element

Q3 2024 | Supplementary Information

as at September 30, 2024

This supplementary information should be read in conjunction with the Company's Management Discussion & Analysis dated September 30, 2024.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The following pages provide information management believes is relevant to an assessment and understanding of the financial condition, results and operations of Element Fleet Management Corp. (the “Company” or “Element”) and should be read in conjunction with the Company’s Management Discussion & Analysis and unaudited interim condensed consolidated financial statements and accompanying notes for the three- and nine-month period ended September 30, 2024. All monetary figures are in millions of U.S. dollars unless otherwise noted or for per share amounts. Additional information regarding the Company is available on SEDAR at www.sedarplus.ca and on the Company’s website at www.elementfleet.com. Totals may not add due to rounding.

CAUTIONARY STATEMENT

THIS ANALYSIS HAS BEEN PREPARED TAKING INTO CONSIDERATION INFORMATION AVAILABLE TO NOVEMBER 13, 2024. CERTAIN STATEMENTS CONTAINED IN THIS REPORT CONSTITUTE “FORWARD-LOOKING STATEMENTS”. IN SOME CASES THE FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY WORDS OR PHRASES SUCH AS “MAY”, "CAN", “WILL”, “EXPECT”, "GUIDANCE", “PLAN”, “ANTICIPATE”, "TARGET", “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 FUTURE FINANCIAL PERFORMANCE, GROWTH PROSPECTS AND OBJECTIVES, IMPACTS OF STRATEGIC INITIATIVES, EXPECTATIONS REGARDING SYNDICATION, ABILITY TO DRIVE OPERATIONAL EFFICIENCIES, ASSETS, BUSINESS STRATEGY, COMPETITIVE POSITIONING, ABILITY TO CREATE VALUE FOR SHAREHOLDERS, THE EVOLUTION OF ELEMENT’S BUSINESS, THE AVAILABILITY OF FUNDS FROM OPERATIONS, CASH FLOW GENERATION, STRATEGIC ASSESSMENT, BUSINESS OUTLOOK, ELEMENT’S DIVIDEND POLICY AND THE PAYMENT OF FUTURE DIVIDENDS, ELEMENT’S PROPOSED SHARE PURCHASES, INCLUDING THE NUMBER OF COMMON SHARES TO BE REPURCHASED, THE TIMING THEREOF AND TSX ACCEPTANCE OF THE NORMAL COURSE ISSUER BID AND ANY RENEWAL THEREOF AND OTHER EXPECTATIONS REGARDING FINANCIAL OR OPERATING PERFORMANCE AND METRICS. SUCH STATEMENTS REFLECT THE COMPANY'S CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND ARE SUBJECT TO INHERENT RISKS, UNCERTAINTIES AND NUMEROUS ASSUMPTIONS, INCLUDING, WITHOUT LIMITATION, GENERAL ECONOMIC CONDITIONS, OPERATIONAL CAPABILITIES, TECHNOLOGICAL DEVELOPMENT, SUPPLY CHAIN, RELIANCE ON DEBT FINANCING, COMPETITION, INTEREST RATES, REGULATION, FAILURE OF KEY SYSTEMS, FUTURE CAPITAL NEEDS, ANY IMPACTS OF PANDEMICS OR OTHER HEALTH THREATS, AND SUCH OTHER RISKS OR FACTORS DESCRIBED FROM TIME TO TIME IN REPORTS OF ELEMENT, INCLUDING HEREIN AND IN ELEMENT’S MD&A AND ANNUAL INFORMATION FORM, WHICH HAVE BEEN FILED ON SEDAR AND MAY BE ACCESSED AT WWW.SEDARPLUS.CA.

BY THEIR NATURE, FORWARD-LOOKING STATEMENTS INVOLVE NUMEROUS ASSUMPTIONS, KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES, BOTH GENERAL AND SPECIFIC, WHICH CONTRIBUTE TO THE POSSIBILITY THAT PREDICTIONS, FORECASTS, PROJECTIONS AND OTHER FORMS OF FORWARD-LOOKING INFORMATION MAY NOT OCCUR OR BE ACHIEVED. MANY FACTORS COULD CAUSE ELEMENT'S ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS THAT MAY BE EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS AND READERS ARE CAUTIONED THAT THE LIST OF FACTORS IN THE FOREGOING PARAGRAPH IS NOT EXHAUSTIVE. SHOULD ONE OR MORE OF THESE RISKS OR UNCERTAINTIES MATERIALIZE, OR SHOULD ASSUMPTIONS UNDERLYING THE FORWARD-LOOKING STATEMENTS PROVE INCORRECT, ACTUAL RESULTS MAY VARY MATERIALLY FROM THOSE DESCRIBED HEREIN AS INTENDED, PLANNED, ANTICIPATED, BELIEVED, ESTIMATED OR EXPECTED. ACCORDINGLY, READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON FORWARD-LOOKING STATEMENTS OR INTERPRET OR REGARD FORWARD-LOOKING STATEMENTS AS GUARANTEES OF FUTURE OUTCOMES, AS NO FORWARD-LOOKING STATEMENT MAY BE GUARANTEED. EXCEPT AS MAY BE REQUIRED BY APPLICABLE CANADIAN SECURITIES LAWS, THE COMPANY DOES NOT INTEND, AND DISCLAIM ANY OBLIGATION TO UPDATE OR REWRITE ANY FORWARD-LOOKING STATEMENTS WHETHER ORAL OR WRITTEN AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

In this document, the Company presents certain non-GAAP or supplemental financial measures (including originations, vehicles under management, adjusted net revenue, adjusted operating income, adjusted net income, pre-tax return on common equity, syndication volume and free cash flow per share) that do not have a standardized meaning prescribed by GAAP under IFRS and may therefore not be comparable to similarly-named measures presented by other issuers. Descriptions of the non-GAAP measures presented in this document can be found in the Company's Management Discussion & Analysis that accompanies the unaudited interim condensed consolidated financial statements for the three- and nine-month period ended September 30, 2024, which have been filed on SEDAR (www.sedarplus.ca).

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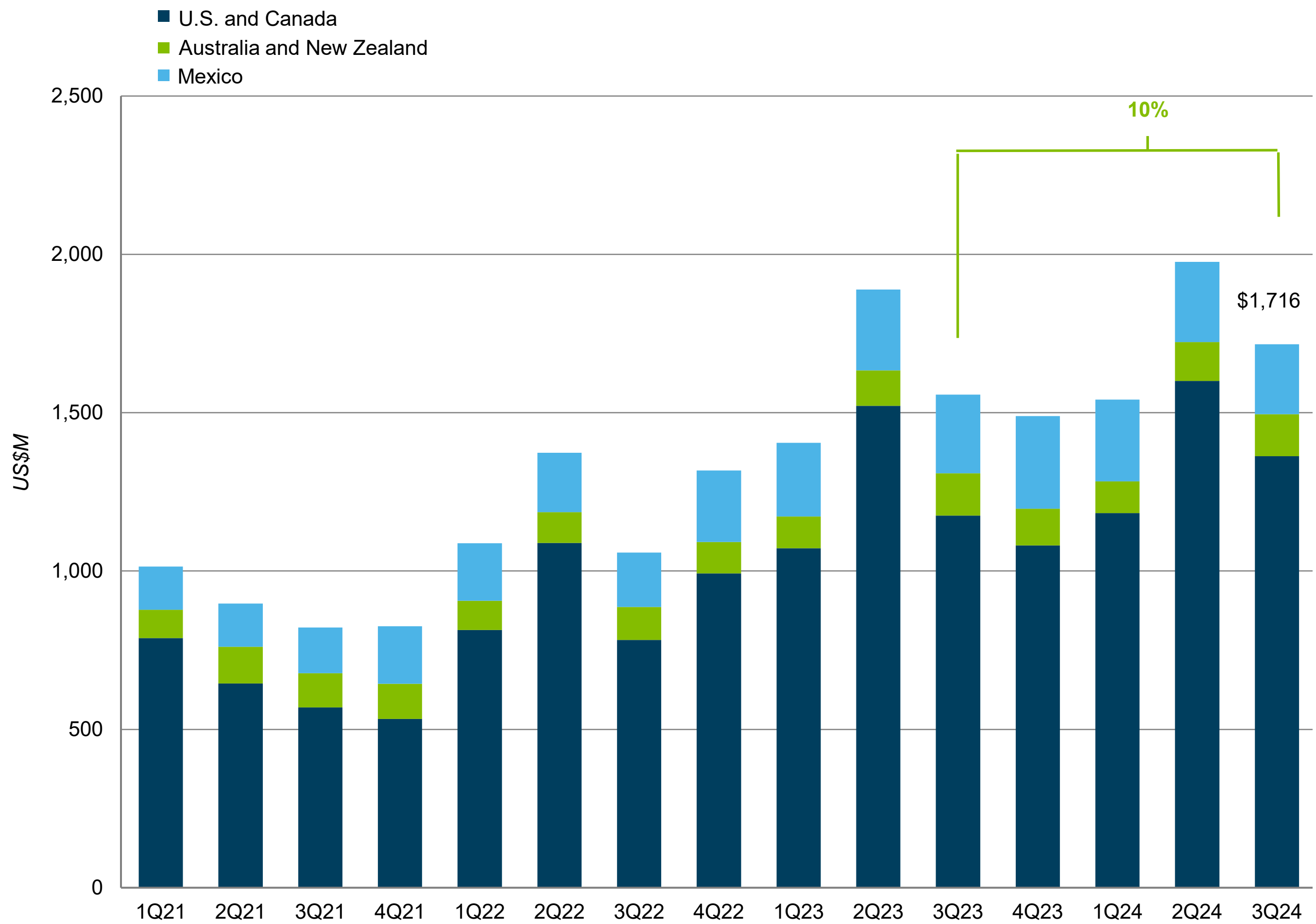
OPERATIONAL HIGHLIGHTS

