



Element Financial Corporation  
Annual Meeting of Shareholders  
June 16, 2016

Excerpt of Remarks by William Lovatt  
Chairman

Check Against Delivery

Before turning the meeting over to Management, I would like to make a few comments on 2015 accomplishments and compensation. I will also provide an update on the Company's approach to compensation going forward, in the context of the proposed corporate separation.

### **GE Fleet Acquisition**

The following are some observations on the GE Fleet acquisition that we completed in 2015:

- Management negotiated an "exclusive" arrangement with GE;
- The transaction involved performing diligence and acquiring GE Fleet's fleet management operations in the US, Mexico, Australia and New Zealand; and
- As part of the ultimate transaction, Element agreed to acquire GE Fleet's European operations which we subsequently transitioned to our partner BNP Arval before close.

From a financial perspective, the transaction is expected to be 20% accretive to annual EPS and synergies are expected to be in excess of \$100 million. Synergies are derived from scale price advantages, lower financing costs as a result of improved financing terms and credit ratings, and operational efficiencies.

To finance the \$8.9 billion transaction, Element successfully placed an unprecedented \$2.8 billion public offering of subscription receipts, preferred shares and convertible debentures.

The GE Fleet transaction accelerated the process for Element to secure an initial Investment Grade Issuer Rating (BBB) from DBRS.

Element's bank credit facility was increased from \$2 billion to \$8.5 billion, term extended to a 3-year term, and credit spreads reduced by 55 basis points. Element's entire business benefited from these lower funding costs.

The successful acquisition of GE's Fleet Management business positions Element as North America's leading fleet management provider. It expands Element's Fleet operations into Australia and New Zealand, and expands the Element-Arval Global Alliance.

The GE Fleet acquisition was a seminal event for the Company. It was transformational in nature, size and complexity. Indeed, it is a driving factor leading to the proposed initiative to split Element into 2 independent market leading entities, Element Fleet and Commercial Finance.

When we complete the separation, Management will have created the world's largest publicly traded fleet company.

### **2015 Compensation Award Considerations**

Turning to the 2015 compensation awards, I refer you specifically to pages 31 and 34 of the Circular.

The Board granted a supplemental incentive to Management to recognize their significant efforts in completing the transformational GE Fleet management integration.

The Company has completed nine acquisitions since its 2011 IPO, and supplemental incentives have only been awarded twice, both in connection with transformative fleet-based acquisitions.

In lieu of the GE integration incentive, no annual bonus was granted to Management in 2015.

With regard to the 2015 Supplemental Incentive:

- This type of award is contemplated for exceptional performance under Element's executive compensation framework, as set out on page 31 of the Circular, which framework was approved by the "Say on Pay" vote at our 2015 AGM;
- The amount was sized to the transaction considerations I observed on;
- The total award was structurally balanced between cash and PSUs contingent upon specified operating performance (the three performance vesting measures are set out at the top of page 34 of the Circular);
- In addition to these specific performance measures, vesting is conditional upon achieving EPS targets; and
- The Board has the ability to "clawback" the cash portion of the bonus award, if integration and cost savings metrics are not materially met.

We received feedback from our stakeholders on the 2015 compensation awards, including total amount, PSU metrics, and extraordinary timing and accounting treatment.

My strong view is that the 2015 compensation awards were well in line with the Compensation Philosophy and corporate accomplishments. Our "Say on Pay" vote this year received robust support from our shareholders with over 80% in favour; however, we do continue to listen to our stakeholders and they have made certain constructive comments which we will adopt going forward.

### **Proposed New Compensation Structure**

As Element transitions to two corporate entities, Management and the Board are developing a compensation structure which reflects shareholder feedback and is "right sized" to the scale of each business, while continuing to provide strong incentives for business growth.

The Management Group is significantly invested in Element's equity, both directly and through compensation awards. For senior management, there will be no special separation awards linked to the split of the Company. Management will be rewarded through their equity ownership, if the market views the transaction favourably.

The compensation structure will reflect a balanced approach to short-term, medium-term and long-term incentives.

The short-term cash bonus and medium-term PSU equity awards will be scorecard-based, and include target and maximum awards. The “stretch” between the target and maximum incentives is illustrative of an M&A opportunity. This will eliminate the need for special transactional bonuses in the normal course.

The compensation will align management compensation to total shareholder return. The PSU structure will have defined multi-year operational objectives, and a component tied to TSR.

A compensation example based upon a \$1 million base salary results in a total annual opportunity of \$5 million to \$7.5 million. Base salary is illustrative in this example. Ultimately, base salaries will be sized to the business opportunity.

We would now like to take the opportunity to provide our shareholders with an update on the progress we have made since our last meeting on building Element’s foundation as one of North America’s leading fleet management and equipment finance companies.

In addition, we will provide an update on the separation transaction. Following the brief presentation by Mr. Steve Hudson, Chief Executive Officer of Element, we would be pleased to answer any questions you may have.

I will now turn it over to Mr. Hudson.