Element Fleet Management (TSX:EFN)

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Market Data as of December 1st, 2023

Investment Summary

Resilient business affected by short-term events and lack of public comparables

Business Overview

- Element Fleet Management provides financing for business clients to purchase vehicles (e.g., TRAC leases, loans) and services to manage fleets, usually within a package

Investment Thesis

Why Is This a Good Business?

- We believe Element possesses defensive characteristics due to customers' inelastic demand paired with a large backlog, creating sticky revenues that are well-insulated from macro volatility
- Element is the largest player in North America, benefitting from economies of scale and high switching costs, leading to strong client retention and cross-selling opportunities
- In the long-term, the trend towards electrification should benefit Element, due to the complexities of managing an EV fleet, making the company's services more attractive

What Is The Market Missing?

- Element is currently trading in-line with its historical average despite a successful turnaround, with management forecasting rising ROE and double digit FCF/share growth over the next few years, leading us to believe that Element should warrant a higher multiple

With an **implied upside of ~5%**, EFN does not warrant a position in the YUSIF portfolio at this time. We suggest **adding a position at ~$20/share** (~15% discount to intrinsic)

Business Overview

Element is the market leader in North America and Oceania

The Largest Pure-Play Fleet Manager

Company History:

- Element was formed through the acquisition and integration of three fleet management companies: TLS, PHH Fleet, and GE Fleet services, from 2012 to 2015
- In 2016, Element Fleet Management Corp. was established, following the split of Element Financial into Element Fleet and ECN Capital

Leading Market Share

- Element has is the leader in each of the countries that it operates in: US, Canada, Mexico, Australia, and New Zealand
- North American players include Holman and Apollo

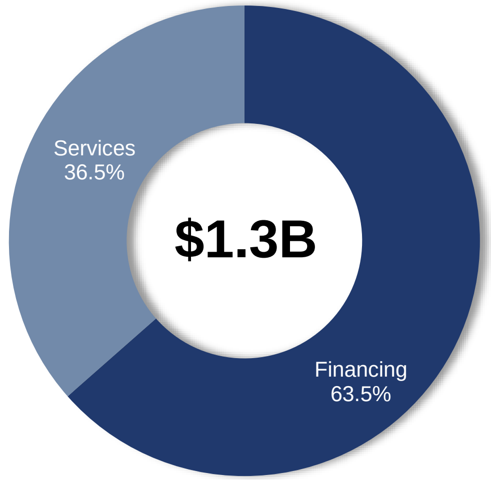
Target Market / Customers

- Element targets medium and large fleets of mission-critical vehicles
  - Mostly vans, pickups, and light- and medium-duty trucks
  - Most vehicles are fitted post-production
- No single customer accounts for more than 5% of revenues

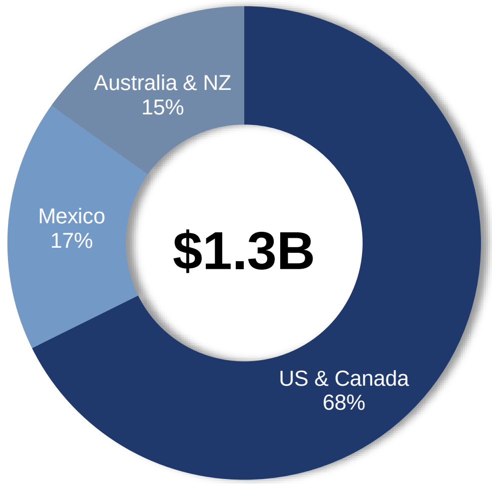
Value Proposition & Mission

- Element saves fleet managers money and removes a significant operating burden
  - The average client saves 15-20% by working with Element, as opposed to self-managing their fleet

Financing Is The Primary Revenue Generator



Revenues Are Concentrated In North America

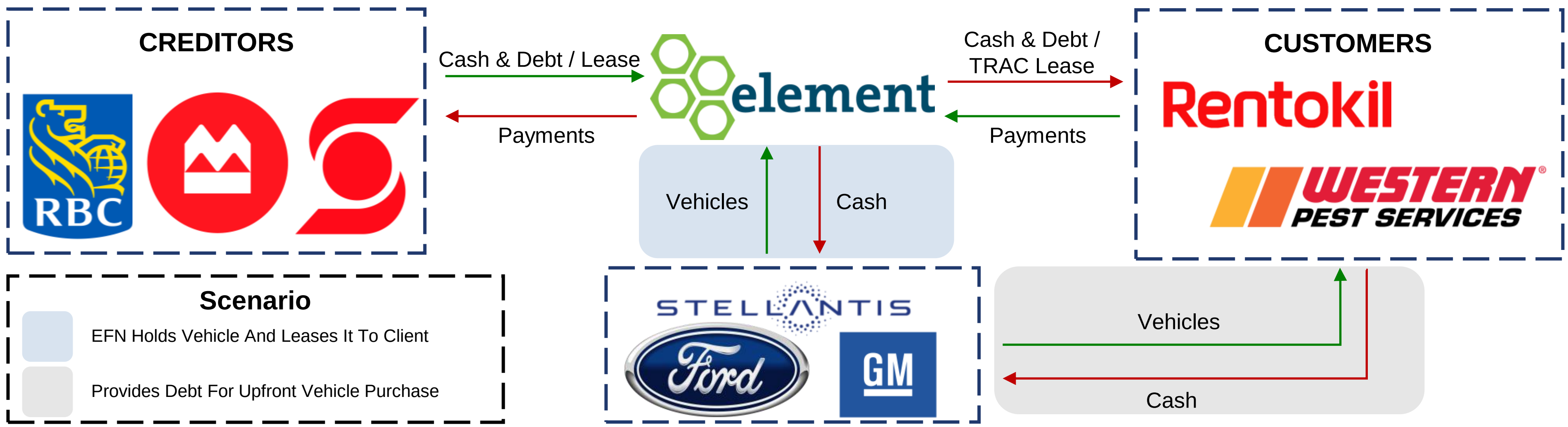


Source(s): Company Filings, The Globe and Mail

Business Overview: Financing

A trusted partner for small to medium-sized companies

The Funding Network



Financing Is A Gateway To Upsell More Products

- Element provides small to medium-sized clients with the funding necessary to own or lease their own fleet of vehicles
  - It borrows money from banks, then lends to its clients, profiting from a ~2% NIM
- This segment is Element's flytrap, as new clients usually enter the Element ecosystem with some form of financing
  - Once a client is brought in, they generally don't leave, with Element boasting a **99% client retention rate**

Offers A Cheap And Flexible Financing Alternative

- The three primary cost savings provided to clients are:
  - Element acquires vehicles at lower prices on behalf of their clients (due to their strong relationships with OEMs)
  - Element's stronger balance sheet relative to their smaller clients, allows them to secure cheaper funding with more flexible terms
  - Lease structure allows for the spread of costs over time (vs. upfront costs)
- The flexible nature of leases (due to their non-commitment) and the ability for clients to quickly upgrade to new units is another addition to Element's value proposition

Source(s): Company Filings, Global Fleet

Business Overview: Financing

Structured to minimize interest rate risk with low exposure to vehicle price volatility

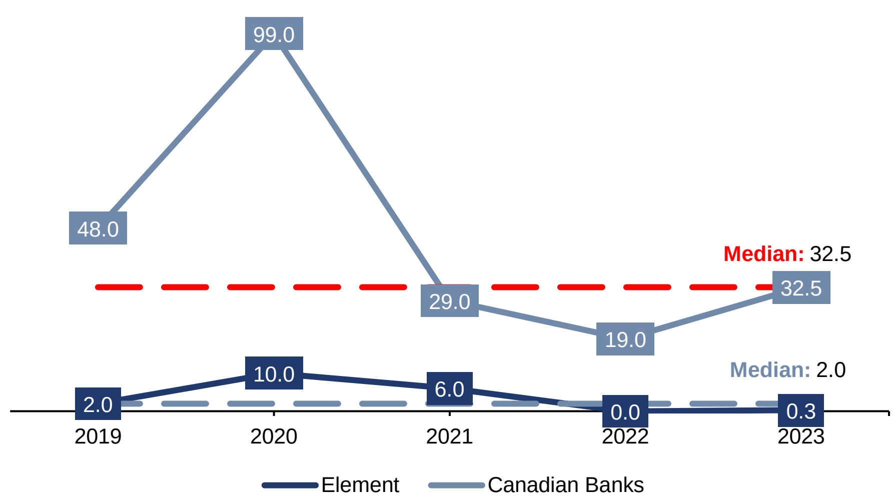
Low Exposure To Int. Rate And Vehicle Price Vol.

