



Element Reports Resilient Fourth Quarter and 2020 Results, Completes \$200+ Million Transformation and Kicks-Off 2021 with Significant Client Wins

Amounts in \$CAD unless otherwise noted

- Q4 adjusted operating income increased \$3.1 million quarter-over-quarter to \$132.1 million; equivalent to \$0.23 on a per share basis and translating to \$0.25 of free cash flow per share
- Full-year 2020 adjusted operating income totaled \$501.5 million; equivalent to \$0.85 on a per share basis – essentially flat year-over-year in spite of COVID-19
- Transformation program completed, reaching \$208 million of run-rate profit improvements actioned and delivering \$133 million of operating income enhancement in 2020
- Element returned to sub-6.0x tangible leverage in Q4, achieving 5.74x at year-end while repurchasing 762,100 common shares for cancellation in the month of December pursuant to the Company's normal course issuer bid (NCIB)
- Subsequent to year-end, Element repurchased aggregate 3,588,500 common shares for cancellation in the months of January and February 2021 pursuant to its NCIB
- Element's growth strategy continued to build momentum subsequent to year-end with significant client wins in North America and ANZ
- Element did not furlough or lay off a single employee in 2020 as a result of the pandemic

TORONTO, March 03, 2021 (GLOBE NEWSWIRE) -- Element Fleet Management Corp. (TSX: EFN) ("Element" or the "Company"), the largest pure-play automotive fleet manager in the world, today announced: financial results for the fourth quarter and full year ended December 31, 2020; the completion of its transformation program; achievement of sub-6.0x tangible leverage; common share repurchases pursuant to the Company's NCIB; and significant client wins so far in 2021.

Element's market-leading business generated adjusted operating income of \$132.1 million or \$0.23 per share in Q4, a 2.4% AOI increase quarter-over-quarter. The rise in AOI reflected improvements in net financing revenue and syndication revenue, partially offset by lower servicing income (as expected quarter-over-quarter) and a modest \$0.8 million increase in adjusted operating expenses. With revenue growth outpacing expense growth, the adjusted operating margin grew to 53.4%. The Company reported net income of \$78.4 million or \$0.16 per share for the quarter, a 10.7% improvement over Q3 2020.

"Our resilient fourth quarter results in the face of a continuing pandemic, coupled with our strong finish to Transformation in the quarter, capped an extraordinary and pivotal year for Element and all of our stakeholders," said Jay Forbes, President and Chief Executive Officer of Element. "Our clients, old and new, our business and our people will enjoy the benefits of Element's transformed, industry-leading service platform for many years to come. And our investors will benefit from the scalable design of that platform as we profitably grow net revenue 4-6% a year, and – aided by a capital-lighter business model – return the vast majority of the resulting free cash flow to them in the form of growing dividends and share buybacks."

"This organization has now accomplished everything we set out to do in the Fall of 2018 – and then some," Mr. Forbes added. "I am incredibly proud of our people, and I am grateful to them, to our investors and to our clients for all of their support during this exhaustive revitalization of our business. With operations successfully transformed, with the balance sheet solidly investment-grade and with no distractions from non-core activities, Element can now devote a singular focus to its pursuit of profitable revenue growth."

For 2020 as a whole, Element reported adjusted operating income of \$501.5 million or \$0.85 per share, 2.4% or \$0.01 per share lower than for 2019. Annual net revenue declined 3.1% year-over-year due primarily to the impacts of COVID-19 on portions of the Company's supply chain and client base, and the temporary dislocation of economics in the U.S. syndication market during Q2 2020. Those headwinds to net revenue were partially offset by the contributions to net revenue made by Element's Transformation program. Transformation was also the primary driver of the \$18.6 million or 3.9% year-over-year decline in adjusted operating expenses for 2020. In total, Transformation delivered \$133 million of operating income enhancement in 2020. The Company reported net income of \$287.1 million or \$0.56 per share in 2020 – a \$189.4 million improvement driven predominantly by the \$260 million impairment on 19th Capital taken in 2019.

Transformation complete

Element completed its 27-month client-centric Transformation on December 31, 2020 having actioned a cumulative \$208 million of annual run-rate, pre-tax profit improvements – 38% more than its original \$150 million end-goal and 15% more than the Company's \$180 million revised goal.

Over the course of Element's Transformation, the Company streamlined systems and policies, re-tooled and automated hundreds of business processes, and bolstered its talent roster – all to ensure the delivery of a consistent, superior client experience.

Transformation initiatives delivered \$39 million of operating income enhancement in Q4 and \$133 million of operating income enhancement in 2020. The remaining \$75 million of value will be delivered as the benefits of Transformation are realized in 2021 and beyond.

The Company made \$75 million of one-time investments in support of Transformation in 2020, bringing total one-time investments in Transformation over the course of the program to \$208 million. With Transformation now complete, no such further costs will be incurred.

Strong financial position

Element reached 5.74x tangible leverage at December 31, 2020, achieving its sub-6.0x end-of-year target.

The Company also further strengthened its financial position in the quarter by winding down its non-recourse funding facility (previously established for Armada¹) and strategically right-sizing certain other revolving credit facilities, reducing the Company's overall cost of capital. Stress tests performed by Element's global cash management office informed these right-sizing decisions. The Company had contractually committed, undrawn liquidity of \$3.0 billion at December 31, 2020 – ample to fund its revenue growth objectives.

