Element Fleet preps for a future with EVs and termites

Toronto-based company points to insects and pests to show its resilient growth strategy

ANDREW WILLIS

Element Fleet Management president and CEO Jay Forbes said the five-year agreement with Rentokil that adds 16,500 trucks and vans is typical of the 'sticky' relationships Element builds with clients.

Who doesn't care about a possible recession? Termites.

Jay Forbes, chief executive officer of **Element Fleet Management Corp.**, points to lumber-eating insects and other household pests to illustrate the resilience of the Toronto-based company's business, and the growth strategy that's made it a global market leader.

Last month, Element announced a massive new contract, adding 16,500 trucks and vans from Rentokil Terminix, the North American arm of the world's largest pest control company, to the existing fleet of 1.5 million vehicles the company services for corporate customers. Mr. Forbes, a turnaround specialist who was named CEO four years ago, said the five-year agreement with Rentokil is typical of the "sticky" relationships Element builds with clients, offering services that start with financing and maintenance, then extend to training drivers, paying highway tolls and buying fuel.

"Our customers rely on their vehicles and know their maintenance costs soar once those vehicles are past their useful life, usually three to four years old, and those dynamics are constant," said Mr. Forbes in an interview. He said previous economic downturns showed fleet maintenance is an essential service for companies, with consistent revenue across a business cycle.

Across North America, companies and governments spend $8-billion annually on their vehicles. External suppliers such as Element capture 45 per cent of the business, and are steadily expanding their share. Element's data shows outsourcing cuts vehicle costs by up to 20 per cent, potential savings that become more compelling during tough times.

So in 2023, a year widely expected to produce anemic economic growth, Element forecasts its sales will rise by 6 to 9 per cent, while profit will increase 7 to 12 per cent. In a recent report, analyst John Aiken at Barclays Capital said the company's stock is undervalued by investors. "Much of this, we presume, has to do with concerns about the potential for a recession in the coming months," said Mr. Aiken. "Similar to Element's experience during the pandemic, this should serve to only limit Element's growth, not eliminate it."

The Rentokil contract also highlighted Element's ability to win customers from rivals. In a recent investor presentation, Mr. Forbes put up a slide showing the company welcomed 77 new clients with 33,100 vehicles over the past year – prior to the Rentokil contract – and named the competitors who lost the business. The majority were companies dealing with some form of head office turmoil.

> In 2023, a year widely expected to produce anemic economic growth, Element forecasts its sales will rise by 6 to 9 per cent.

Takeovers have reshaped the fleet management industry over the past two years, as several companies merged to build scale or ran into pandemic-related financial troubles – rental giant Hertz, for example, sold its business in 2021. In addition, private equity fund Apollo Global Management Inc. invested in three of Element's biggest competitors, acquiring the parent to Wheels and Donlen last year and combining it in December with LeasePlan USA to create a company servicing 800,000 vehicles.

Element steered clear of the deal-making. Mr. Forbes said his team reviewed numerous potential takeovers, but consistently decided their time was better spent on organic growth opportunities. In addition to being the largest fleet manager in Canada, the U.S. and Mexico, Element dominates the sector in Australia and New Zealand. Mr. Forbes said: "There are ample opportunities for us to steal market share, as rivals integrate cultures, process and systems and go through what can be a painful journey."

Over the past year, Element landed clients from Wheels Donlen and LeasePlan USA. Analysts predict Element could add $190-million in revenue next year by winning over clients – the company forecasts 2023 revenue of $1.14-billion to $1.17-billion. "As the industry leader, Element is better positioned to win a disproportionate percentage of existing market share by utilizing its competitive advantages and capitalizing on market disruption," Mr. Aiken said.

Once Element lands a client, they stick around. The company has a 99-per-cent customer retention rate, a significant improvement from the relatively high turnover Element experienced before Mr. Forbes joined in 2018. The former CEO of Manitoba Telecom Services – acquired by BCE Inc. – Teranet Inc. and Aliant Inc. made customer service a priority at Element, a company created from businesses spun out of General Electric Inc. in 2015.

"Our employee engagement went from bottom quartile for our industry to top quartile," said Mr. Forbes. Part of the shift reflected changing Element's compensation system to increase pay for performance, and increasing automation of customer service systems. Element employees are now consistently winning more work from existing clients. Analysts predict this trend will boost revenue next year by $240-million.

The move to electric vehicles is also expected to boost Element's financial results, as the company wins new business advising clients on how to make the shift. By 2030, Element expects 40 to 60 per cent of its fleet will be battery-powered, hitting the road each day and playing essential roles in businesses. Including getting rid of termites.