

Element aims to buy fleets of trucks owned by cash-strapped municipalities

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Jay Forbes already owns more than a million cars and trucks. As governments and companies work through the financial fallout from the COVID-19 pandemic, he's hoping to help out by acquiring millions more.

Mr. Forbes is the chief executive of Element Fleet Management Corp., a global giant most Canadians have never heard of, even though they see it every day. Toronto-based Element leases and maintains \$18-billion worth of vehicles to about 3,000 businesses and government agencies in more than 50 countries. In a narrow niche, the company is twice the size of its nearest competitor. The van that drops off packages or brings the plumber to unplug toilets on your street? It's probably Element's.

When the pandemic hit North America in March, Element was already doing well. Mr. Forbes, a turnaround expert who took the wheel in 2018, had largely completed a two-year repair job on the balance sheet. Sales rose 14 per cent over the past year as customers bought into Element's sales pitch: Letting the world's largest fleet owner run your vehicles cuts costs by 20 per cent. Element saves money by buying in bulk – it's the single-biggest customer for Ford Motor Co. and General Motors Co. – doing maintenance efficiently and getting the best slots from auction houses when it comes time to sell used vehicles.

Then came COVID-19. "All of our clients found their business model was vastly disrupted, but they are still in business," Mr. Forbes, 58, said in an interview from his home. "The majority of our clients offer essential services, like telecom and delivery. They still need mission-critical vehicles."

For Element, the pandemic brings a game-changing opportunity to buy and lease back vehicles owned by government entities dealing with unexpected deficits, including municipalities that own police cars, sewer repair trucks and millions of other vehicles. "In the government sector, you have tremendous pressure on finances, and Element has an opportunity to materially help out," said Mr. Forbes, whose company has access to \$5.5-billion of capital. "We can buy an entire fleet, write a sizable cheque, cut future costs and improve vehicle performance."

This potential market is enormous. U.S. government agencies – city, state and federal – owned a total of 1.2 million cars and 1.8 million trucks at the end of last year, according to an annual survey by the Oak Ridge National Laboratory. Typically, these vehicles are replaced every five years, which means 20 per cent of the fleet turns over each year.

Element estimates that in the United States and Canada alone, there is \$2-billion of potential annual revenue to be gleaned from governments and companies that own their own fleets. That's twice Element's 2019 revenue of \$994-million. In a report last week, RBC Dominion Securities analyst Geoffrey Kwan said Element has the most promising postpandemic growth prospects of any Canadian financial services company because it can acquire "government, self-managed and/or megafleet customers."

Right now, the company faces two significant challenges: Automakers have shut down production, which means Element can't expand its fleet, and the auctions the company typically uses to raise capital by selling used vehicles are also closed. Mr. Kwan said both issues should be resolved by mid-June.

Entrepreneur Steve Hudson created Element by orchestrating the merger of three large fleet owners between 2012 and 2015. In 2016, Mr. Hudson split up the company, selling his stake in Element. Mr. Forbes arrived two years later, after successful stints as CEO at Manitoba Telecom Services, Teranet Inc. and regional telecom company Aliant Inc.

His background in telecom shapes his thinking about expanding Element. Analysts say there will be opportunities for the strongest players in fleet management to acquire weakened rivals such as Donlen, a division of auto rental company Hertz Corp. Credit rating agencies recently downgraded Hertz's debt to junk bond status, and the company's stock price is down more than 80 per cent this year. In contrast, Element holds an investment-grade credit rating and its stock price is down just 26 per cent.

However, Mr. Forbes said organic growth, rather than takeovers, are the preferred path forward. The concept of outsourcing vehicle ownership is only embraced by half of U.S. companies and government agencies, the company's biggest market, according to Element's research. Market penetration is even lower in Canada, Australia, New Zealand and Mexico, Element's other major regions. "In my old world, in telecom, market penetration was 100 per cent. Everyone had a phone, so you could only gain market share by taking it from rivals," Mr. Forbes said. "In this business, as the dominant player, we can simply win over new customers."

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