¹ "Armada" is the term Element uses to reference one client in particular that the Company does not name due to the client's desire for confidentiality.

Capital-lighter business model

Element continues to enjoy strong (and growing) demand for its assets with syndication investors, with market dynamics largely back to normal. The Company increased its Q4 syndication revenue by 57% or \$8.6 million quarter-over-quarter – to \$23.9 million in revenue – on just 3.1% or \$19 million more assets syndicated. The bigger driver of the increased revenue was yield, which improved significantly as a consequence of asset mix and strengthened markets. The Company continues to grow and transact with new syndication investors, having syndicated \$264 million of volume with a total of 11 first-time buyers over the course of 2020.

Element intends to maintain a significant presence in the syndication market and grow demand for the Company's assets in 2021 and beyond in support of a capital-lighter business model that enhances return on equity.

Driven for growth

Element comprehensively sized and mapped the U.S. / Canada and Australia / New Zealand (ANZ) markets for fleet management services in 2019, having already performed a similar exercise in Mexico in 2017. Based on (i) the findings of all three studies and (ii) the Company's success in Mexico since 2017², Element developed its global organic growth strategy.

Despite the challenges of the pandemic, Element Mexico recorded its third straight year of double-digit revenue growth, with net revenue growing 10% year-over-year before FX. In ANZ, Custom Fleet³ launched its growth strategy in early 2020, and – overcoming the headwinds of wildfires and the pandemic – grew its net revenue 6% year-over-year before FX.

Element used the first half of 2020 to accelerate its pivot to growth in the U.S. and Canada, making organizational changes that have better positioned the Company to capture the many opportunities across its markets. This enabled the Company to begin executing its growth strategy in the U.S. and Canada in Q3 2020 – approximately 6 months ahead of schedule.

While COVID-19 limits certain traditional sales practices, Element believes the economic impact of the pandemic has also made the Company's value proposition even more compelling. Element clients enjoy (i) the benefits of the Company's economies of scale and insight, allowing clients to significantly reduce fleet operating costs; (ii) ready access to cost-efficient vehicle financing solutions – including, in certain cases, the option of a sizeable cash infusion through a sale-and-leaseback transaction – and (iii) end-to-end, industry-leading fleet services, without the expense of in-house fleet experts or the accompanying administrative burden. Element's clients outsource their fleets to the Company, making those vehicles and their drivers safer, smarter and more productive while the clients focus on their core business strengths.

² At December 31, 2020, Element Mexico had grown assets under management at a trailing 3-year compound annual growth rate of 45%.

³ Element does business as Custom Fleet in Australia and New Zealand.

Q4 2020 and the two months since year-end have provided more tangible examples of the attractiveness of Element's value proposition to new and existing clients:

Q1 2021 wins

Global

- In February, Element and its partner-members of the Element Arval Global Alliance were awarded the fleet business of a global energy technology company in the oilfield services industry. This global RFP victory will add vehicles and service units to Element's roster in all five of the Company's operating geographies: approximately 3,900 vehicles and 12,000 service units in total. The win has further upside in the potential management of the client's global trailer, forklift and equipment portfolio. In the U.S. and Canada, this deal represents the combination of (i) a renewal of vehicles already under Element's management and (ii) the addition of approximately 5 times more vehicles to Element's roster, all previously managed by another FMC.

U.S. & Canada

- The owner of one of the largest and most diversified portfolios of energy assets in the U.S. chose Element as their new fleet solutions provider and will transfer responsibility for servicing the client's 5,500 owned vehicles to Element from another FMC. This win represents approximately 40,000 net new service units for Element – in alignment with the Company's designs on a capital-lighter business model. Element will provide vehicle acquisition and remarketing services to its new client in addition to maintenance, accident, toll management, telematics and fuel services.

Australia & New Zealand

- Custom Fleet and Origin Energy Ltd., Australia's leading energy retailer, are working together to provide Origin's business customers with a one-stop shop for EV fleet procurement, management and charging, called "Origin 360 EV Fleet". Custom Fleet will provide Origin's business customers with fully managed electric fleet vehicles and accompanying services, including reporting and insights to help optimize fleet performance and emissions reduction. These will be bundled with Origin's charging infrastructure, carbon offsets and energy solutions, taking the complexity out of making the switch to EVs. You can read Origin's announcement of the Origin 360 EV Fleet initiative [here](#).

Q4 2020 wins

U.S. & Canada

- Element won the business of a leading automotive aftermarket parts company; the sister company of an existing Element client with 1,400 vehicles under Element's management. When the aftermarket parts company identified customer service issues with their then-fleet management provider, Element rapidly engaged the requisite stakeholders and offered its superior client service experience (which their sister company was already receiving from Element). By working directly with both companies' fleet teams, Element won 1,300 vehicles from the aftermarket parts company, and added accident management services to its relationship across the board (now 2,700 vehicles). Finally, the Company obtained a three-year exclusivity agreement to ensure the continuity of the long-term partnership.
- Element grew its relationship with an acquisitive engineering firm that became a 350-vehicle client in 2019. The client's fleet grew by 500 vehicles in December 2020 when they completed an acquisition, and Element was awarded management of the entire (now) 850-vehicle fleet on a 3-year contract, supplanting the services of another FMC. Element's client continues to pursue its aggressive acquisition strategy, which the Company anticipates will add more volume to this long-term relationship.