- This segment has **little interest rate risk** as Element completely matches client receivables, and debt for both fixed and adjustable rates, and on tenor
  - Funding is mostly raised through the Asset-Backed Security (ABS) market, backing issuances with finance receivables
- Earnings are thus largely agnostic to changes in interest rates, as the firm prices its leases based on a spread to its cost of debt
  - Element has earned a ~2% NIM throughout COVID-19 and recent rate hikes
- **Terminal Rental Adjustment Clause Leases (TRAC):** Customers assume residual value credit risk, which shields Element against changes in vehicle prices

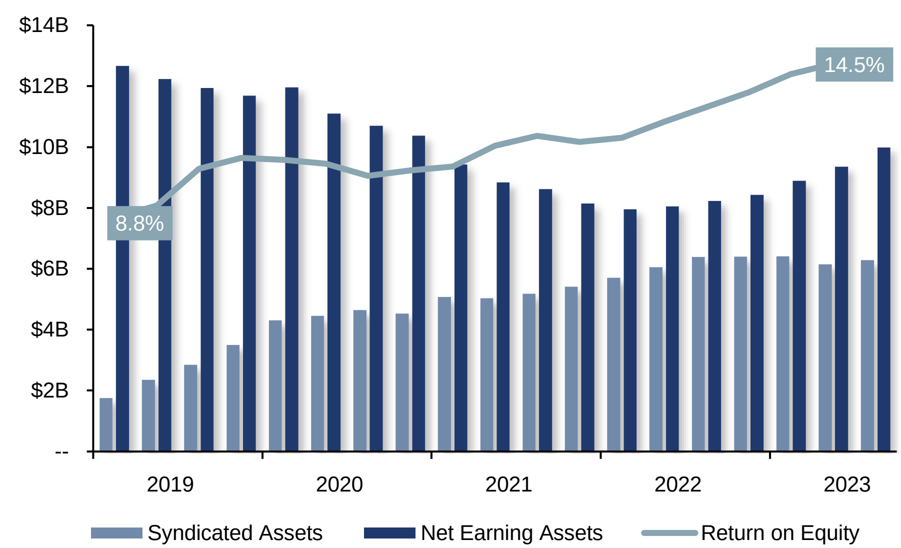
Syndications Offer Control Over Cash Cycle

- Element also syndicates (sells) some finance receivables to third parties with lower funding costs, paying back the corresponding debt and earning a ~2% yield (~5% of revenues)
- Syndication has numerous advantages:
  - Provides cost-efficient, off-balance sheet funding
  - Gives Element an effective tool to manage leverage
  - Increases the velocity of cash (faster redeployment)
  - Decreases customer concentration
- Clients stay in the ecosystem through the service business while Element keeps the client but doesn't bear the credit risk of the receivable

PCL Ratio (bps) Is Consistently Near Zero



Syndications Enhance Return On Equity



Source(s): Company Filings, Automotive Fleet

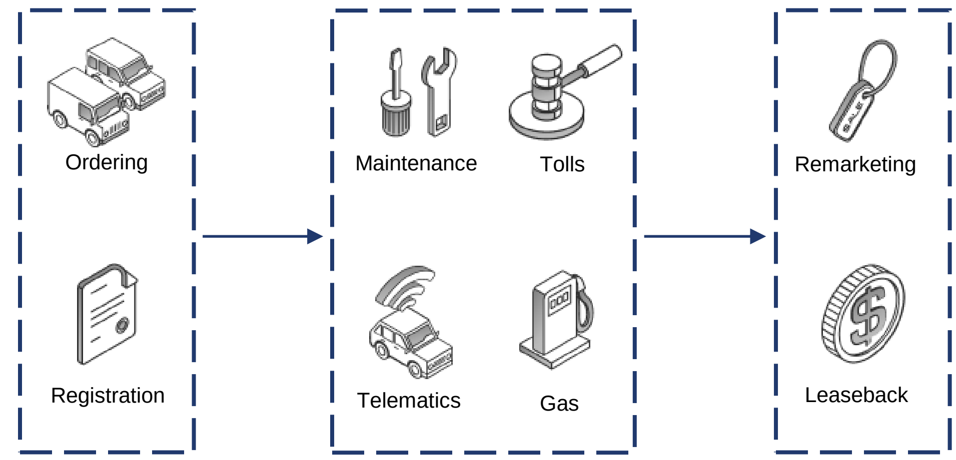
Business Overview: Services

90%+ gross margin on services with a focus on cost savings

Fleet Services Focus On Savings For Clients

- Element offers a wide portfolio of services that cover all the needs of a fleet, from vehicle acquisition to disposal
- Buying services through Element lowers the cost of fleet management and increases efficiencies by unifying processes (e.g., maintenance, telematics, registration)
  - Removes a significant administrative burden, and offers specialized tools that are expensive for clients to implement on their own
  - Some services replace mandatory parts of fleet management, while others add value but are optional
- It is difficult and costly to switch out of the ecosystem, especially when clients are using services applied across their entire fleet

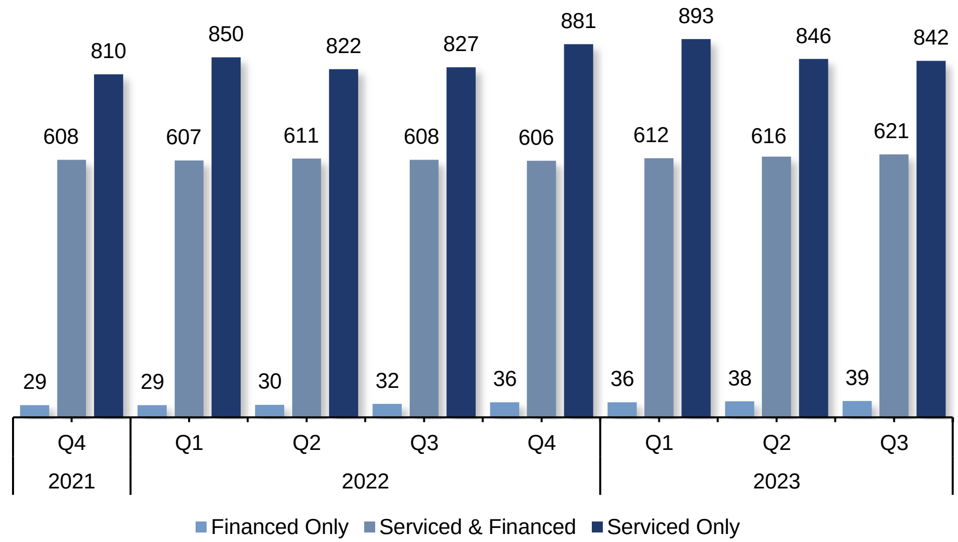
Services Target All Stages Of Fleet Management



High Gross Margins With Long-Term Contracts

- Services have 90%+ gross margins with little capital requirements
  - They also provide long-term growth avenues such as cross-selling opportunities to existing customers
- Contracts last 3-5 years and commonly begin with clients procuring a few services, and gradually expanding the number of services over time
  - 97% of vehicles under management have a service component attached
- ~1/3 of service revenue is recurring (e.g., maintenance, fleet consulting) and the remainder is usage-based