1.1 Originations (excluding Armada)

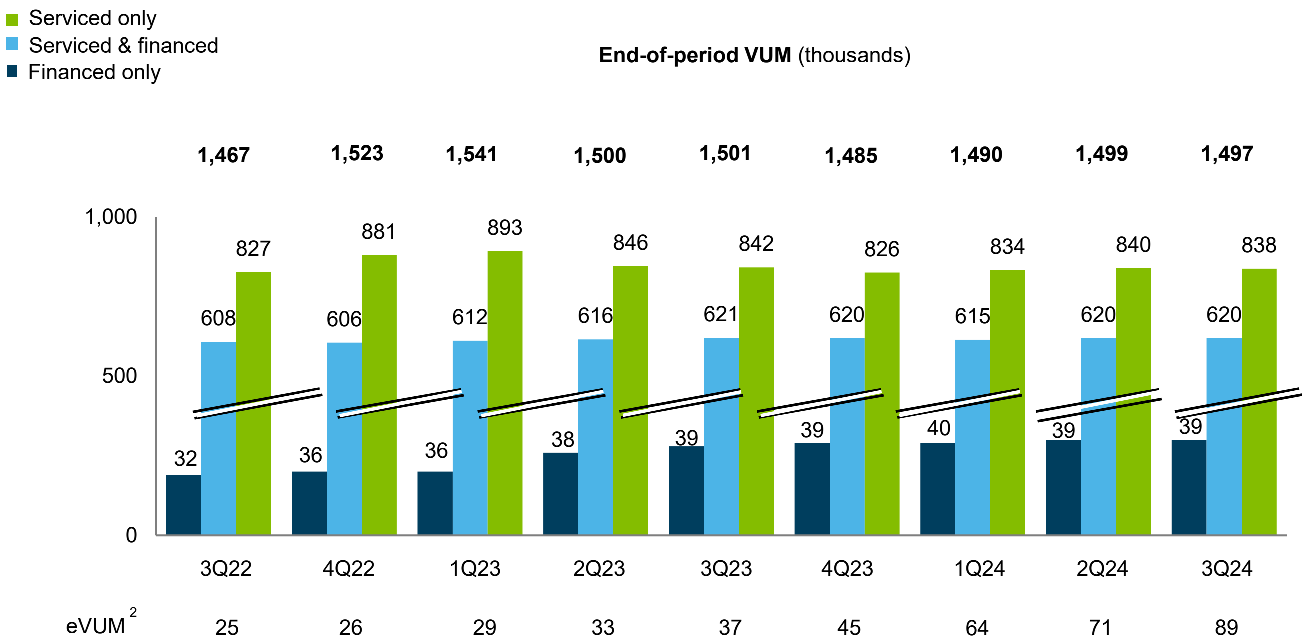
Q3 2024 originations grew 10% from Q3 2023 as OEM production has substantially recovered from earlier supply chain constraints. Q3 origination volumes are historically affected by seasonal factors, while Q2 typically represents the quarterly high watermark in any given year.



OPERATIONAL HIGHLIGHTS

1.2.1 Vehicles Under Management (VUM)

Every "VUM" is one unique vehicle (a) receiving or subscribed to one or more Element services, and/or (b) financed by Element, whether or not subsequently syndicated. The vast majority of the decline in VUM from 2Q23 through 1Q24 was due to our ending the provision of white-label services[1] to competitors. These were largely lower revenue single-service clients, and as such, contributed immaterially to our financial results. In calculating VUM, management applies certain judgements and makes certain estimates, including in respect of a small number of single-service usage-based VUM. Certain estimates rely on information provided by our clients that could not be definitively validated. While there are inherent subjectivities in the VUM calculation due to these judgements and estimates, the Company believes that such judgements and estimates are reasonable.

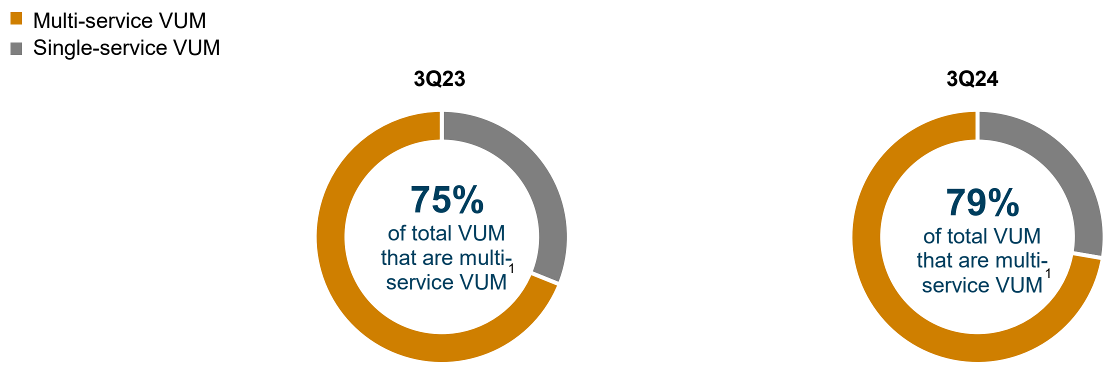


1. Reductions in VUM of 73,800 in 2Q23, 68,000 in 3Q23, 33,000 in 4Q23 and 31,400 in 1Q24 (in aggregate 206,200 VUM) were as a result of our move to end the provision of white-label services to competitors.