Mexico

- Q4 saw the highest quarterly take-up of services in 2020 by Element Mexico clients, with contracts for more than 6,000 service units being initiated. The highlight of the quarter in this regard was the extension of the Company's maintenance services program to the entire fleet of one of Mexico's largest telecommunications companies.
- Element continued to grow its presence in the food and beverage industry, onboarding new clients and being awarded the renewal of one of Latam's largest dairy companies, with a total fleet potential of 5,500 vehicles in Mexico.
- Element is also growing its participation in the mobility & transportation industry. The Company began to provide leasing to Mexico's second largest intercity bus carrier and trucking company – a fleet of 7,000 buses and trucks – and to a Top 10 trucking company, representing 4,000 trucks and trailers.

Australia & New Zealand

- A leading Japanese-owned beverage company awarded Custom Fleet sole supply of their Australian and New Zealand fleets. This trans-Tasman opportunity was the product of an established, positive relationship with the NZ business (as a member of their previous panel) and has enabled Custom Fleet to provide its full suite of services, ensuring the Company maintains this partnership well into the future.
- Custom Fleet were chosen as the fleet manager for a large department within the NZ Government sector. This ~700 vehicle sale-leaseback represents the largest new business win for Element's NZ operations in more than 10 years. By coupling consistency with the Company's advanced technological capability and unique value proposition, it was able to successfully convert the client's previously self-managed operation into an exciting new relationship for Custom Fleet.
- Custom Fleet won exclusive supply of fleet management services for a major department within the Victorian Government. The Company's overall value proposition, demonstrated technological capability, and existing client relationships are to be attributed for winning this 420-vehicle opportunity, further cementing the Company's position as a

key player in the government sector.

Commitment to “Our People”

The year 2020 was a pivotal one for Element's workforce as the Company completed Transformation while living through a pandemic. Despite the unprecedented challenges, the Company's actions reinforced its commitment to its people, resulting in an overall employee engagement score of 86% - up 7 points from 2019.

Element's commitment to its people throughout 2020 was underpinned by the Company's duty of care to support the safety and wellness of its entire workforce throughout the pandemic. Following public health directives closely, Element mobilized 97% of its people to work remotely within weeks of the pandemic's onset while also ensuring essential workers were able to continue their duties on behalf of the Company's clients in a safe environment.

With everything in place to work safely and productively, Element's workforce will continue to work largely from home until at least the fall of 2021, with the exception of the Company's colleagues in Australia and New Zealand.

Strategic priorities and return of capital

Element is focused on its strategic priorities for 2021 and beyond:

- Aggressively pursue organic growth in all of the Company's geographies and demonstrate the scalability of Element's transformed operating platform by magnifying 4-6% annual organic revenue growth into high single-digit to low double-digit annual operating income growth;
- Advance a capital-lighter business model by increasing service penetration and strategically syndicating fleet assets, which enhances return on equity; and
- Achieve high single-digit to low double-digit annual free cash flow growth and predictably return excess equity to common shareholders by way of dividends and share buybacks.

As announced in October 2020, Element has begun executing its return of capital plan, including:

- a 44% increase to the Company's common dividend, from \$0.18 to \$0.26 annually per share and reflected in the Q4 2020 dividend paid January 15, 2021;
 - With the increase, Element's common dividend represents approximately 30% of the Company's last twelve months' adjusted earnings per share, which is the mid-point of the 25% to 35% payout range the Company plans to maintain going forward; and
 - the establishment of a NCIB to repurchase up to 10% of Element's common shares over the ensuing 12 months – the first year of what is envisioned to be a regular, ongoing program by the Company.
- Element repurchased 762,100 shares in December 2020 and has repurchased a further total of 3,588,500 shares in January and February 2021.

Financial Highlights and Adjusted Operating Results

The following summarizes results from the Company's operations:

(in \$000's for stated values, except per share amounts)	Three-month periods ended			Twelve-month periods ended	
	December 31, 2020	September 30, 2020	December 31, 2019	December 31, 2020	December 31, 2019
	\$	\$	\$	\$	\$
Net financing revenue	106,455	103,272	100,217	405,687	411,180
Servicing income, net	116,758	124,734	128,754	481,854	493,345
Syndication revenue, net	23,886	15,246	27,538	75,552	89,577
Net revenue	247,099	243,252	256,509	963,093	994,102
Salaries, wages and benefits	77,518	74,910	78,077	302,757	322,628
General and administrative expenses	27,166	28,789	29,101	116,336	115,256
Depreciation and amortization	10,357	10,568	10,945	42,491	42,252
Adjusted operating expenses¹	115,041	114,267	118,123	461,584	480,136
Adjusted operating income¹	132,058	128,985	138,386	501,509	513,966
Provision for taxes applicable to adjusted operating income	23,969	21,927	25,589	87,604	93,835
Cumulative preferred share dividends	8,103	10,875	11,025	40,820	44,424
After-tax adjusted operating income attributable to common shareholders¹	99,986	96,183	101,772	373,085	375,707

Weighted average number of shares outstanding [basic]	440,243	437,849	435,774	438,561	434,812
After-tax adjusted operating income per share ¹ [basic]	0.23	0.22	0.23	0.85	0.86
Net income	78,362	70,778	(116,978)	287,092	97,701
Weighted average number of shares outstanding [basic]	440,243	437,849	435,134	438,561	434,812
Earnings per share [basic]	0.16	0.14	(0.29)	0.56	0.12
Originations	1,386,792	1,279,263	2,225,909	6,003,847	7,851,876
Assets under management ¹	15,652,493	16,148,812	16,710,402	15,652,493	16,710,402

1. See non-IFRS measures, and the Company's Management Discussion & Analysis ("MD&A") for the year ended December 31, 2020 for more information.