Most Vehicles Have A Service Component



Source(s): Company Filings

5-Year Share Price Performance

20% YTD share price performance despite OEM shortages

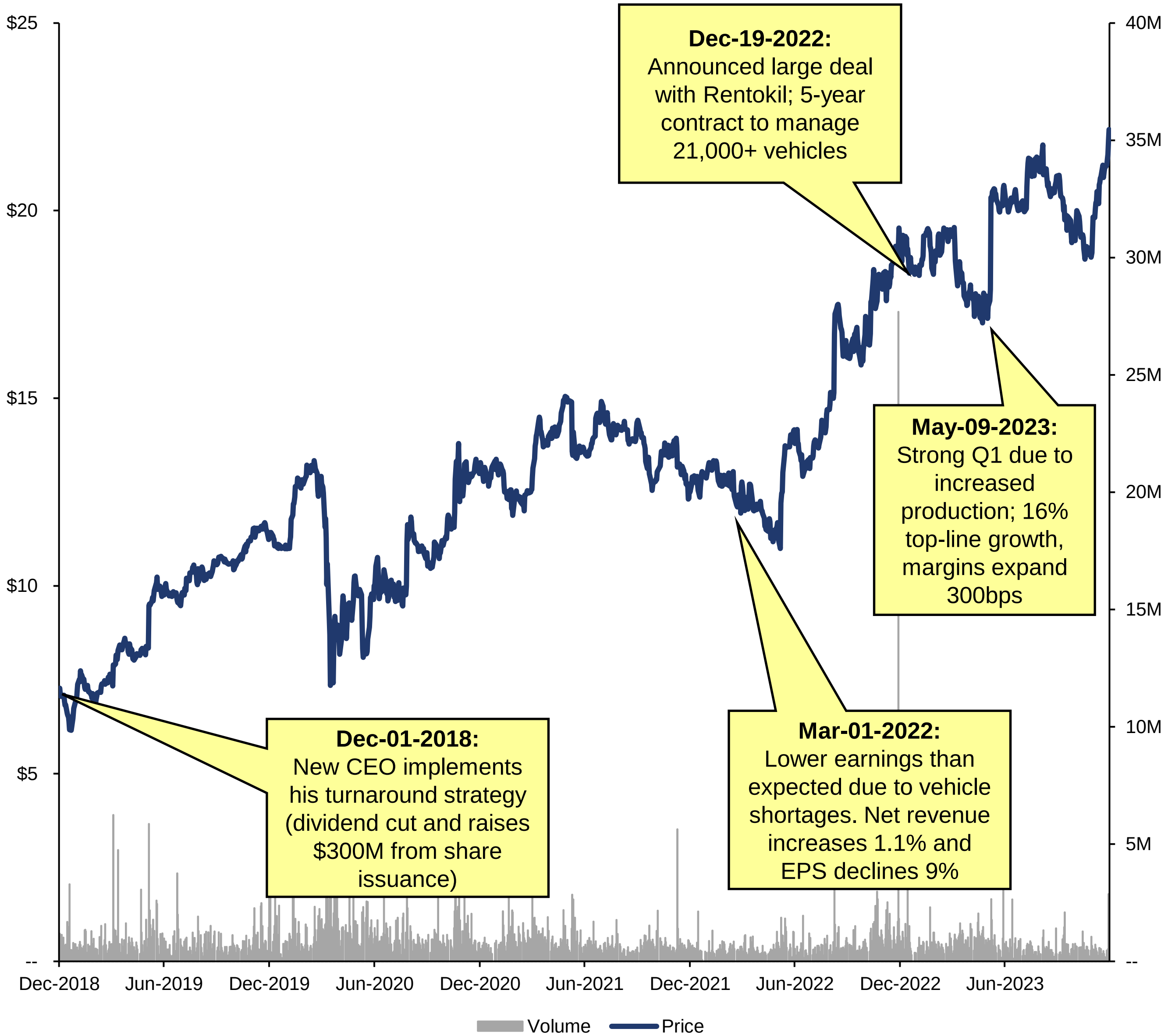
Commentary

- Element hired Jay Forbes as CEO in 2018 to help fix issues at the firm after it had been losing clients
- One key initiative was to start syndicating auto loans to financial firms to reduce interest rate risk
- In 2021, the firm was affected by an industry-wide vehicle shortage that grew backlogs by 200% and deferred revenue by $45-55M
- Mr. Forbes retired in 2023 after leading a successful turnaround

Financial Information[1]

Market Cap.	$8.6B
Share Price	$22.16
Revenue	$1.1B
Profit to Common	$381.6M
LTM Price/Earnings	19.2x
Price/Book	2.4x
YTD Performance	20%
Dividend Yield	2.2%

Share Price Graph



Source(s): S&P Capital IQ, The Globe and Mail
1. Financial metrics LTM as per Q3 2023

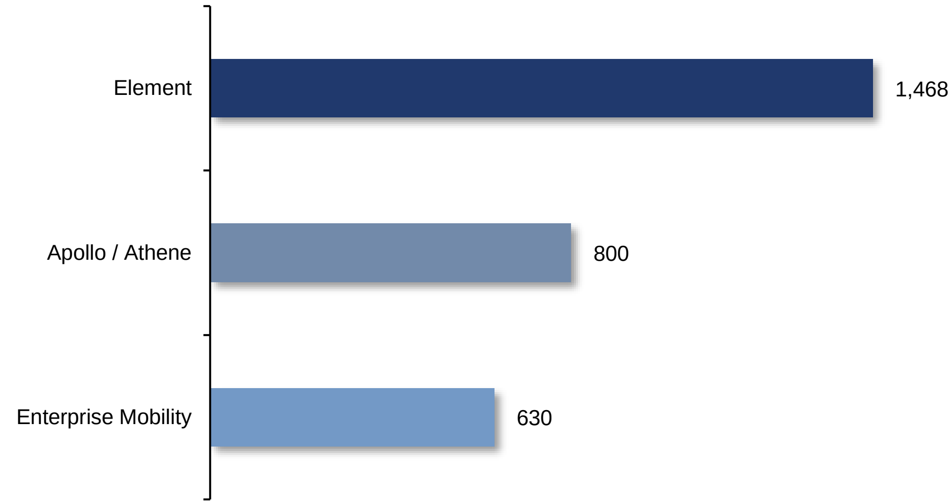
Industry Overview

Oligopoly with room to take market share from self-managed fleets

High Barriers To Entry And A Commoditized Good

- Fleet management, especially at the mid-market and enterprise scale, has numerous barriers to entry, such as:
  - **High switching** costs due to long-term contracts and embedded services that involve all operators and drivers
  - **Many efficiencies from scale** (OEM orders, cost of funding, cost / catalogue of services, data collection)
  - **Intangible assets** such as customer relationships with OEMs and lenders
- Financing is commoditized to an extent, wherein winning customers is driven by a combination of competitive vehicle prices and appealing rates