2. Electric vehicles under management (eVUM) consists of battery electric, plug-in hybrid, and hybrid electric vehicles.

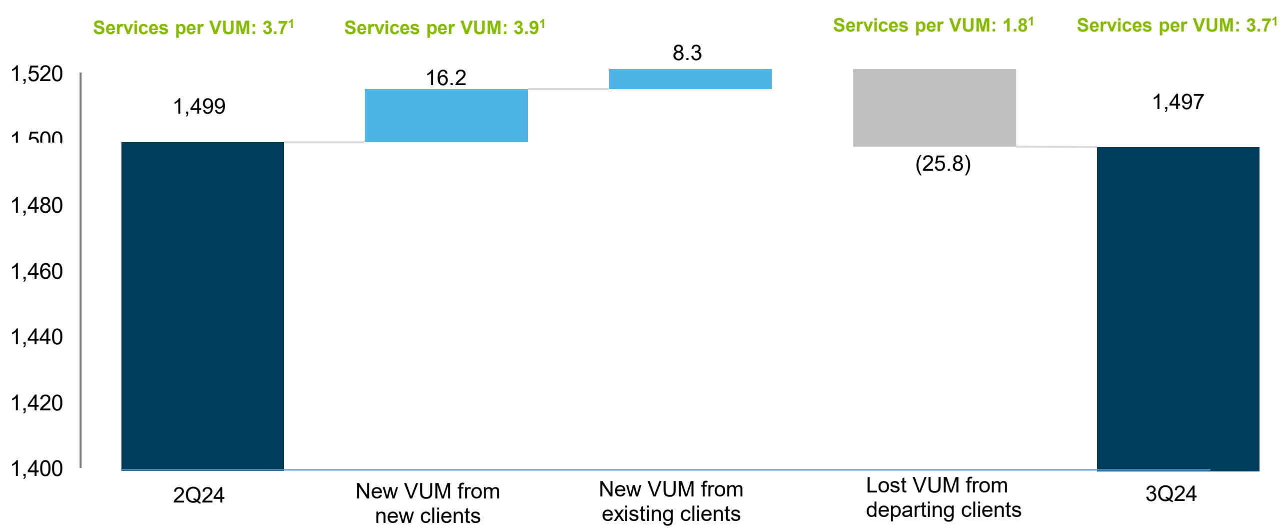
1.2.1 Vehicles Under Management (VUM) (Cont'd) – U.S. and Canada only

Share-of-Wallet (SoW) growth – selling incremental services to existing clients – is one of the drivers of Element's profitable net revenue growth strategy. As illustrated below, we are both (a) making progress on SoW growth and (b) still in a position to benefit from further SoW growth. Across our fleet in the U.S. and Canada where the vast majority of our vehicles operate, we have increased the percentage of multi-service VUM over the past year from 75% to 79%. Moreover, less than 17% of our fleet are subscribed to more than six services, leaving ample room for further penetration across all geographies.



1.2.2 2Q24 -> 3Q24 End-of-period VUM waterfall

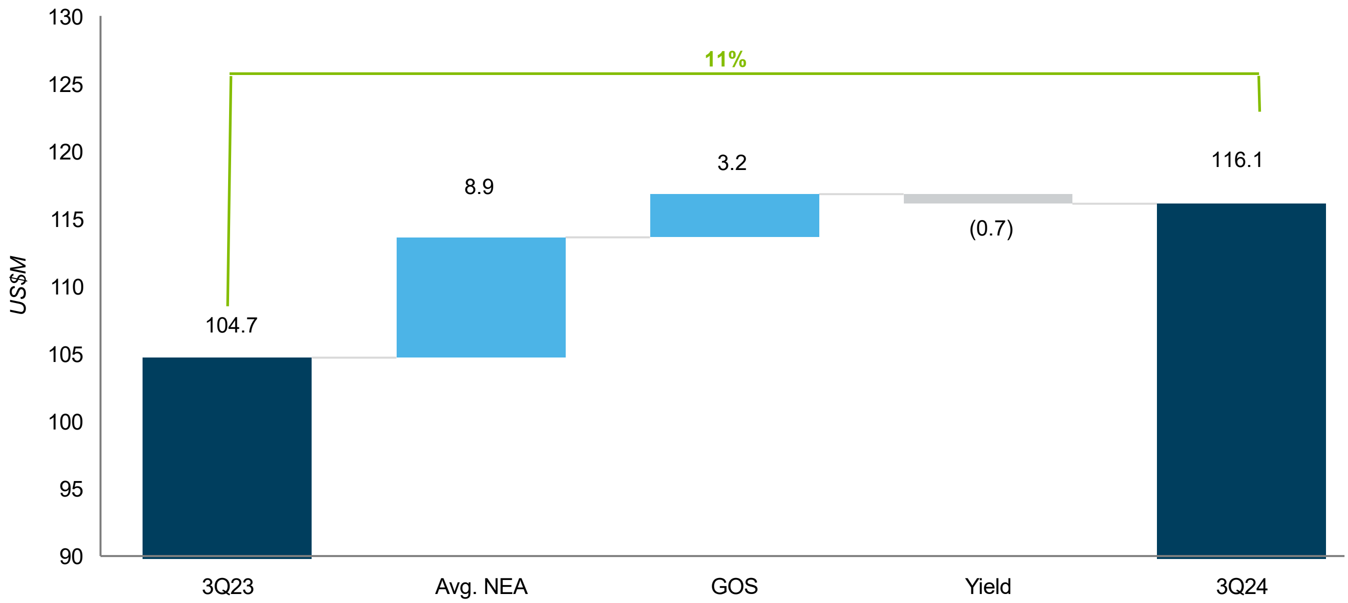
We continue to onboard new client vehicles with higher service attachment rates. Multi-service clients tend to be more "sticky" given their broader reliance on, and savings derived from, our service offerings. The lost VUM from departing clients in 3Q24 is largely attributable to two lower revenue single-service clients.



1. Represents the number of services per VUM in U.S. and Canada only, where the vast majority of our vehicles are located. The services being tracked are limited to Collision, Fleet Partnership Solutions, Fuel, Insurance, Maintenance & Roadside Assistance, Tax Benefits, Telematics, Title & Registration and Tolls & Violations. Excludes Acquisitions, Remarketing, Driver Safety and End of Contract services. Commencing Q1 2024 the Company excludes Financing from its total services count (previously included in total services count).

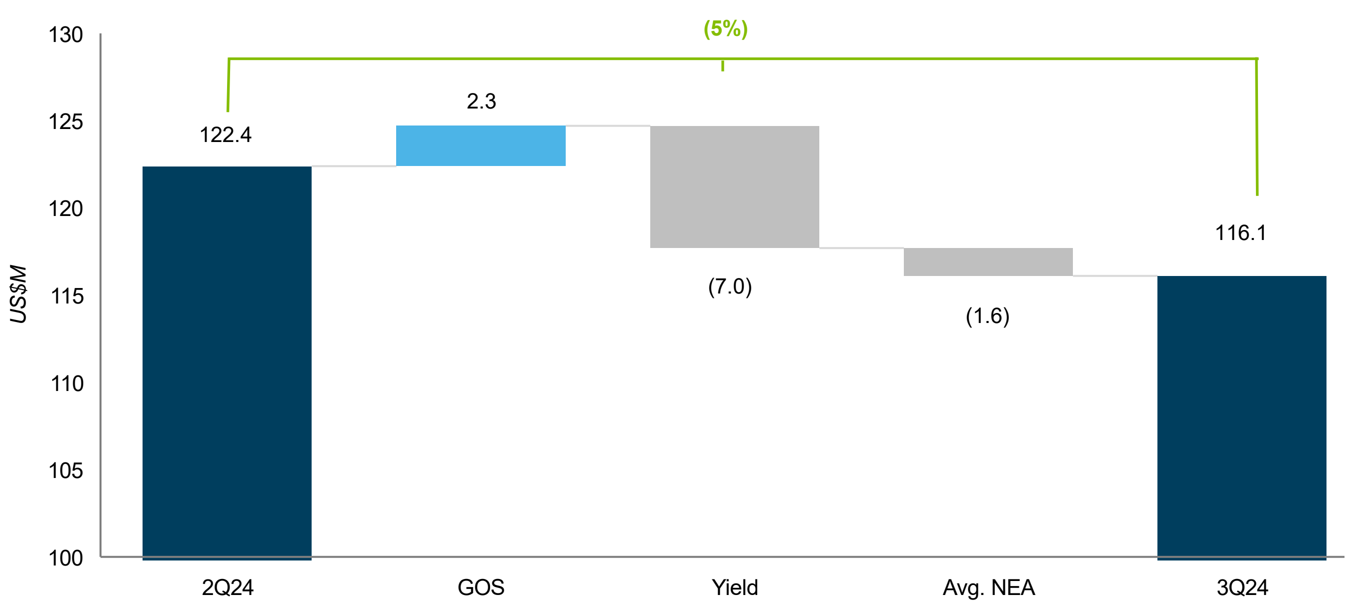
1.3.1 3Q23 -> 3Q24 net financing revenue waterfall

Q3 2024 net financing revenue grew $11 million or 11% from Q3 2023.



1.3.2 2Q24 -> 3Q24 net financing revenue waterfall

Q3 2024 net financing revenue decreased $6 million or 5% from a record Q2 2024.