Commentary on Quarterly Results

Element's adjusted operating income ("AOI") for the quarter was \$132.1 million (equivalent to \$0.23 on a per share basis), which is a 2.4% or \$3.1 million increase over Q3 2020 results and a 4.6% or \$6.3 million decrease from Q4 2019.

The quarter-over-quarter AOI improvement was driven by increases in net financing revenue and syndication revenue, offset partially by lower servicing income and slightly higher adjusted operating expenses compared to prior period. Q3 2020 servicing income benefited from one-time accelerated Armada income of \$8.8 million. Removing the \$8.8 million from the Q3 servicing income total, recurring servicing income showed modest quarter-over-quarter growth in Q4.

The 4.6% year-over-year decline in AOI stemmed from pandemic-related declines in net revenue that were largely offset by lower adjusted operating expenses. All of these results are addressed in more detail below.

Originations

Element originated approximately \$1.4 billion of assets in the quarter, an increase of \$107.5 million or 8.4% quarter-over-quarter.

U.S. and Canadian originations increased by 4.7% quarter-over-quarter. This growth was, in part, driven by unfilled orders and pent-up demand tracing back to Q2 2020, when certain OEM production facilities experienced closures. Although Q4 2020 origination volumes in the U.S. and Canada do not yet represent a full "catch-up" on origination volumes delayed and deferred by the consequences of COVID-19, the Company is trending in the right direction:

- Q2 2020 originations¹ in the U.S. and Canada were ~44% lower than in the same quarter of 2019 – excluding Armada volume from both quarterly figures.
- By comparison, Q4 2020 originations in the U.S. and Canada were only ~10% lower than in Q4 2019 – again, excluding Armada volume from both figures.

ANZ origination volumes increased 4.7% quarter-over-quarter as Custom Fleet continues its swift recovery from the impacts of COVID-19 and wildfires in the region. The Company is also beginning to see the positive impacts of Element's global growth strategy being executed in ANZ, where its commercial efforts are 6-9 months ahead of those in the U.S. and Canada.

As discussed last quarter, while the economic impact of COVID-19 was more muted in the first half, Mexico – and Element Mexico – experienced setbacks in the third quarter. As expected, originations in Mexico recovered in Q4, increasing 46.7% quarter-over-quarter. On a year-over-year basis, fourth quarter originations were 13.5% higher in 2020, 31.0% on an FX-adjusted basis. Mexico's relentless, resilient growth also portends well for the impacts of Element's global growth strategy in all of ANZ, the U.S. and Canada because a key 'plank' of the strategy – how to convert self-managed fleets into Element clients – was conceived of and pioneered by Element Mexico.

Importantly, there has been no increase quarter-over-quarter in the number of instances of de-fleeting year-to-date. "De-fleeting" is when a client decides to materially reduce the size of their fleet more or less permanently. The cases of de-fleeting the Company has on record in 2020 remain restricted to specific industries going through down cycles independent of COVID-19 – oil and gas being the prime example – and otherwise a few individual clients paring back on unit counts in response to the economic consequences of COVID-19 on their specific business.

Assets under management

Element's assets under management ("AUM") at quarter-end totaled \$15.7 billion, down 3.1% or \$0.5 billion quarter-over-quarter given lower than normal origination volumes in the Company's largest market - such originations delayed and deferred by the consequences of COVID-19, and now gradually improving. As set out in the Company's Supplementary Information document, modest quarter-over-quarter originations growth was offset by the impacts of amortization, dispositions and FX on

AUM. On a constant currency basis, AUM was essentially flat quarter-over-quarter.

Servicing income, net

Servicing income declined 6.4% or \$8.0 million from Q3 2020 and 9.3% or \$12.0 million from Q4 2019. Excluding the \$8.8 million one-time accelerated Armada servicing income in Q3 2020, servicing income grew \$0.8 million quarter-over-quarter.

The main contributor to the \$0.8 million organic servicing income growth was clients' use of maintenance services, with most other service usage levels relatively flat. Fourth quarter maintenance activity also grew year-over-year, although overall vehicle usage levels remained lower in Q4 2020 relative to Q4 2019, resulting in the 9.3% year-over-year servicing income decline for the quarter.

That said, Element continues to generate relatively stable recurring revenues across the entirety of its portfolio of client services and solutions. Approximately one-third of the Company's servicing income is subscription-based and therefore less variable, with the balance being driven by clients' vehicle usage.

Section 8.2 of the Company's Supplementary Information document (available on Element's website) provides further datapoints on servicing income contributors in the period.