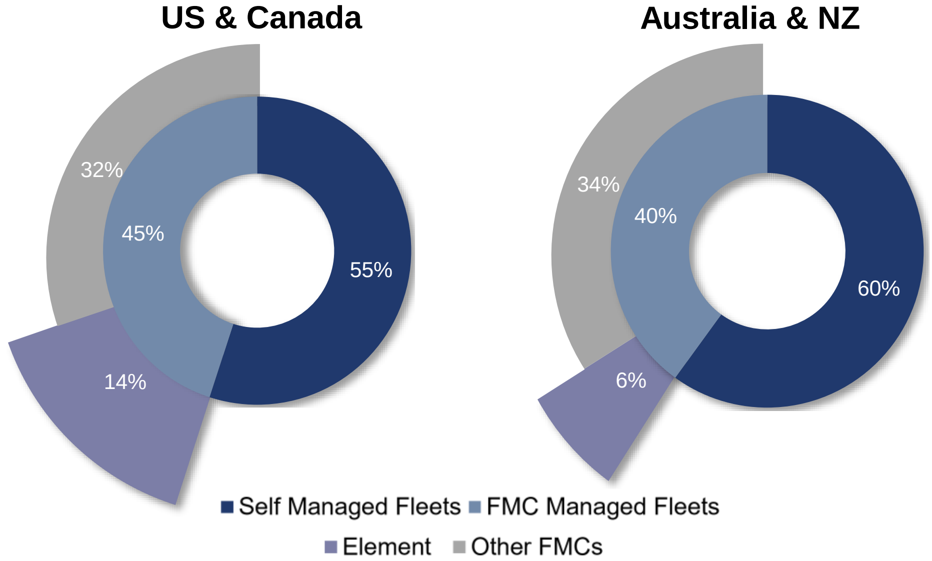
The Leader In NA By Number Of Vehicles (000's)



Transforming Self-Managed Fleets To Clients

- Fleet management is expected to grow at a CAGR of 6.5% to 2028, with upside potential from greater outsourcing of fleets (more than 55% of all fleets are still self-managed)
- The competitive environment is mainly focused on converting self-managed clients, not on stealing clients from other firms
  - This leads to more rational competition and pricing
- Larger players are expanding their reach toward middle-market and smaller fleets through services that can be automated
  - These offerings require significant capital expenditures for individual fleets to do in-house

Mid-Market & Enterprise-Sized Fleet Market



Investment Thesis: Why Is This a Good Business?

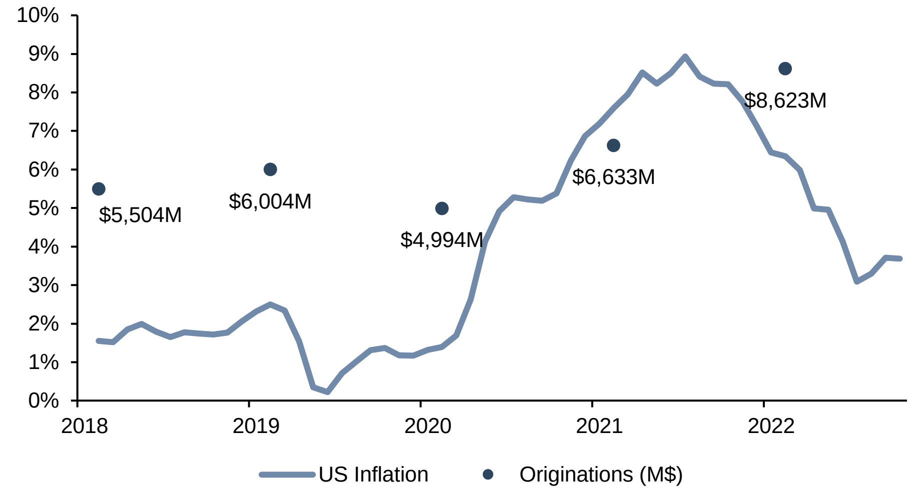
Turbulent macro environment is a tailwind for Element through increased demand

Opportunity From Macroeconomic Slowdown

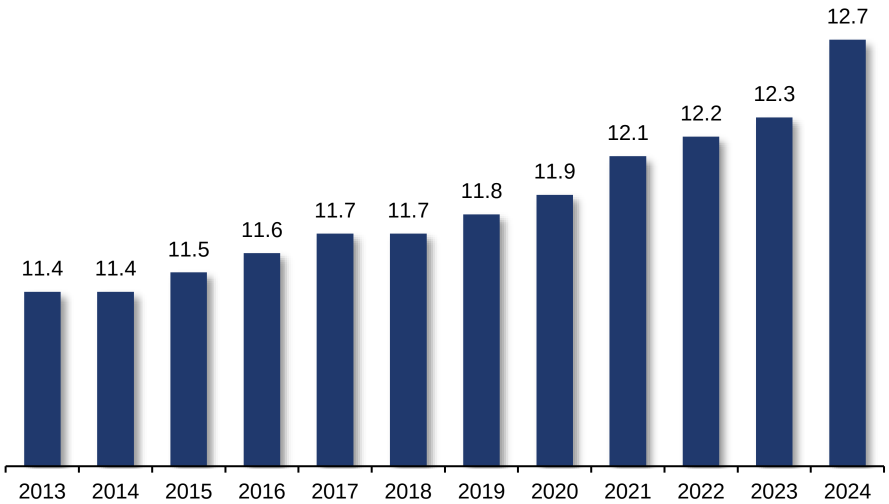
- On top of low sensitivity to interest rates and negligible credit losses, **inflation drives** an increase in new customers, as the cost saving proposition becomes more attractive, and rising vehicle costs translate to higher revenues
  - Rising vehicle prices usually translate to incremental increases in profitability due to a mostly fixed cost structure (operating leverage is roughly ~1.1x)
  - Service contracts pass on inflationary costs to clients
- Because of its 99% retention rate, new business will not be transitory, but will instead convert into long-term relationships

Clients have no choice but to finance despite high rates: vehicles are critical to operations, and the average fleet age is increasing

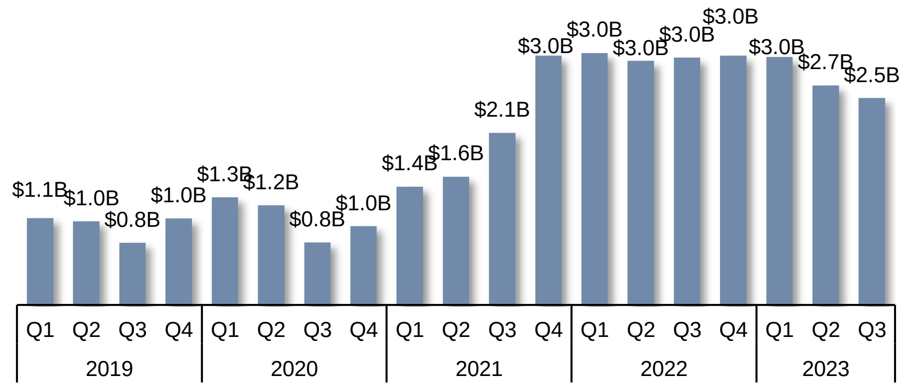
Inflation Encourages New Business



Rising Average Vehicle Age (Years) (1)



Backlog Represents Future Revenues (2)



Normalized levels hover around ~$0.8B and management anticipates the backlog to resolve by 2025 at the latest

Source(s): Company Filings, IBISWorld

1. Figures are for all vehicles available (not only for fleets)
2. Backlog revenues are almost certain as they are signed through legal contracts with clients (recourse is unknown), and OEMs have committed to producing the vehicles

Investment Thesis: Why Is This a Good Business?