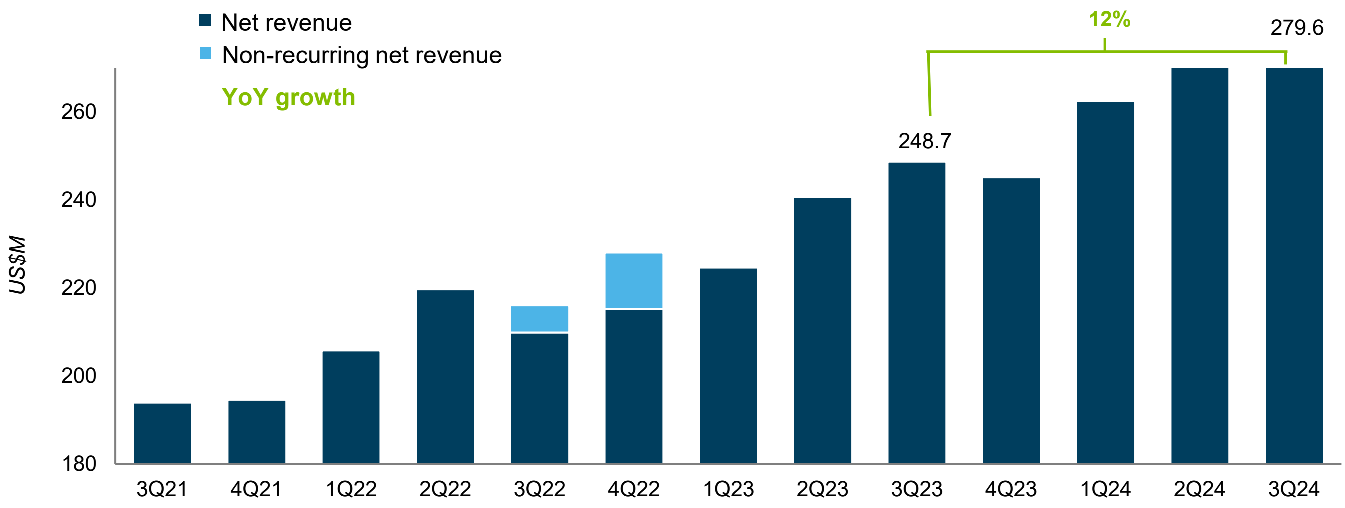


Profitable net revenue growth

PROFITABLE NET REVENUE GROWTH

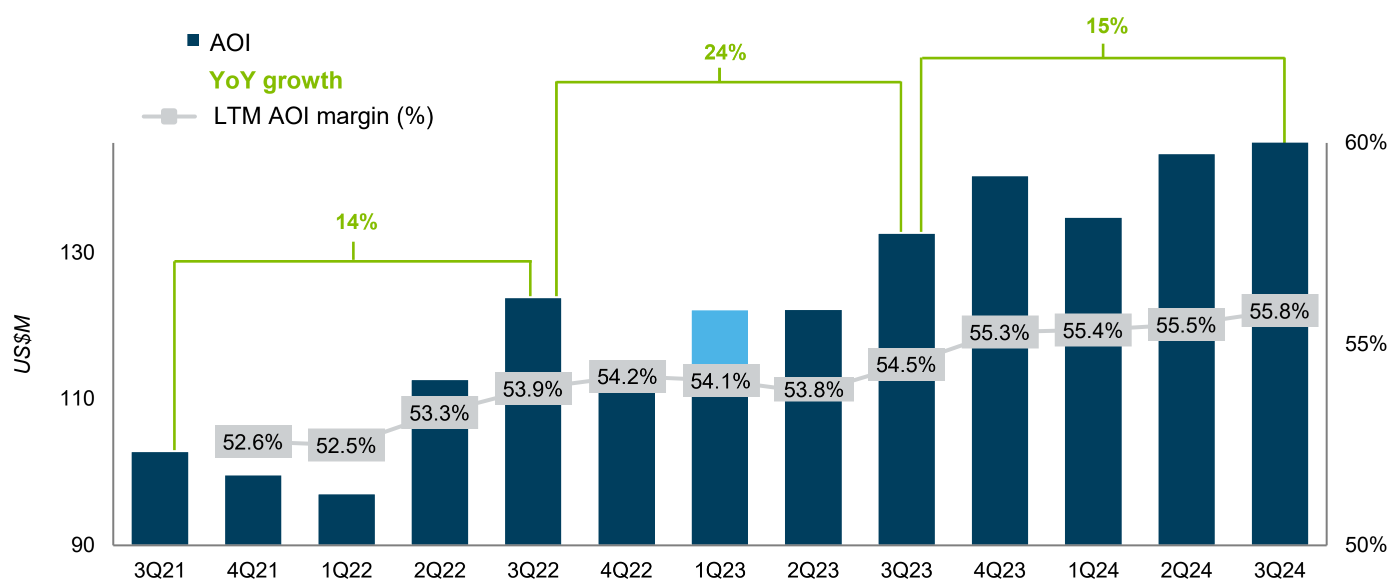
2.1 Net revenue growth

Q3 2024 net revenue grew 12% from Q3 2023.



2.2 Adjusted operating income growth and LTM adjusted operating margin expansion

Q3 2024 adjusted operating income (AOI) grew 15% year-over-year. Adjusted operating margin for the last 12 months (LTM AOI margin) rose by 130 basis points year-over-year (YoY) and 30 basis points quarter-over-quarter (QoQ).