Net financing revenue

Net financing revenue increased 3.1%, or \$3.2 million quarter-over-quarter despite a 2.1% reduction of net earning assets via syndication (in support of deleveraging to maintain Element's target tangible leverage ratio). The primary driver of the net financing revenue increase is interest expense management: interest expense decreased \$4.1 million quarter-over-quarter, more than offsetting the \$0.9 million decrease in net interest income and rental revenue (as the Company syndicates leases that earn net interest income).

Net financing revenue increased \$6.2 million year-over-year, which represents particularly strong performance given net earning assets decreased by 14% over the same period. The net financing revenue increase is due largely to:

- Lower cost of funding, as Element substantially reduced liabilities (by \$2.4 billion in 2020) and lowered the cost of financing the remaining indebtedness; and
- Growth in net earning assets in Mexico.

Net financing revenue yield on average net earning assets

Average net earning assets decreased 2.1% or \$230 million quarter-over-quarter and 13.8% or \$1.7 billion year-over-year as a result of syndication activity and, in the case of the year-over-year decline, the impact of lower originations through 2020 for the reasons discussed above. Earning asset changes are broken down in the Company's Supplementary Information document.

Net financing revenue yield on average net earning assets improved 75 basis points year-over-year and 20 basis points quarter-over-quarter, reflecting

- lower levels of debt as Element strengthened the balance sheet,
- lower cost of funding as Element improved its financing mix,
- improving price realization, and
- the shifting mix of assets held on balance sheet.

Syndication revenue, net

The Company syndicated \$619 million of assets in Q4, resulting in \$23.9 million of syndication revenue and a material contribution to its balance sheet de-leveraging in the quarter.

Syndication revenue grew 57% or \$8.6 million quarter-over-quarter in Q4 and declined 13.3% or \$3.7 million year-over-year. 'Yield' improvement was the most significant driver of the quarter-over-quarter revenue growth, and yield also improved year-over-year for the quarter - albeit on a lower volume of syndicated assets in Q4 2020.

Syndication revenue benefited quarter-over-quarter from an improved rate environment (lowering investor hurdle rates over the course of the quarter) and increasing demand for Element's assets.

Adjusted operating expenses

Adjusted operating expenses of \$115.0 million represent an increase of 0.7% or \$0.8 million quarter-over-quarter and a decrease of 2.6% or \$3.1 million year-over-year. The decrease over Q4 2019 is primarily driven by Transformation savings on salaries and general and administrative expenses. The Company has exercised diligent cost controls in the COVID-19 environment and continued with planned Transformation initiatives, which include operating expense reduction measures, while the stability, resilience and natural defensiveness of Element's business model has preserved healthy operating margins (53.4% for Q4 2020 versus 53.9% for Q4 2019).

Commentary on Annual Results

Element's net revenue declined 3.1% or \$31.0 million year-over-year in 2020 due primarily to the impacts of COVID-19 on portions of its client base and the temporary dislocation of economics in the U.S. syndication market. These headwinds to net revenue were partially offset by the contributions to net revenue made by the Company's Transformation program.

Transformation was also the primary driver of the \$18.6 million or 3.9% year-over-year decline in adjusted operating expenses.

Element's adjusted operating income ("AOI") for the year ended December 31, 2020 was \$501.5 million, amounting to \$0.85 on a per share basis; 2.4%, \$12.5 million or \$0.01 per share less than the \$514.0 million of AOI generated for the year ended December 31, 2019.

Originations

Element originated \$6.0 billion of assets in 2020 - \$1.8 billion or 24% less than in 2019. The primary drivers of the difference were:

- the tail-off in Armada originations in the second half of 2020 – which was in keeping with the Company's 2019/2020 Armada fleet launch plan,
- the impact of OEM production facility and dealership closures and capacity reductions, and thus vehicle availability
 - in ANZ in the first half of 2020, and
 - in the U.S. and Canada beginning in Q2 2020 and continuing to various extents throughout the year;
- the knock-on impacts of OEM production facility and dealership closures on Element's clients' thinking around fleet vehicle replacement; and
- the impact of the economic consequences of COVID-19 on Element's clients' decisions to replace their fleet vehicles.

Notwithstanding all of the foregoing, 2020 originations in Mexico grew by \$47 million or 8.4% (18% on an FX-neutral basis) over 2019 volumes, demonstrating the resilience of demand for the Company's services and opportunity in that region.

Assets under management

Element's assets under management ("AUM") at year-end totaled \$15.7 billion – down \$1.1 billion or 6.3% year-over-year. As set out in the Company's Supplementary Information document (available on Element's website), the year-over-year decrease reflects the impacts of lower origination volumes in 2020, plus amortization, dispositions and FX. On a constant currency basis, AUM declined \$860 million or 5.2% year-over-year.

