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Eclipx Group Limited | ABN: 85 131 557 901

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## ASX Release

Market Announcements Office  
Australian Securities Exchange  
20 Bridge Street  
Sydney NSW 2000

## ECLIPX GROUP REPORTS 1H20 RESULTS

Eclipx Group Limited (ASX: ECX, "Eclipx" or "Group") today announces its first half results for the six months ended 31 March 2020, as well as providing updates on its Simplification Plan and the Group's response to COVID-19.

### Highlights for the six months ended 31 March 2020 (1H20)

#### Group

- Group statutory net profit after tax of \$13.2m for 1H20, a significant improvement on losses of \$120.3m for 1H19 and \$221.2m for 2H19

#### Core

- Core Earnings before Interest, Tax, Depreciation, Amortisation and one-off costs ("EBITDA") of \$45.7m (\$48.4m post AASB16), representing a like for like growth rate of 10.6% compared to 1H19 and 12.6% to 2H19
- Core cash Net Profit After Tax & Amortisation ("NPATA") of \$26.3m, up 9.2% compared to 1H19 and 16.9% to 2H19
- After adjusting NPATA for non-core cost allocations, the core standalone NPATA was \$22.3m, up 29% compared to 1H19, on a like for like basis
- Stability in average Assets under Management or Finance ("AUMOF") in 1H20, \$2.1bn consistent with the prior corresponding period

#### Non-core

- Non-core EBITDA loss of \$11.8m (\$11.2m loss post AASB16), reflecting contribution from Carloans.com.au and Georgie (divested on 6 May 2020) and Right2Drive accounting losses
- Right2Drive delivered a positive cash contribution of \$5.6m to the Group in 1H20 compared to a negative cash drag of \$5.8m in 1H19, and positive contribution of \$1.8m in 2H19

#### Simplification Plan—tracking ahead of plan

- Five of six non-core divestments completed in the last 12 months
- Targeting sale of Right2Drive during 2H20 (carrying value of \$28m)
- \$12.5m 'annualised' core cost savings achieved (versus initial \$15m target by end of FY21)
- Gross corporate debt reduced by 38% in 12 months, with clear pathway to target \$175m
- Significantly upgraded executive talent and bench – c.80% changed within 12 months

### ***Core fleet and novated performance***

The core fleet and novated business had a solid performance in 1H20, delivering growth across each major revenue line, while reducing operating expenses and capital expenditure. The resulting positive jaws, being 2.1% growth in net operating income and a 5.9% reduction in operating expenses, have delivered EBITDA growth of 10.6% compared to 1H19 and 12.6% compared to 2H19 (pre adjustments for AASB16). This resulted in core NPATA growth of 9.2% compared to 1H19 and 16.9% compared to 2H19.

While Corporate operating leasing saw a marginal reduction in new business writings (NBW), core retention rates remained above 97%. The reduction was driven by a purposeful shift by the Group into writing sustainably profitable business, combined with a cyclical low in the replacement cycle from renewing leases written three to four years ago.

While the new business pipeline remains solid, the emergence of COVID-19 from mid-March has led to the Group prioritising extensions of existing leases, which preserves liquidity but partially defers the NBW pipeline. Corporate operating leasing is well positioned to withstand the impact of COVID-19 and is positioned to take advantage of the opportunities that will emerge during and after COVID-19.

Novated leasing had a solid half of growth, but writings were significantly disrupted in March 2020 with the emergence of COVID-19. Notwithstanding this disruption, Novated delivered 7.5% NBW growth compared to 1H19, while future growth will be a function of the ongoing penetration of its existing client base. While it remains early, Novated writings have picked up in recent weeks, and through late April and early May, novated order rates have increased to 66% of the run-rate seen in the pre-COVID operating environment.

Corporate operating leasing and Novated have benefited from a continued improvement in customer experience with the current Net Promoter Scores (NPS) at 66 and 54, compared to 36 and 49 in 1H19 respectively.

### ***Right2Drive update***

Right2Drive remains the last of six non-core businesses in the Group. The business has been significantly restructured under the new management team over the last nine months, including the removal of inefficient branches, management, staff and products. Debtor collections have been effective, with a reduction of 33% in debtor balances compared to 1H19.

These changes had an overall positive effect on the business, resulting in a \$5.6m net cash contribution to the Group in 1H20, compared to a negative cash drag of \$5.8m in 1H19.