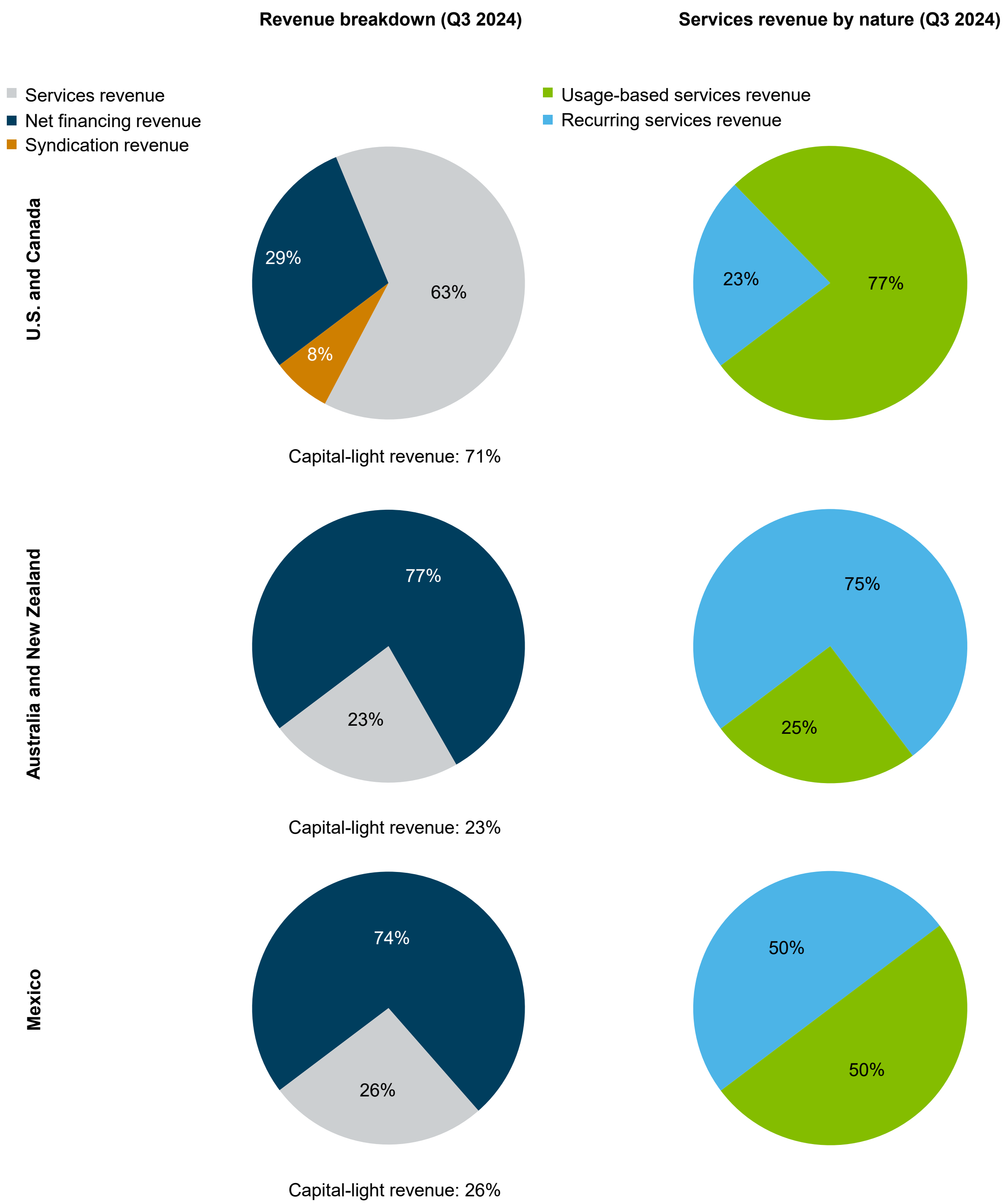
A capital-lighter business model

A CAPITAL-LIGHTER BUSINESS MODEL

3.1 Driving value for shareholders by growing capital-lighter revenue

Element continues to advance its capital-lighter business model that focuses on growing high recurring and higher margin services revenue and strategically syndicating assets, both of which improve the Company's return on equity. Services revenue has much lower funding needs than net financing revenue – only the net working capital required to procure fuel, parts and services for clients – making services revenue highly accretive to return on equity.

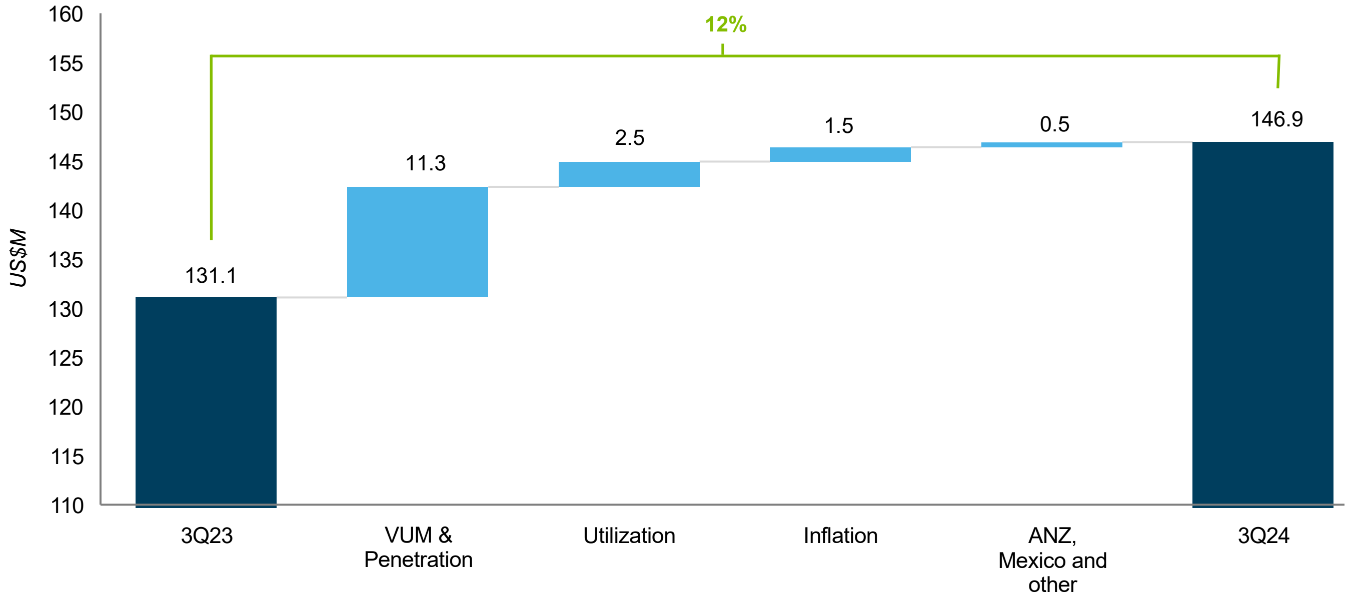
We earn varying degrees of services revenue in different geographies, and the nature of that services revenue (usage-based versus recurring) varies by geography. The following pie charts represent our revenue composition by geography and the breakdown of usage-based vs. recurring services revenue at Q3 2024.



A CAPITAL-LIGHTER BUSINESS MODEL

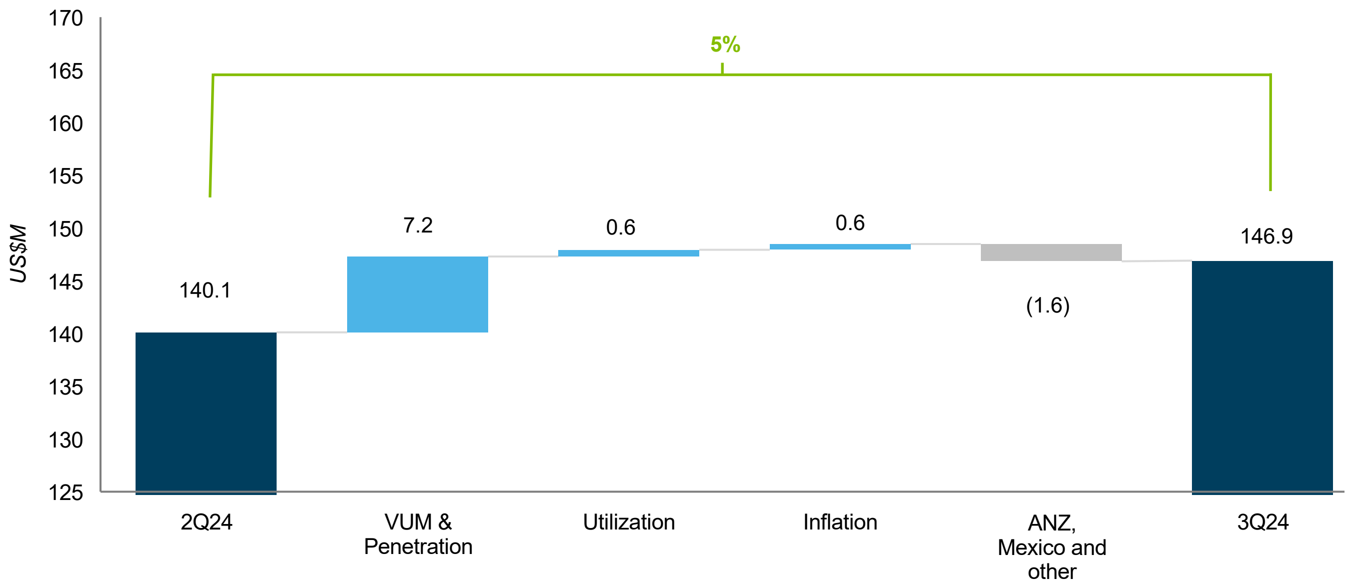
3.2.1 3Q23 -> 3Q24 services revenue waterfall

Q3 2024 services revenue grew $15.8 million or 12% from Q3 2023.



3.2.2 2Q24 -> 3Q24 services revenue waterfall

Q3 2024 services revenue increased $6.8 million or 5% from Q2 2024.