Servicing income, net

Element earned \$481.9 million of servicing income in 2020, down 2.3% or \$11.5 million from 2019. This revenue stream demonstrated resilience throughout the year and in spite of the pandemic's impact on traffic levels at large. Element's servicing income – which is driven by the Company's clients' vehicle usage – is predictably durable. There are four overarching reasons for its durability:

- Element's clients represent a broad spectrum of enterprise- and mid-market-scale businesses, a large number of which continue to operate despite COVID-19. As section 8.1 of the Company's Supplementary Information document depicts, Element's U.S. and Canadian clients' vehicle usage declined notably less by some measures than average vehicle usage in the U.S. from mid-March to the end of December 2020. Element's clients include frontline service providers and many are essential services. Some clients' businesses are operating at less than full capacity amid COVID-19 and other clients' activity levels have increased dramatically. The latter category includes companies such as medical services businesses, telecommunication companies and businesses with online retail presence.
- All the vehicles Element leases are essential to its clients' ability to generate and sustain revenue, so the vast majority have been active in some capacity during the pandemic. However, the Company has seen less decline in the activity levels of service fleet vehicles (which make up approximately 80% of Element's leases) than it has seen in sales fleet vehicles (which make up the other approximately 20% of its leases). Service fleet vehicles are transporting service personnel and equipment to job sites, ferrying assets between locations and delivering products to consumers sheltering-in-place.
- Not only have service fleet vehicles been more active than sales fleet vehicles amid COVID-19, but service fleets tend to consume more Element services than sales fleets; for instance, approximately 5x the maintenance, 2.5x the accident services and 4.5x the fuel (on average) over any given period.

Taking the month of April 2020 as an example when Element's U.S. and Canadian clients' vehicle usage was at its lowest (see section 8.1 of the Company's Supplementary Information document) – maintenance, accident services and fuel usage by such clients declined from average levels by materially more among sales fleet than service fleet vehicles:

Element services consumption declines in the month of April 2020	Maintenance	Accident	Fuel
Sales fleet vehicles	58%	60%	68%
Service fleet vehicles	32%	49%	28%

This data – combined with the fact that service fleet vehicles tend to consume more Element services on average than sales fleet vehicles, regardless of COVID-19 – illustrates the strength of service fleet vehicles' contribution to Element's servicing income. And service fleets make up approximately 80% of the Company's leases.

- Approximately one-third of Element's servicing income is derived from client subscriptions for services, which make predictable contributions to quarterly revenue independent of client vehicle activity.

Section 8.2 of the Company's Supplementary Information document (available on Element's website) provides datapoints on servicing income contributors throughout most of 2020.

Net financing revenue

Net financing revenue of \$405.7 million in 2020 represents a 1.3% or \$5.5 million decline year-over-year.

However, excluding the impacts of the Company's non-core 19th Capital business on net financing revenue in 2019 (a \$5.7 million positive contribution) and Q1 2020 (a \$2.0 million net financing revenue loss prior to the sale of 19th Capital), net financing revenue from 'core' fleet management services in 2020 increased by \$2.2 million.

Further adjusting both years' results for provisions for credit loss (\$2.1 million in 2019 and \$11.7 million in 2020), net financing revenue grew \$11.8 million or 2.9% year-over-year.

All of the foregoing represents resilient net financing revenue performance, given that net earning assets declined 11% over the course of 2020 as a result of (i) syndication activity and (ii) postponed and delayed originations.

Element also materially optimized its cost of funding in 2020, reducing its interest expense as a percentage of average net earning assets by 88 basis points (from 3.86% in 2019 to 2.98% in 2020) and its average cost of debt by 99 basis points (from 3.78% in 2019 to 2.79% in 2020).

Syndication revenue, net

The Company syndicated \$2.8 billion of assets in 2020 – \$87 million less than in 2019 – and generated \$75.6 million of revenue – \$14.0 million less than in 2019. The lower revenue yield on syndicated assets this year was predominantly attributable to the significant tightening of prices (higher hurdle rates) in the second quarter, which recovered in the second half of 2020. Syndication was the major contributor to Element's significant and successful balance sheet de-leveraging in 2020.

Adjusted operating expenses

Adjusted operating expenses of \$461.6 million in 2020 were \$18.6 million or 3.9% lower than 2019 – savings driven predominantly by delivery on Transformation initiatives.

Dividends Declared

The Company's Board of Directors has authorized and declared a quarterly dividend of \$0.065 per outstanding common share of Element for the first quarter of 2021. The dividend will be paid on April 15, 2021 to shareholders of record as at the close of business on March 31, 2021.

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	March 15, 2021	March 31, 2021
Series C	EFN.PR.C	\$0.3881300	March 15, 2021	March 31, 2021
Series E	EFN.PR.E	\$0.3689380	March 15, 2021	March 31, 2021
Series I	EFN.PR.I	\$0.3593750	March 15, 2021	March 31, 2021

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 Bid

On November 4, 2020, the TSX approved Element's notice of intention to commence a NCIB. The NCIB allows the Company to repurchase on the open market (or as otherwise permitted), at the Company's discretion during the period commenced November 10, 2020 and until the earlier of November 9, 2021 or the completion of purchases under the NCIB, up to 43,929,594 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. Under this bid for the year ended December 31, 2020, 762,100 common shares have been repurchased for cancellation, for approximately \$10 million including commission, at a volume weighted average price of \$13.14 per share. Element applies trade date accounting in determining the date on which the share repurchase is reflected in its consolidated financial statements. Trade date accounting is the date on which management commits the Company to purchase the shares.

CEO LETTER TO SHAREHOLDERS

My fellow shareholders,

When my leadership team and I announced our plan to transform Element in October 2018, our goals were to “meaningfully improve financial performance, strengthen and de-risk the Company’s balance sheet, and position the business for growth.”

With the support of our investors, invaluable input from our clients, and the tremendous work ethic of our people, we have done exactly that.