Element leverages its industry-leading scale to widen its moat

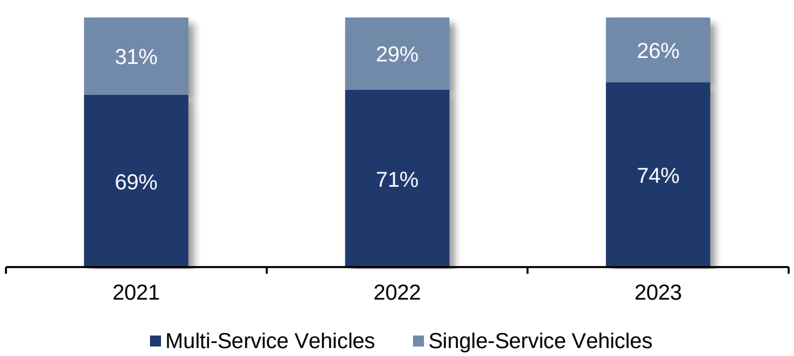
Summary Of Moat

Intangibles	Customer relationships, OEM/service provider relationships
Switching Costs	99% customer retention, embedded solutions, contracts
Efficient Scale	Elements scale results in low cost of production, limited competition, and significant cost efficiencies
Unique Value-Add	Provide financing and services every step of the way to lower costs

Efficiencies From Scale Enhance Value Propositions

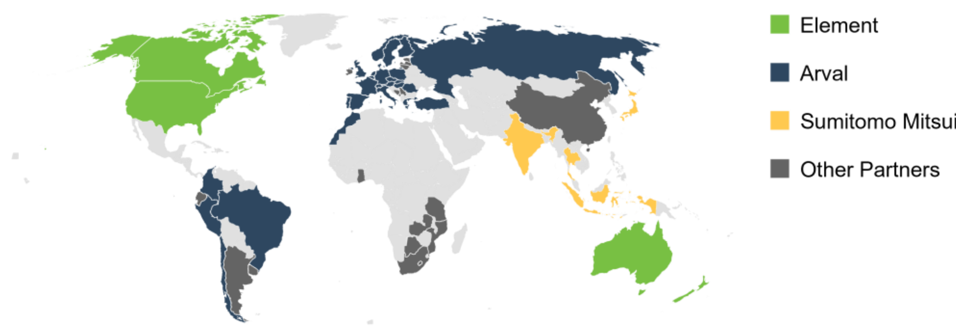
- On average, clients gets 15-20% in annual savings by working with Element. Combined with Element's wide catalogue of services, this translates to superior customer value propositions, high retention, and increased penetration of fleet budgets
  - Partnerships with OEMs and service providers (maintenance, tolls, etc.) further improve the business ecosystem
  - Element has a 99% customer retention rate and benefits from underlying fleet size growth and service utilization
- Element is uniquely positioned to serve "mega-fleets"
  - These are especially profitable relationships due to their high service utilization, with opportunities for further penetration

Expanding Share Of The Service Wallet



Increasing service revenues contribute to higher overall margins due to the segment's 90% gross margins

Limited Competition Within Element's Current Markets



Element can block competition within their current geographies, allowing them to remain the leader within North America and Oceania

Source(s): Company Filings, Element-Arval Global Alliance

Investment Thesis: Why Is This a Good Business?

Element will benefit from the long-term tailwind of fleet electrification

Current State Of Commercial Electrification

- Charging infrastructure is lacking, with most of the 6,700 DC fast charging stations across the US only serving passenger vehicles
- Battery capacity is improving, but EV range is still insufficient
  - EV ranges are generally < 500 miles, which is less than the 500-715 average daily mileage of a trip, requiring a pause at a DC fast charging station before reaching the destination
  - DC fast charging stations have a power output of 50-250 kW, which translates to ~200 miles of charge per hour
- While costs are higher and battery range is lower (vs. combustion), the medium-term outlook for EVs is positive
  - EV price premium for trucks are expected to decrease to 1.5x of ICE trucks by 2030 (excl. government incentives)

High Prob. Of Electrification In Target Market

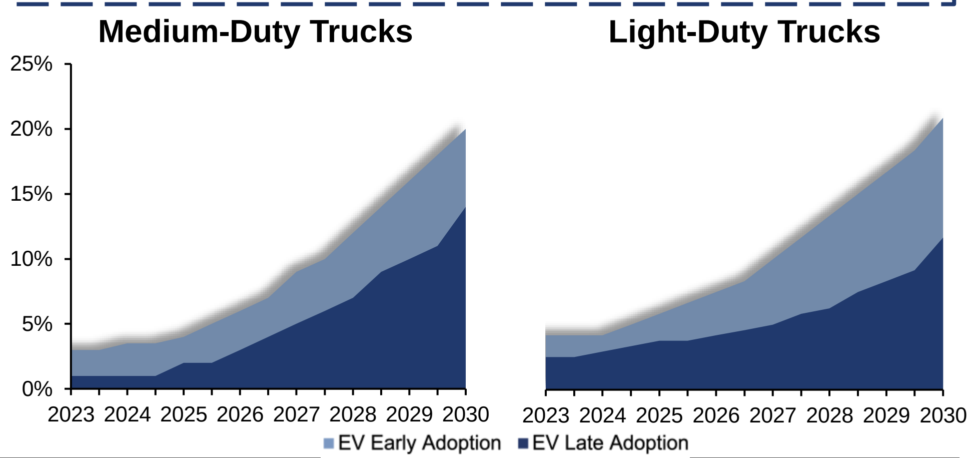
- Vans and pickups don't bear the same load as trucks and have lower daily mileage, so their electrification makes more sense
- Diesel trucks are especially polluting, which is a concern for many companies that are prioritizing ESG (net zero goals)
  - Trucking produces ~80% of transportation emissions
  - Growing legislative pressure will encourage electrification
  - 12 US states, along with Canada and Australia, have pledged to phase out ICE vehicle production by 2035
- Long-term savings on maintenance justify the initial high costs of EVs for Element's clients
  - Service offerings will allow the firm to benefit from EV uptake

Element Is Preparing For Electrification

- This eventual shift is a long-term catalyst for Element, as the complexities of **transitioning and managing an electric fleet strongly encourage outsourcing** and requires expertise
- Element is positioning itself to fulfill EV demand having unveiled **"Arc by Element"** in 2022, its latest end-to-end EV fleet offering
  - **"Arc by Element"** provides public and turn-key home charging solutions, charger and vehicle maintenance, collision management, EV planning support, and more
  - Element expects to transition 350,000 vehicles by 2030
- Element's largest partners, Ford & GM, are scaling EV production as evidenced by targets such as building 2 million EVs by 2026 (Ford) and 1 million in NA by 2025 (GM)

Strong EV Penetration In Medium and Light Trucks

Element's vehicles are mostly medium and light-duty trucks, such as vans and pickups; lighter loads and smaller daily mileage means a quicker EV transition



Source(s): Company Filings, McKinsey & Company

Investment Thesis: What Is The Market Missing?

Shares had been under pressure due to production issues

Three Primary Factors Have Caused A Discount

Successful Transformation

- In 2021, management unveiled a 3-year plan to improve the growth profile of the company (largely implemented)
- The plan involved increasing syndications to receive cash upfront and increase ROE
  - Started the conversion of firms in the self-managed fleet space, increased the cross-selling of services, and raised shareholder returns (dividend hikes and NCIB)

Production Delays Raised Investor Concerns

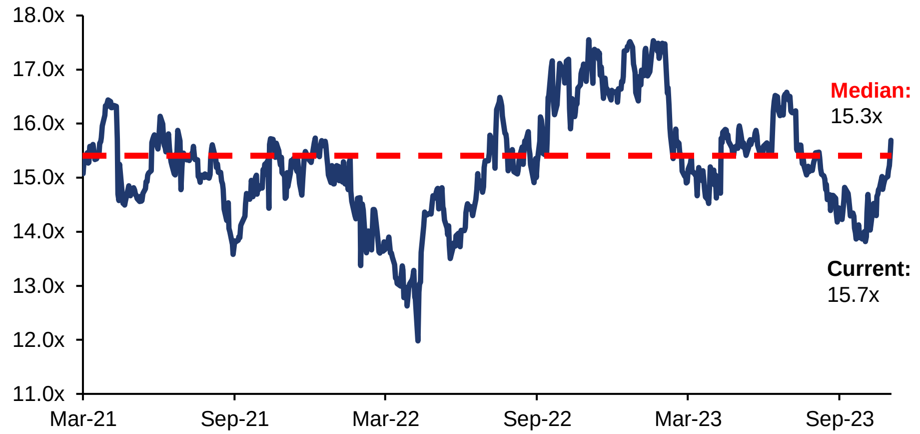
- Production delays from OEMs (especially the Big 3 following the UAW strike) have led to investor fears of supply constraints
- Production is nearly normalized and outpaces origination growth