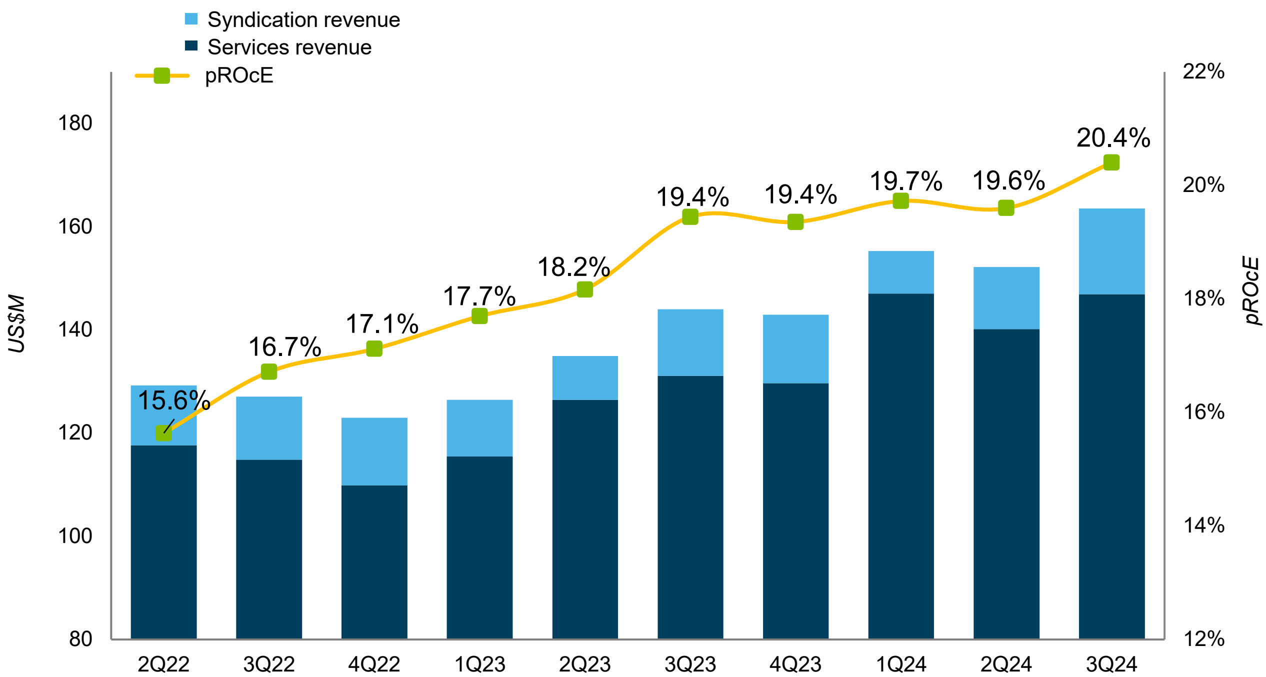


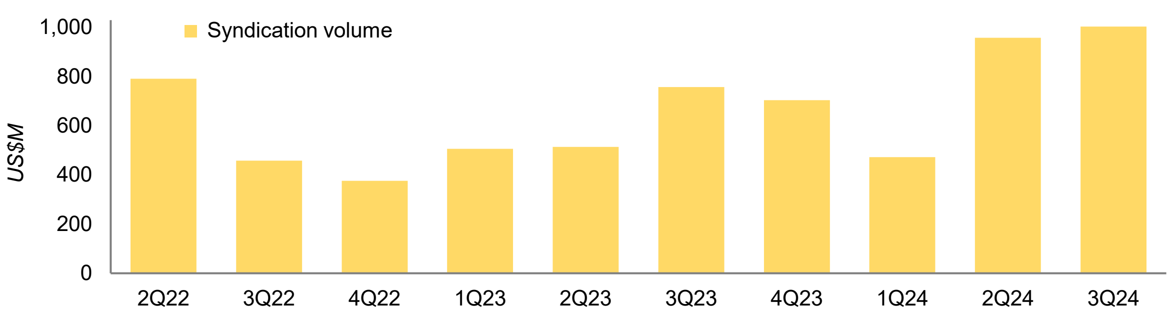
A CAPITAL-LIGHTER BUSINESS MODEL

3.3 Capital-lighter services revenue, syndication revenue, and pre-tax return on common equity

The second pillar of our capital-lighter business model is syndication: the sale of fleet lease receivables, on a non-recourse basis, to financial buyers with a lower cost of capital than Element's, on terms that are economically superior for Element versus holding those assets on balance sheet. The syndication market demand for Element's assets remains robust, affording the Company ready access to this off-balance-sheet source of cost-effective funding. In 3Q24, we syndicated a record $1.0 billion in assets driven by our continued focus on our capital lighter business model.

The growth of services revenue and our syndication program advance our capital-lighter business model, which continues to enhance ROE. Adjusted pre-tax return on common equity of 20.4% in 3Q24 improved 100 basis points year-over-year.





Definition

pROcE — The sum of (before-tax adjusted operating income, minus preferred share dividends) for each of the current and three preceding quarters; divided by (average total equity for the current quarter and same-quarter prior year, minus current quarter preferred share capital).

Growing adjusted free cash flow per share and returning capital to shareholders

GROWING FREE CASH FLOW PER SHARE AND RETURNING CAPITAL TO SHAREHOLDERS

4.1 Adjusted free cash flow per share

Q3 2024 adjusted free cash flow per share of $0.36 represents a 13% or 4 cent increase over Q3 2023.

US$ millions (except free cash flow per common share)	Source	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Adjusted operating income (AOI)	a.	**113.8**	**110.7**	**122.3**	**132.7**	**140.6**	**134.9**	**143.6**	**152.9**	**161.4**
Adjust for non-cash items in AOI:										
Depreciation and amortization	b.	11.5	11.3	12.0	12.4	13.3	13.6	14.3	14.4	15.0
Amortization of deferred lease costs	c.	5.4	7.2	5.8	6.2	6.7	6.8	5.9	4.8	7.8
Amortization of deferred financing costs	c.	2.9	2.7	2.7	3.2	3.8	4.3	4.5	4.8	5.0
Amortization of deferred convertible debenture costs	d.	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.4	-
Provision for credit losses	c.	0.2	0.1	(0.1)	0.2	(0.4)	(1.3)	0.3	(0.3)	0.9
X. Amortization of deferred revenue										
Adjust for cash items not included in AOI:										
Y. Cash revenue received in the period, recognition of which is deferred										
Z. Lease costs incurred in the period, recognition of which is deferred										
X. + Y. + Z. =		(3.3)	(17.4)	(3.1)	6.8	(1.0)	(2.9)	(3.0)	(3.5)	(8.4)
Cash from operations		130.8	114.8	139.9	161.8	163.3	155.7	165.9	173.5	181.7
Subtract required cash expenses:										
Sustaining capital investments	c.[1]	(7.7)	(10.9)	(11.0)	(15.2)	(17.0)	(18.9)	(12.9)	(9.3)	(12.3)
Preferred share dividends	e.	(4.5)	(4.4)	(4.3)	(4.5)	(4.4)	(4.4)	(3.0)	(2.9)	(1.4)
Cash taxes	c.	(9.4)	(11.2)	(14.9)	(7.9)	(16.1)	(18.4)	(15.5)	(13.2)	(23.1)
Adjusted free cash flow		**109.2**	**88.3**	**109.7**	**134.1**	**125.7**	**114.0**	**134.5**	**148.1**	**144.9**
Weighted avg. # of c.s. outstanding (million)	e.	*395.1*	*392.8*	*392.2*	*390.4*	*389.5*	*389.1*	*389.2*	*390.0*	*403.6*
Per common share outstanding		**0.28**	**0.22**	**0.28**	**0.34**	**0.32**	**0.29**	**0.35**	**0.38**	**0.36**
Growth capital		(3.6)	(3.9)	(2.4)	(3.3)	(3.5)	(4.7)	(6.1)	(8.2)	(5.6)
Free cash flow available after all capital investments		105.6	84.4	107.2	130.9	122.2	109.3	128.4	139.9	139.3

Sources: a. MD&A; b. Financial Statements - Statement of Operations; c. Financial Statements - Statement of Cash Flows; d. Financial Statements - Convertible debentures note; e. This Supplementary Information document; f. Financial Statements - Earnings per share note

1. Sustaining capital investments are a portion of Element's total capital investments, which are disclosed quarterly in our Financial Statements - Statement of Cash Flows section, line items "Purchase of property, equipment and leasehold improvements" and "Purchase of intangible assets, including computer software".

4.2 Return of capital

We return capital to our shareholders through growing common dividends (see section 4.3 below) and common share buybacks (section 4.4 below). We allocate capital to these return 'levers' based on required investments in our business, balance sheet management, and free cash flow per share performance.