In just 27 months, we accomplished a client-centric reset of this organization. We made much-needed investments, retooled and automated hundreds of processes, and bolstered our talent roster – all to ensure we deliver a consistent, superior client experience every day. We strengthened our market leading platform, increased client satisfaction and employee engagement, and drove down costs – improving profitability.

We de-leveraged our balance sheet and matured our capital structure. We now have ready access to ample cost-efficient capital to support the growth of our clients’ fleets, and to add new clients to our roster.

Finally, we exited all non-core investments to enable the entirety of Element to focus its energy and resources on growing our core business.

We are done.

With Transformation complete, we entered 2021 with a robust and scalable operating platform, a true investment-grade balance sheet and an undivided focus on our fleet management business.

Yet the completion of Transformation has a less obvious – but no less valuable – benefit: the considerable resources and capabilities that were concentrated on Transformation these last two years are all being redirected at our new strategic priorities:

- i. Aggressively pursue organic growth in all of our geographies, and demonstrate the scalability of Element’s transformed operating platform by magnifying 4-6% annual net revenue growth into high single-digit to low double-digit annual operating income growth;
- ii. Advance a capital-lighter business model by increasing service penetration and strategically syndicating fleet assets, which enhances return on equity; and
- iii. Achieve high single-digit to low double-digit annual free cash flow growth, and predictably return excess equity to common shareholders by way of growing dividends and share buybacks.

We have chosen “Driven for Growth” as our rallying cry, signaling our new central purpose, the sizeable market opportunity available to us and our cultivated state of readiness. It also embodies the momentum we can feel in our transformed organization. We are not just ready to grow our top line; profitable revenue growth is the primary objective for Element in 2021.

2021 Revenue Growth Plan

We have a multitude of levers available for us to consistently grow Net Revenue 4-6% annually in normal market conditions, including:

- Growing the more than \$10 billion of gross Financing and Service Revenues through
 - enhancing client retention,
 - expanding our service offering to existing clients,
 - improving salesforce effectiveness to capture share and
 - securing new, self-managed fleets as clients;
- Reducing the more than \$9 billion in associated costs of financing and servicing our clients’ fleets, thereby improving gross margins and increasing Net Revenue; and
- Expanding syndication market demand to transact larger volumes at better spreads.

Further, we would see the periodic addition of “mega” fleets as being additive to the 4-6% range.

While we have successfully established Element as the market leader in every geography in which we operate, we see each region contributing to net revenue growth in different ways and to different extents in 2021.

As carveouts from GE Leasing, Element’s business units in **Mexico** and Australia and New Zealand (**ANZ**) had none of the integration issues that plagued Element in the U.S. and Canada. Accordingly, Mexico was able to develop a growth strategy in 2017 – converting self-managed fleets into Element clients and winning business from other fleet management companies (FMCs) – generating a 45% CAGR in assets under management and a 25% CAGR in Net Revenue (both on a constant currency basis) over the ensuing three years.

Our team in ANZ put the best practices from Mexico to work in their markets in early 2020 and, despite the economic challenges created by wildfires and the pandemic, grew their Net Revenue 6% last year.

For 2021, we expect the biggest drivers of net revenue growth in Mexico and ANZ will be:

- Winning business away from other FMCs on the strength of our service offerings;
- Better managing client profitability and service penetration; and
- Converting self-managed fleets, particularly in Mexico where this plank of our growth strategy was pioneered and continues to fuel Element's success.

In **the U.S. and Canada**, we have had to limit our growth aspirations to Armada and Syndication given the more pressing demands of integrating and transforming the two large platforms Element acquired: GE Fleet and PHH. With the successful completion of Transformation in sight, and wanting to accelerate our pivot to growth in this region, we undertook a complete overhaul of our Commercial function in the first half of 2020. Eight months later, we like what we see:

- we have successfully won several large fleet management mandates from our competitors' clients; and
- we have secured several self-managed fleet mandates.

That said, the long sales cycle and longer build-out of financed fleets mean that for 2021, we expect the biggest contributors to Net Revenue growth in the U.S. and Canada will be:

- The delivery of profit improvement from transformation initiatives and 2021 continuous improvement initiatives that reduce the direct costs of servicing and financing our clients' vehicles;
- Further improving our client retention levels;
- Using our transformed industry-leading platform to attract clients away from other FMCs; and
- Increasing the penetration and utilization of service offerings by our clients, as well as profitability, through a data-driven approach to client account management.

I'm often asked by fellow shareholders whether our revenue guidance (4-6% annual growth in Net Revenue in *normal* market conditions) applies to 2021 given all the lingering uncertainties regarding the pandemic and the economy.

I trust it is obvious from the aforementioned that I am bullish on the growth prospects for Element, and that this Management team has a clear plan of action to transition our Company from Transformation to growth.

The business has demonstrated great resilience throughout 2020 with the portfolio performing exceptionally well, strong liquidity and ready access to capital. Further, there have been no systemic changes to the business model (including no atypical reductions in fleet sizes).

At the same time,

- we are still seeing vehicle usage levels down approximately 10% from normal, which could drag on Service Revenues,
- a weaker U.S. dollar could bring foreign exchange headwinds,
- demand for used vehicles continues to be at historic highs, fueling gains on sale and
- we are seeing OEM supply chain disruptions that might delay some originations from the first half of this year to the second half.