Lack of Comparable Companies

- Following recent M&A activity in the industry, there are only two large US competitors (Holman & Apollo's acquisitions, both private). Comparable companies in other geographies have different credit risk profiles
- Element derives 50%+ revenues from the US, yet it's traded on the TSX, making the company not as well covered outside of Canada (Approx ~2 US Analyst Coverage)

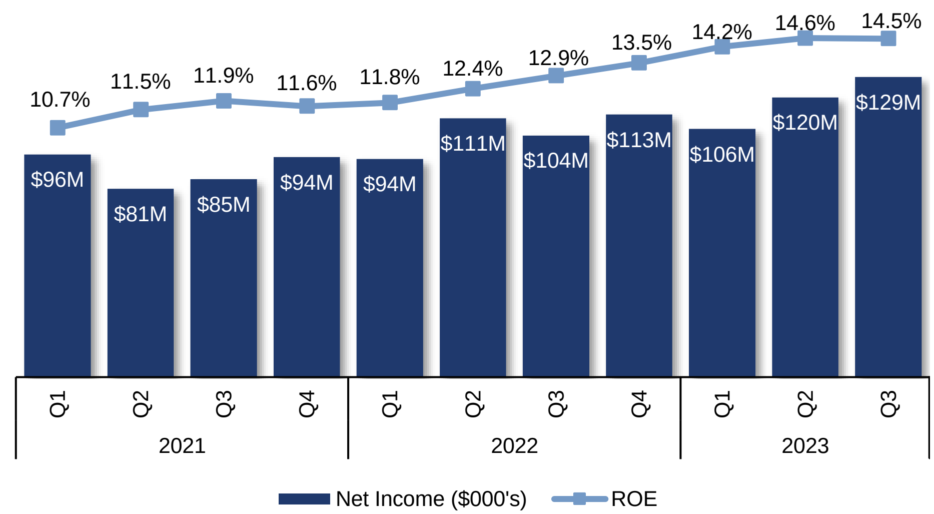
Since the implementation of the turnaround strategy, the company has delivered a 36% increase in net income and a 300-bps improvement in ROE. Going forward, management expects double-digit FCF/Share growth over the next few years

Fwd. P/E Ratio In Line With Median



Despite the successful transformation and its improved financials, Element trades near median multiples

Improving Performance Despite Discount



Source(s): Company Filings, RBC Equity Research

The Bear Case (What Could Go Wrong?)

Production delays, tax changes, and a macro downturn could negatively impact earnings

Production Could Remain Depressed

- Depressed vehicle production because of the UAW strike has increased delivery delays which may discourage organizations from turning over their fleets due to long wait times
- Production has now nearly caught up, and Element's backlog has been decreasing over the last two quarters
  - While the impacts of the strike are still uncertain, the effects have largely been well constrained

Mitigation: Because of Element's ties with the Big 3 OEMs, the firm can get early access to production. Customers that have been dealing with 2 years of shortages **get their vehicles quicker with Element**

Syndications Rely On Accounting Treatment

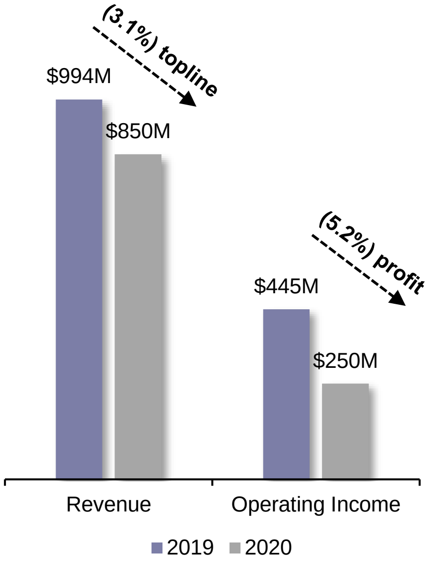
- Holding lease assets has certain tax benefits:
  - Element realizes tax benefits over the life of the lease, but third-party investors can use these tax benefits earlier
  - This leads to demand for syndicated assets and attractive gains on the sale of receivables (resulting in higher yields)
  - The profitability of this line of business depends on the specific accounting tax treatment of these assets
- Demand for Element's lease product remain resilient, but investor appetite might wane as interest rates and hurdle rates remain high for financial institutions
- Adjustable-rate products are more attractive given the current rate environment, but they give Element lower yields

Effects Of Management Change

- Jay Forbes, the former CEO of Element, retired in 2023 after a yearlong process to find his replacement
  - Laura Dottori-Attanasio has succeeded Mr. Forbes, and brings 14 years of experience at CIBC in commercial banking
  - Mr. Forbes remains as a strategic advisor to the firm
- Mr. Forbes left the firm with a strong balance sheet position and new systems (organizational simplification, automation, etc.), setting Ms. Dottori-Attanasio up for success
- While there could be a risk given the significant change in management, we believe the new CEO, who was once a contender to head CIBC,[1] has all the tools needed to lead successfully

Macro Impact On Topline & Margins

- Element's topline growth comes partly from the growth of their clients' fleets
  - Worsening macro factors may reduce vehicle demand (high financing costs may lead to the downsizing of fleets), which could lead to topline and margin compression
- However, clients would cut the self-managed part of their fleets first, due to the higher costs of self-management



Source(s): Company Filings, The Globe and Mail

1. As of January 13, 2023, The Globe and Mail was quoted saying Ms. Dottori-Attanasio was a potential successor for the CEO position at CIBC

element

Governance: Management Profiles

Reputable leadership aligned with shareholders

President & CEO

Laura Dottori-Attanasio

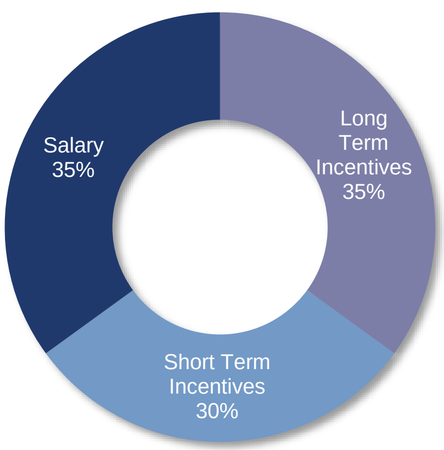
- Laura joined Element in 2023, bringing 30 years of experience in the finance sector; she serves as the first female CEO of Element
- Previously Senior Executive VP and Head of Personal & Business Banking at CIBC
  - Before CIBC, held senior roles at National Bank in capital market functions

Executive Vice President & CFO

Jim Halliday

- Jim joined Element in 2016 and became CFO in 2018, bringing more than 15 years of leadership experience in the fleet industry
- Previously CEO of the international segment of EFN
  - Held senior executive, operations, commercial, and development roles at EFN and PHH Corp

Management Compensation Structure



Financial incentive metrics

- Net Revenue Growth
- Operating Margin %
- Free Cash Flow

Non-financial incentive metrics

- Client Net Promoter Score
- Employee Engagement Index

Where's The 2024 Strategic Plan?