4.3 Common dividends (in CAD)

On November 14, 2024, the Company announced an 8% increase to its common dividend, from CAD$0.48 to CAD$0.52 per share annually. Additionally, the Company's Board authorized and declared a quarterly dividend of CAD$0.13 per outstanding common share of Element for the fourth quarter of 2024. Our annual common dividend target payout range is 25% to 35% of the Company's last twelve months' (LTM) free cash flow (FCF) per share.

	Units	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Common dividend per share	CAD	0.10	0.10	0.12	0.12	0.12	0.12
Annualized common dividend per share as a % of LTM FCF per share		26%	25%	29%	27%	26%	27%

4.4 NCIB activity (in CAD)

Since launching our inaugural NCIB in November 2020, Element has returned approximately CAD$818 million to common shareholders through buybacks up to September 30, 2024.

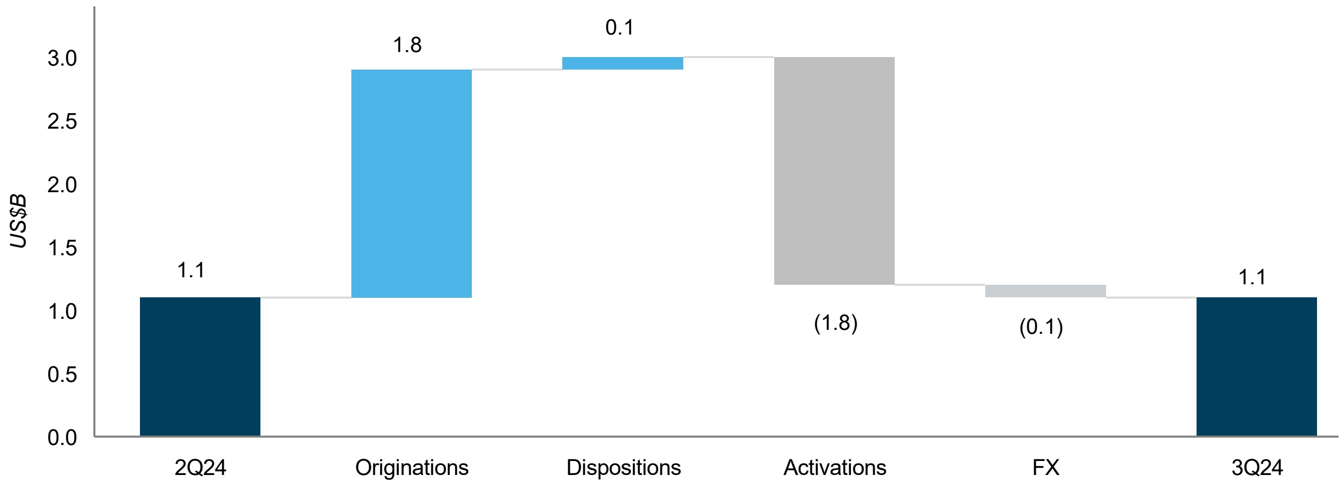
				Current NCIB[4]		
C$ millions (except per share amounts)	Inaugural NCIB[1]	Second NCIB[2]	Third NCIB[3]	1Q24	2Q24	3Q24
Shares repurchased	34.4	19.2	3.98	0.3	0.2	-
Weighted avg. repurchased share price	13.77	13.57	18.55	21.97	21.91	-
Cost of repurchases - $CAD	473.9	260.9	73.9	6.2	3.8	-
Cumulative shares repurchased since Nov. 2020	**34.4**	**53.6**	**57.6**	**57.9**	**58.1**	**58.1**
…as a % of shares issued and outstanding as of Nov. 2020	7.8%	12.2%	13.1%	13.2%	13.2%	13.2%
Shares issued in the period on exercise of options	4.1	1.7	0.6	0.1	0.3	-
Shares issued in the period on exercise of convertible debentures	-	0.01	0.01	-	14.6	-
Shares issued and outstanding at period end	410.0	392.4	389.1	388.9	403.6	403.6

1. Element's inaugural NCIB ran from November 10, 2020 to November 9, 2021.
2. Element's second NCIB ran from November 15, 2021 to November 14, 2022.
3. Element's third NCIB ran from November 15, 2022 to November 14, 2023. In 4Q23, we purchased 153,473 Common Shares for cancellation for an aggregate amount of C$3.0 million at a volume weighted average price of C$19.56.
4. Element's current NCIB will run from November 15, 2023 to November 14, 2024. Element intends to renew its NCIB, subject to TSX approval.

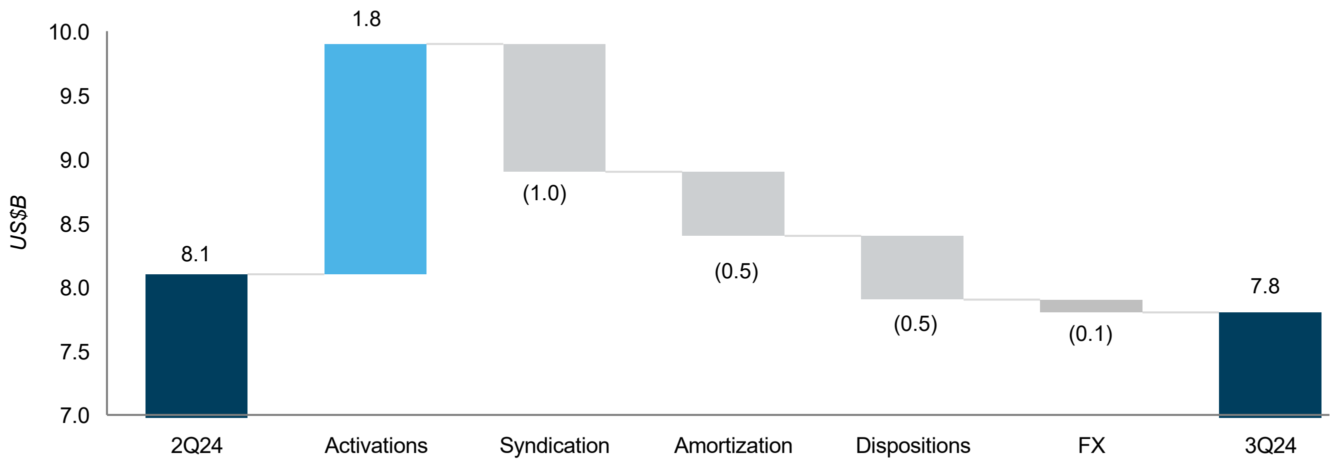
Assets under management

ASSETS UNDER MANAGEMENT

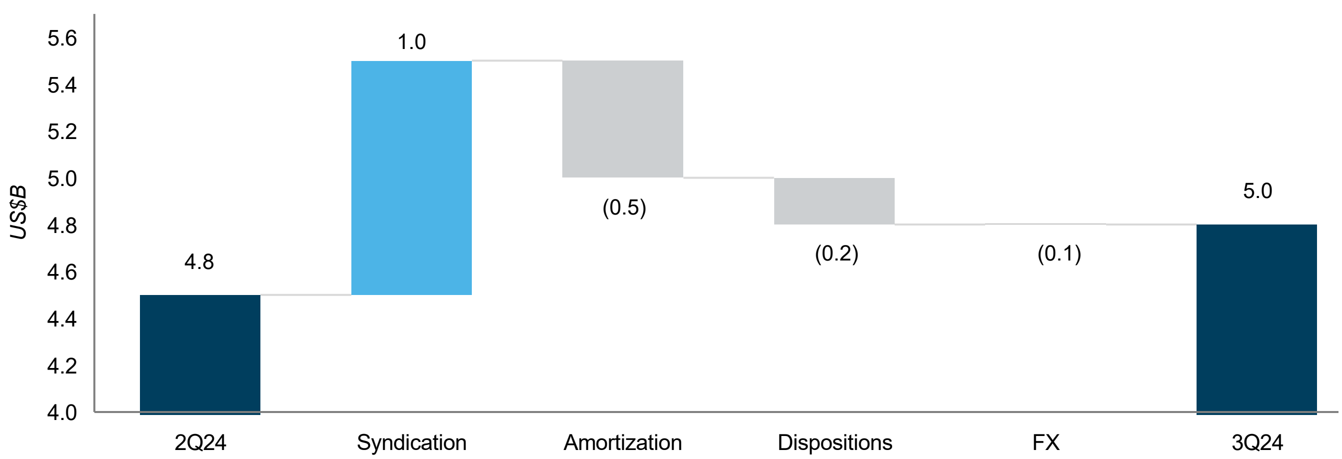
5.1.1 2Q24 -> 3Q24 End-of-period interim funded assets