While these are not "normal" market conditions per se, we continue to see a path to achieving our 4% to 6% target for Net Revenue growth (and atop our scalable platform, even stronger growth in operating income). Further, we continue to model enhanced returns on equity as we increase services penetration and lighten our capital needs through syndication. And we will continue to return free cash flow to shareholders, through dividends and continuing share buybacks under our NCIB.

Electric vehicles

The growing commitment to ESG – and sustainability in particular – has been a case of 'great news' opposite the pandemic.

As the fleet solutions market leader everywhere we operate, Element is strategically well-positioned to support our clients and lead our industry through the gradual electrification of automotive fleets over the next decade, and we are prudently investing to maintain and improve our position.

We have the inside track by virtue of our experience in New Zealand, where roughly 2% of the ~29,000 vehicles we manage are EVs (BEV or PHEV). We manage another 500+ EVs outside of New Zealand – spread across the balance of our global fleet, so roughly 0.05% EV penetration.

Our NZ experience has and continues to afford us a wealth of knowledge and insights. **The chief struggle for operators electrifying their fleets is the complexity and duration of the process.** EV offerings and production volumes as well as charging infrastructure will fall short of fully satisfying the vast majority of our clients' fleet needs for at least the next decade, making total conversions of fleets to EVs unattainable for some time. Depending on the type of vehicle and use case,

operating cost parity with ICE (internal combustion engine) service fleet vehicles is approximately 2 years away, and capital cost parity an additional 3-5 years off.

The upshot of all the variables is that **fleet electrification is a long-term process of ongoing data- and intelligence-gathering and analysis, incremental implementation and persistent change management.** Element's value proposition as the leading provider of outsourced fleet solutions is grounded in (i) data-driven strategies and insights to lower clients' total cost of fleet operations, and (ii) a consistent, superior client experience (regardless of clients' changing needs) that eliminates fleet-related administrative burden. With a million vehicles under management, we have the broadest and deepest dataset in the automotive industry, spanning manufacturers and geographies and tens of thousands of use cases. Working with over 5,500 dynamic clients every day, our people are change management experts. **The fundamentals of a fleet transition from ICE to battery powered vehicles make Element's value proposition all the more compelling.**

Over time, as EV adoption grows in all our geographies, the attributes that make us the partner of choice for our clients also ensure Element's place as the market leading electric vehicle fleet manager:

- I think about the advantages we derive from our unmatched balance sheet strength and liquidity; our powerful OEM and other supplier relationships; our ability to provide strategic consulting to clients throughout the transition; our service partner network - unparalleled in the industry; and our commitment to a consistent, superior client experience; and
- I think about what this organization has done transforming itself, onboarding a client like Armada at the same time, and successfully navigating the pandemic for our clients and our people. Our culture of agility, client-centricity, collaboration and excellence is second to none.

We could not be happier about the EV trend building momentum right now. Our experience in New Zealand advising and empowering clients on their electrification journey teaches us that doing so is an incomparable opportunity to deepen those relationships, demonstrate the value of outsourced fleet management and grow net revenues and client profitability in the process.

Interest in fleet electrification is growing steadily in North America and Australia, where our clients (and prospects) value Element's deep expertise on the subject. We are currently working with dozens of clients on use case assessments, pilot programs and transition planning, and we have all the necessary capabilities to seamlessly add EVs to their fleets and manage same today.

That said, given the state of play – vehicle supply, capital cost and charging infrastructure being hindrances – we expect the top and bottom line benefits to Element from fleet electrification to remain modest in the short- and medium-term.

2021

There is still so much we don't know – that nobody could know – about the months to come as the world continues to grapple with the pandemic, and the logistics and timelines of vaccinating the vast majority of the global populace.

What I do know is that Element is ready to grow when our clients are. More than that, we are driven for growth.

It will be yet another inspiring year for all of us at Element as we consistently deliver for our clients, return significant capital to our shareholders, advance our EV strategy, publish our inaugural ESG report, and continue to create long-lasting value for all of our stakeholders.

Until next quarter,

Jay

Conference Call and Webcast

A conference call to discuss these results will be held on Wednesday, March 3, 2021 at 7:00 p.m. Eastern Time. The conference call and webcast may be accessed as follows:

- Webcast: <http://services.choruscall.ca/links/elementfleet20210303.html>
- Telephone: [Click here](#) to join the call within moments or dial one of the following numbers to speak with an operator:
 - North America Toll-Free: 1-800-319-4610
 - International: 1-604-638-5340

The webcast will be available on the Company's website for three months. A taped recording of the conference call may be accessed through April 3, 2021 by dialing 1-800-319-6413 or +1-604-638-9010 and entering the access code 6195.

Non-IFRS Measures

The Company's unaudited interim 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 we adopted in accordance with IFRS.

The Company believes that certain non-IFRS 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 financial statements for the year ended December 31, 2020.

Element's consolidated financial statements and related management discussion and analysis as at and for the year ended December 31, 2020 have been filed on SEDAR (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 and maintenance to accident recovery and remarketing. 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.

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 improvements to run-rate profitability; enhancements to clients' service experience and service levels; enhancement of financial performance; improvements to client retention trends; reduction of operating expenses; increases in efficiency; Element's dividend policy and the payment of future dividends; transformation of its core business; 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 our 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, 2020, each of which has been filed on SEDAR and can be accessed at 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.

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