It is reasonable to expect a new plan in early 2024

2018-2020 Resolving Issues

- Divesture of 19th Capital
- Strengthening the balance sheet
- Integrate the various parts under Element

↓

2021-2023 Positioning For Growth

- Utilize syndications for various gains
- Strengthen the one-stop shop offering
- Initiate penetration into self-managed fleets
- Increase returns to shareholders

↓

2024-2026

…

Source(s): Company Filings, Investor Presentation

Portfolio Considerations

A safer substitute for a bank within the YUSIF portfolio

Element Fleet (TSX:EFN)	Key Distinctions	Royal Bank of Canada (TSX:RBC)

Income Statement

Element Fleet (TSX:EFN)

Income Statement	2022A
Net Financing Revenue	489
Servicing Income	581
Syndication Revenue	62
Total Revenue	1,132
Salaries and Wages	(323)
General and Admin	(125)
Depreciation & Amortization	(60)
Amortization of Convertible Debenture Notes	(4)
Share-based Comp	(31)
Other Expenses	(40)
Income Before Income Taxes	**550**
Income Tax	(140)
Net Income	**410**

Key Distinctions

- Driven by Cost-savings
- Driven by mortgages which are experiencing significant slow-down
- Stable recurring revenue
- Capital markets related, mostly macro-dependent
- Blue-chip customers minimize PCL
- PCL highly dependent on macro factors
- Mainly fixed costs which are salaries and expenses driven by inflation

Royal Bank of Canada (TSX:RBC)

Income Statement	2022A
Net Interest Income	22,717
Non-Interest Income	26,268
Total Revenue	48,985
Provision for Credit Loss	(484)
Insur. Policyholder Benefits, Claims, and Acq. Exp	(1,783)
Non-Interest Expense	(26,609)
Income Before Income Taxes	**20,109**
Income Tax	(4,302)
Net Income	**15,807**

Balance Sheet

Element Fleet (TSX:EFN)

Balance Sheet	2022A
Assets	
Finance Recievables	8,069
Equipment Under Operating Lease	2,807
Revenue Generating Assets	**10,876**
Allowance for Credit Losses	**10**
Liabilities	
Borrowings	8,808

Key Distinctions

- TRAC leases defend against changes in underlying asset prices
- Risk of significant decline in asset values
- Element has control over how much and when to draw, with no capital requirements
- Withdrawal at discretion of customers with capital req.

Royal Bank of Canada (TSX:RBC)

Balance Sheet	2022A
Assets	
Retail Loans	549,751
Residential Mortgages	418,796
Total Personal	97,709
Credit Cards	20,577
Small Business	12,669
Wholesale Loans	291,839
Loans and Acceptances	**841,590**
Allowance for Credit Losses	**4,214**
Liabilities	
Deposits	1,208,814

*Differences make EFN **more resilient** during the **current turbulent macro backdrop***

Source(s): Company Filings

element

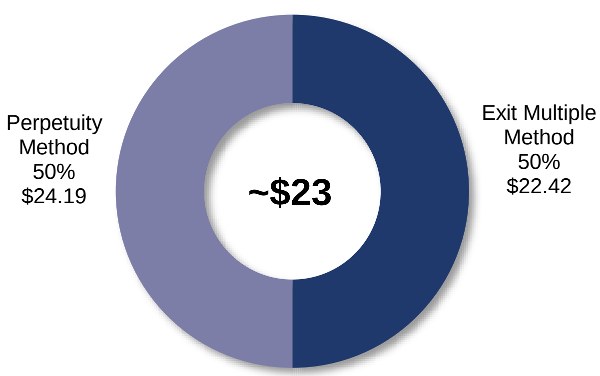
Valuation Summary

Our intrinsic valuation gives an implied upside of ~5%; waiting until ~15% discount

*We **do not recommend a position** at this time and would look to **~$20/share** as an **attractive entry point** (~15% discount to intrinsic)*