5.1.2 2Q24 -> 3Q24 End-of-period net earning assets

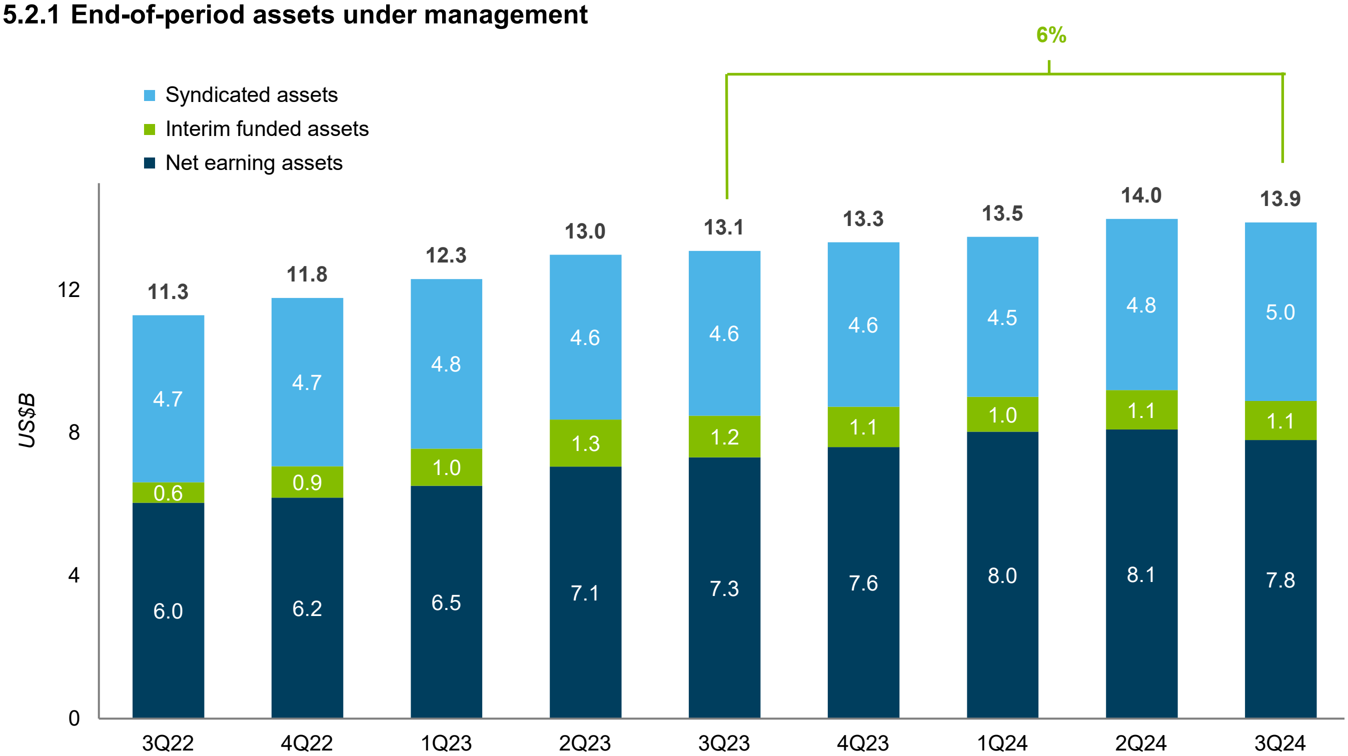


5.1.3 2Q24 -> 3Q24 End-of-period syndicated assets

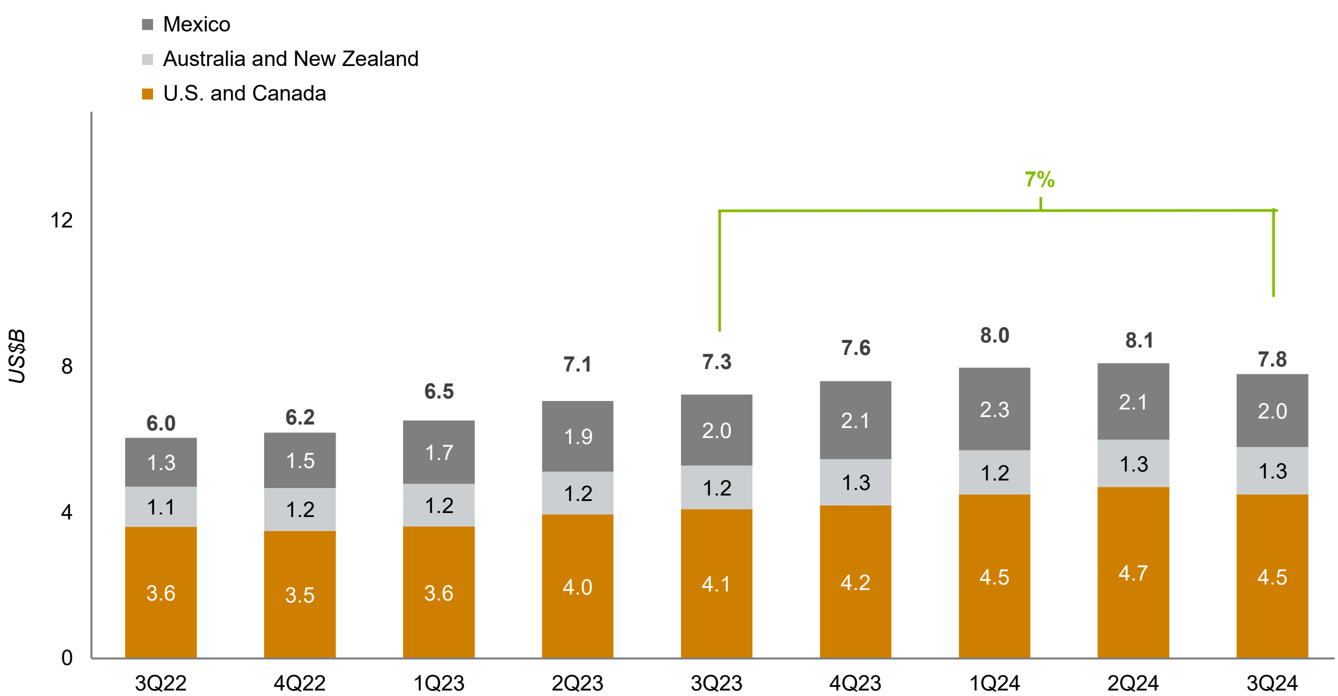


ASSETS UNDER MANAGEMENT

5.2.1 End-of-period assets under management



5.2.2 End-of-period net earning assets by geography



Initial 2025 Full-Year Guidance

6.1.1 Initial 2025 full-year guidance

We expect to see continued growth in our client base, driven by the ongoing transition to self-managed fleets and robust demand for our services and solutions. This positive momentum underpins our target of achieving a net revenue growth between 6.5% and 8.5% for the full year 2025, alongside high single-digit to low double-digit increases in each of adjusted operating income, adjusted EPS, and free cash flow per share. We are also committed to generating positive operating leverage in managing the business, which will underpin further operating margin expansion.

Annual growth rate	Full-year 2025 Initial Guidance
Net revenue	6.5 - 8.5%
Adjusted operating income	High-single to low-double digit
Adjusted EPS [EPS]	High-single to low-double digit
Adjusted free cash flow per share	High-single to low-double digit
Originations (excl Armada)	Low- to mid-single digit

6.1.2 Initial 2025 full-year guidance waterfall

We expect our underlying business growth in 2025 to be somewhat tempered by anticipated headwinds, including the depreciation of the Mexican Peso, higher interest expenses due to increased local Peso funding in 2025, and financing the redemption of the preferred shares. In addition, the scheduled reduction in bonus depreciation is likely to impact syndication yields, while Q1 2024 included $7 million in one-time service revenue. The waterfall chart below illustrates our core underlying business growth absent these headwinds.