter. A taped recording of the conference call may be accessed through September 11, 2022 by dialing 1-800-319-6413 or +1-604-638-9010 and entering the access code 9159.

## Dividends Declared

The Company's Board of Directors has authorized and declared a quarterly dividend of \$0.0775 per outstanding common share of Element for the second quarter of 2022. The dividend will be paid on October 14, 2022 to shareholders of record as at the close of business on September 29, 2022.

Element's Board of Directors also declared the following dividends on Element's preferred shares:

Series	TSX Ticker	Amount	Record Date	Payment Date
Series A	EFN.PR.A	\$0.4333125	September 15, 2022	September 29, 2022
Series C	EFN.PR.C	\$0.3881300	September 15, 2022	September 29, 2022
Series E	EFN.PR.E	\$0.3689380	September 15, 2022	September 29, 2022

The Company's common and preferred share dividends are designated to be eligible dividends for purposes of section 89(1) of the Income Tax Act (Canada).

## Normal Course Issuer Bids

On November 4, 2020, the TSX approved Element's notice of intention to commence a Normal Course Issuer Bid (the "2020 NCIB"). The 2020 NCIB allowed the Company to repurchase on the open market (or as otherwise permitted), at its discretion during the period commencing on November 10, 2020 and ending on the earlier of November 9, 2021 or the completion of purchases under the NCIB, up to 43,929,594 common shares of the Company, subject to the normal terms and limitations of such bids. The Company repurchased 34,420,833 common shares for cancellation under the 2020 NCIB for an aggregate amount of approximately \$474.5 million at a volume weighted average price of \$13.78 per common share.

On November 10, 2021, the TSX approved Element's notice of intention to renew its Normal Course Issuer Bid (the "2021 NCIB"). The 2021 NCIB allows the Company to repurchase on the open market (or as otherwise permitted), at its discretion during the period commencing on November 15, 2021 and ending on the earlier of November 14, 2022 or the completion of purchases under the NCIB, up to 40,968,811 common shares, subject to the normal terms and limitations of such bids, which include the number of common shares purchased in any 12 month period being limited to 10% of the common shares outstanding at the commencement of such period. As of June 30, 2022, under the 2021 NCIB, 13,634,400 common shares had



been repurchased for cancellation for an aggregate amount of approximately \$174.3 million at a volume weighted average price of \$12.79 per common share.

The Company applies trade date accounting in determining the date on which a share repurchase is reflected in the consolidated financial statements. Trade date accounting is the date on which the Company commits itself to purchase the shares.

### **Non-GAAP Measures**

The Company's condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the accounting policies Element adopted in accordance with IFRS.

The Company believes that certain non-GAAP measures can be useful to investors because they provide a means by which investors can evaluate the Company's underlying key drivers and operating performance of the business, exclusive of certain adjustments and activities that investors may consider to be unrelated to the underlying economic performance of the business of a given period. Throughout this News Release, management used a number of terms and ratios which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other organizations. A full description of these measures can be found in the Management Discussion & Analysis that accompanies the unaudited interim condensed financial statements for the quarter ended June 30, 2022.

Element's unaudited interim condensed consolidated financial statements and related management discussion and analysis as at and for the three- and six-month periods ended June 30, 2022 have been filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

### **About Element Fleet Management**

Element Fleet Management (TSX: EFN) is the largest pure-play automotive fleet manager in the world, providing the full range of fleet services and solutions to a growing base of loyal, world-class clients – corporates, governments and not-for-profits – across North America, Australia and New Zealand. Element enjoys proven resilient cash flow, a significant proportion of which is returned to shareholders in the form of dividends and share buybacks; a scalable operating platform that magnifies revenue growth into earnings growth; and an evolving capital-lighter business model that enhances return on equity. Element's services address every aspect of clients' fleet requirements, from vehicle acquisition, maintenance, accidents and remarketing, to integrating EVs and managing the complexity of gradual fleet electrification. Clients benefit from Element's expertise as the largest fleet solutions provider in its markets, offering unmatched economies of scale and insight used to reduce fleet operating costs and improve productivity and performance. For more information, visit [www.elementfleet.com/investors](http://www.elementfleet.com/investors).

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*This press release includes forward-looking statements regarding Element and its business. Such statements are based on the current expectations and views of future events of Element's management. In some cases the forward-looking statements can be identified by words or phrases such as "may", "will", "expect", "plan", "anticipate", "intend", "potential", "estimate", "believe" or the negative of these terms, or other similar expressions intended to identify forward-looking statements, including, among others, statements regarding Element's enhancements to clients' service experience and service levels; enhancement of financial performance; improvements to client retention trends; reduction of operating expenses; increases in efficiency; EV strategy and capabilities; global EV adoption rates; redemption of the Series I Shares; dividend policy and the payment of future dividends; creation of value for all stakeholders; expectations regarding*

*syndication; growth prospects and expected revenue growth; level of workforce engagement; improvements to magnitude and quality of earnings; executive hiring and retention; focus and discipline in investing; balance sheet management and plans to reduce leverage ratios; anticipated benefits of the balanced scorecard initiative; Element's proposed share purchases, including the number of common shares to be repurchased, the timing thereof and TSX acceptance of the NCIB and any renewal thereof; and expectations regarding financial performance. No forward-looking statement can be guaranteed. Forward-looking statements and information by their nature are based on assumptions and involve known and unknown risks, uncertainties and other factors which may cause Element's actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statement or information. Accordingly, readers should not place undue reliance on any forward-looking statements or information. Such risks and uncertainties include those regarding the ongoing COVID-19 pandemic, risks regarding the fleet management and finance industries, economic factors and many other factors beyond the control of Element. A discussion of the material risks and assumptions associated with this outlook can be found in Element's annual MD&A, and Annual Information Form for the year ended December 31, 2021, each of which has been filed on SEDAR and can be accessed at [www.sedar.com](http://www.sedar.com). Except as required by applicable securities laws, forward-looking statements speak only as of the date on which they are made and Element undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.*