The team continues to improve its relationships with general insurers, including recently establishing commercial partnerships with a number of insurance players. Despite this progress, the Group intends to exit Right2Drive consistent with the Simplification Plan during 2H20.

### ***Simplification progress***

Since announcing its Simplification Plan on 31 May 2019, the Group has sold five of its six non-core businesses being GraysOnline, AreYouSelling, Commercial Equipment Finance Australia, CarLoans.com.au and Georgie. The Group also closed down its Commercial Equipment Finance New Zealand business, a sub-scale start-up business with a leasing book of \$23.9m, currently in run-off.

The core cost optimisation plan is progressing ahead of time and expectations. As at 31 March, the core is tracking at \$12.5m 'annualised' cost savings relative to the initial \$15m target set to be achieved by the end of FY21. This is

reflected in a net reduction in the core cost base from \$99.5m in FY19 to an annualised cost base in 1H20 of \$87m (1H20 core cost base of \$43.5m). Additional actions have been implemented (a minimum of \$1.4m per quarter) to preserve liquidity during COVID-19. Given the temporary nature of these reductions, they are not included in the annualised cost savings.

The Group's asset backed balance sheet has been significantly de-risked through a series of ABS placements in the last quarter of 2019 on attractive terms. Our unique on-balance sheet funding warehouses continue to draw support from three of the four major banks as well as a range of credit investors. The gross corporate debt, which was amended and extended in October 2019, has seen 38% gross debt reduction from \$350m to \$225m. Eclipx continues to target its objective of \$175m gross debt, which is expected to be achieved through the sale proceeds from Right2Drive, organic capital generation and scheduled amortisation of \$10m per half year.

The Group has made significant upgrades to its executive team over the last 12 months. The new executive team has been instrumental in executing the Simplification Plan and in putting the business on a strong footing to manage the risks posed by the emergence of COVID-19.

With the Simplification Plan well progressed, the new executive team is focused on delivering positive outcomes for the core, with a number of business initiatives underway to support profitable growth.

### **COVID-19 response**

The ongoing COVID-19 pandemic has required a multi-faceted response by the Group. This response includes, but is not limited to, ensuring the health and safety of our employees, working closely to support our customers and suppliers, and placing a greater focus on liquidity risk management.

Balance sheet and liquidity management has been a priority under the Simplification Plan, and the emergence of COVID-19 has further heightened this emphasis.

The Group has taken a number of steps to support the preservation of liquidity:

1. Lease extension strategy to assist the Group's management of liquidity, in that it reduces the end of lease inventory that could be returned during a period when the Australian and New Zealand used car markets are slowed, for example, during mandated COVID isolation;
2. Introduction of temporary measures to constrain cash outflows, previously disclosed on 14 April 2020. These include reductions in salaries to the KMP (40-50%), Executives (30%), Employee base above a minimum threshold (up to 20%) and Board fees. The Group has also placed restrictions on all non-essential operating and capital expenditure; and
3. In May 2020, the Group proactively sought and received corporate debt covenant amendments. These permanent changes, including the removal of non-core EBITDA from covenant calculations, provide the Group with operational and strategic flexibility to manage the business through the COVID-19 period and beyond.

As at 31 March 2020, the Group's liquidity was \$106m, including \$81m in cash and cash equivalents, and \$25m in revolving debt facilities. This liquidity provides the Group with 2.2x-3.5x coverage against our illustrative ranges of 'base case' to 'severe case' outcomes of inventory build-up in 2H20, the details of which are contained in the Group's investor presentation.

### **Outlook**

The Group has taken prudent action in response to COVID-19 and is comfortable with its liquidity position and the underlying fundamentals of the business. The Group is well positioned to leverage its core competencies to take advantage of the opportunities that will arise during and after COVID-19.

## 1H20 financial report and investor presentation

Details of the financial performance for the six months to 31 March 2020 can be found in the Appendix 4D, 1H20 financial report and investor presentation.

Julian Russell (CEO) and Damien Berrell (CFO) will hold an investor call and webcast at 10am to discuss the results. The details are as follows:

### Dial in Details

Please pre-register for the call at the link below.

Pre-Registration Link: <https://s1.c-conf.com/DiamondPass/10006586-invite.html>

You will receive a calendar invite and a unique code which is to be quoted when dialling into the call.

If you'd like to ask a question, please dial "\*1" (star, 1) on your telephone keypad.

### Open Briefing Live

<http://www.openbriefing.com/OB/3788.aspx>

## ENDS

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