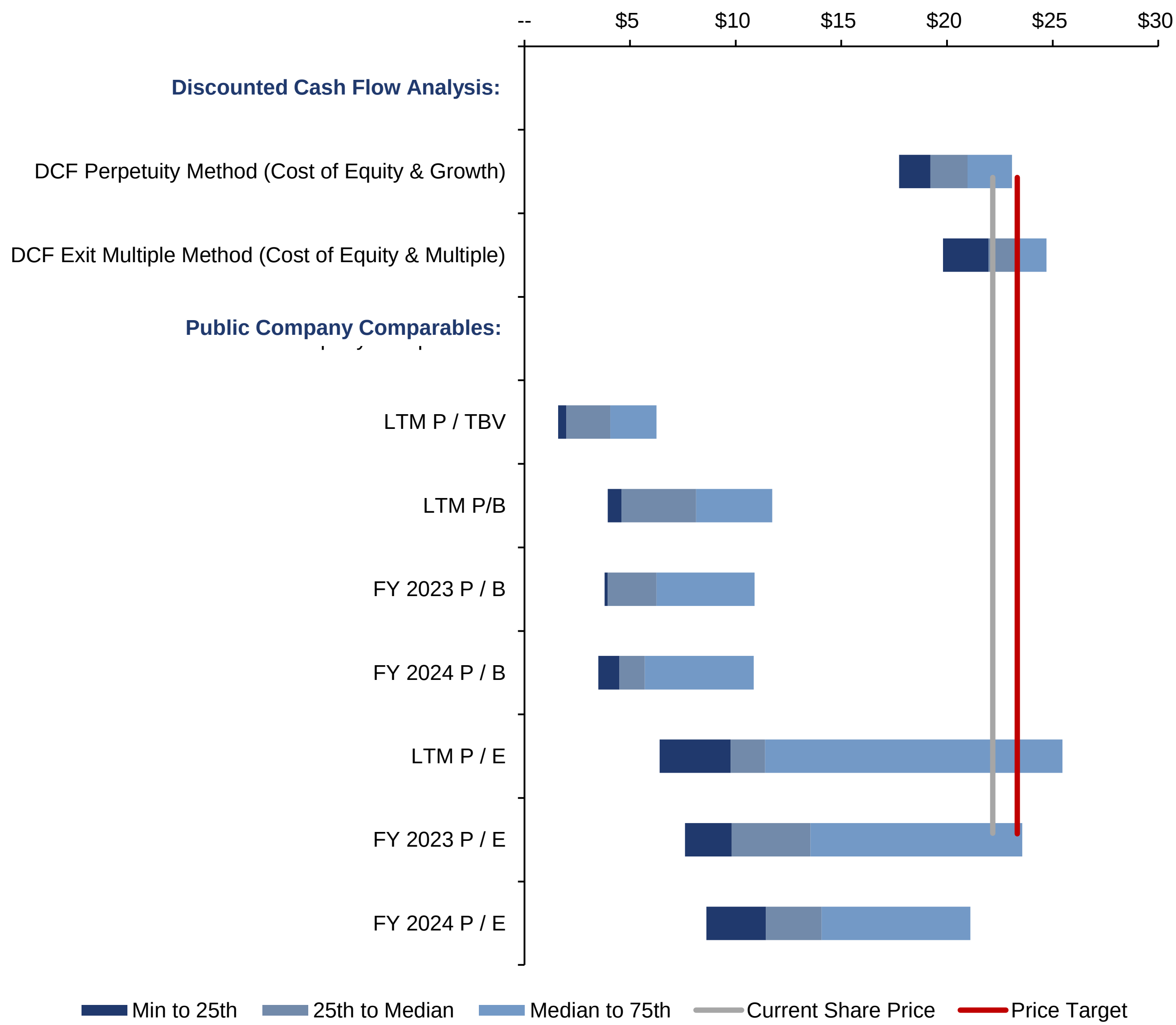
Results and Weighting

- **Current Price:** $22.16
- **Target Price:** ~$23
- **Implied Upside:** ~5%



There are no public comparable companies thus 100% intrinsic valuation is used

Football Field Valuation Summary



Full Discounted Cash Flow Analysis

Intrinsic valuation

	Historicals							Projections										
Year	**2019A**	**2020A**	**2021A**	**2022A**	**Q1'23A**	**Q2'23A**	**Q3'23A**	**Q4'23E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**
Financing:																		
Net financing revenue	**411,180**	**405,687**	**436,945**	**488,741**	**132,880**	**141,898**	**141,898**	**145,052**	**561,728**	**662,745**	**731,874**	**790,268**	**844,598**	**898,486**	**949,745**	**997,769**	**1,045,227**	**1,086,632**
% growth		*(1.3%)*	*7.7%*	*11.9%*	*15.4%*	*15.1%*	*13.6%*	*15.6%*	*14.9%*	*18.0%*	*10.4%*	*8.0%*	*6.9%*	*6.4%*	*5.7%*	*5.1%*	*4.8%*	*4.0%*
Servicing income	**493,345**	**481,854**	**472,465**	**581,018**	**156,199**	**169,807**	**175,889**	**168,536**	**670,431**	**758,699**	**848,074**	**934,662**	**1,018,483**	**1,097,212**	**1,168,487**	**1,230,019**	**1,285,985**	**1,337,939**
% growth		*(2.3%)*	*(1.9%)*	*23.0%*	*18.5%*	*13.2%*	*17.3%*	*13.0%*	*15.4%*	*13.2%*	*11.8%*	*10.2%*	*9.0%*	*7.7%*	*6.5%*	*5.3%*	*4.5%*	*4.0%*
Syndication revenue	**89,577**	**75,552**	**64,412**	**62,290**	**14,880**	**11,361**	**17,326**	**14,571**	**58,138**	**68,718**	**82,379**	**94,984**	**103,252**	**111,475**	**119,917**	**127,592**	**134,694**	**140,755**
% growth		*(15.7%)*	*(14.7%)*	*(3.3%)*	*8.0%*	*(23.5%)*	*8.3%*	*(17.5%)*	*(6.7%)*	*18.2%*	*19.9%*	*15.3%*	*8.7%*	*8.0%*	*7.6%*	*6.4%*	*5.6%*	*4.5%*
Net Revenue	**994,102**	**963,093**	**973,822**	**1,132,049**	**303,959**	**323,066**	**335,113**	**328,160**	**1,290,298**	**1,490,162**	**1,662,327**	**1,819,915**	**1,966,333**	**2,107,172**	**2,238,148**	**2,355,380**	**2,465,906**	**2,565,326**
% growth		*(3.1%)*	*1.1%*	*16.2%*	*16.5%*	*12.1%*	*15.2%*	*12.3%*	*14.0%*	*15.5%*	*11.6%*	*9.5%*	*8.0%*	*7.2%*	*6.2%*	*5.2%*	*4.7%*	*4.0%*
Non-Interest Expenses	**(549,051)**	**(541,167)**	**(524,835)**	**(579,144)**	**(165,297)**	**(164,052)**	**(166,693)**	**(163,807)**	**(659,849)**	**(735,621)**	**(811,142)**	**(877,016)**	**(938,439)**	**(994,294)**	**(1,046,779)**	**(1,089,926)**	**(1,136,529)**	**(1,180,870)**
Income Before Taxes	**445,051**	**421,926**	**448,987**	**552,905**	**138,662**	**159,014**	**168,420**	**164,353**	**630,449**	**754,541**	**851,185**	**942,899**	**1,027,894**	**1,112,878**	**1,191,369**	**1,265,454**	**1,329,377**	**1,384,455**
Operating Margin	*44.8%*	*43.8%*	*46.1%*	*48.8%*	*45.6%*	*49.2%*	*50.3%*	*50.1%*	*48.9%*	*50.6%*	*51.2%*	*51.8%*	*52.3%*	*52.8%*	*53.2%*	*53.7%*	*53.9%*	*54.0%*
Income Tax	*(105,922)*	(100,418)	(106,859)	(131,591)	(33,002)	(37,845)	(40,084)	(39,116)	(150,047)	(179,581)	(202,582)	(224,410)	(244,639)	(264,865)	(283,546)	(301,178)	(316,392)	(329,500)
Net Income	**339,129**	**321,508**	**342,128**	**421,314**	**105,660**	**121,169**	**128,336**	**125,237**	**480,402**	**574,960**	**648,603**	**718,489**	**783,255**	**848,013**	**907,823**	**964,276**	**1,012,985**	**1,054,955**
% margin	*34.1%*	*33.4%*	*35.1%*	*37.2%*	*34.8%*	*37.5%*	*38.3%*	*38.2%*	*37.2%*	*38.6%*	*39.0%*	*39.5%*	*39.8%*	*40.2%*	*40.6%*	*40.9%*	*41.1%*	*41.1%*
% growth					*4.2%*	*5.4%*	*18.3%*	*56.5%*	*14.0%*	*19.7%*	*12.8%*	*10.8%*	*9.0%*	*8.3%*	*7.1%*	*6.2%*	*5.1%*	*4.1%*
Add: D&A	92,296	87,041	89,430	100,107	26,729	27,098	28,234	25,980	108,041	112,733	123,176	131,371	140,951	148,415	157,595	163,926	172,360	177,828
Less: Capital Expenditures	(15,114)	(72,906)	(85,949)	(65,610)	(18,660)	(24,616)	(27,250)	(24,612)	(95,138)	(110,272)	(119,688)	(127,394)	(133,711)	(139,073)	(143,242)	(146,034)	(147,954)	(153,920)
Change in NWC	1,377,919	2,516,803	2,139,031	(947,552)	(746,340)	(804,079)	(292,775)	(340,466)	(1,843,194)	(1,934,495)	(1,916,918)	(1,517,192)	(1,531,348)	(1,529,555)	(1,584,394)	(1,445,031)	(1,338,045)	(1,120,314)
Net change in borrowings	(1,377,919)	(2,028,525)	(1,825,373)	768,896	577,993	674,428	313,199	269,710	1,835,330	1,682,092	1,672,649	1,334,863	1,334,570	1,327,404	1,362,839	1,238,887	1,146,468	978,433
Levered Free Cash Flow	**416,311**	**823,921**	**659,267**	**277,155**	**(54,618)**	**(6,000)**	**149,744**	**55,850**	**485,441**	**325,019**	**407,823**	**540,137**	**593,717**	**655,203**	**700,622**	**776,023**	**845,814**	**936,983**
% growth										*(33.0%)*	*25.5%*	*32.4%*	*9.9%*	*10.4%*	*6.9%*	*10.8%*	*9.0%*	*10.8%*
Discount Period								0.25		1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25
Discount Factor								0.98		0.89	0.81	0.74	0.68	0.62	0.56	0.52	0.47	0.43
PV of Levered Free Cash Flow								**54,586**		**289,886**	**331,928**	**401,172**	**402,402**	**405,239**	**395,433**	**399,685**	**397,532**	**401,868**

Commentary

- Levered Free Cash Flow is used because of the financing segment, which uses leases and debt to generate revenues
  - Long-term growth in financing revenue comes from growth in finance receivables which is part of NWC
- Operating leverage leads to long-term margin expansion from ~50% to ~54%
- CapEx is mostly software and intangibles, decreases from 7.5% to 6% of revenues to 2032
- Change in borrowing matches the investments in finance receivables

Cost of Equity Calculation

	Capital Structure
Cost of Equity Calculation	**Current**
Levered Beta	**1.00**
Risk-Free Rate	4.27%
Equity Risk Premium	5.32%
Annual CAGR Return for TSX	9.59%
Cost of Equity	**9.58%**

3-year levered beta calculated through regression due to major changes in business in the past three years

Source(s): S&P Capital IQ

Discounted Cash Flow Sensitivity Analysis

DCF summary outputs

Exit Multiple (Discount Rate)

Discount Rate	11.5x	12.5x	13.5x	14.5x	15.5x
8.6%	$23.52	$24.76	$26.00	$27.24	$28.49
9.1%	$22.69	$23.89	$25.08	$26.27	$27.46
9.6%	$21.91	$23.05	**$24.19**	$25.33	$26.48
10.1%	$21.16	$22.25	$23.35	$24.44	$25.54
10.6%	$20.44	$21.49	$22.54	$23.59	$24.63

Exit Multiple (Discount Rate)

Discount Rate	11.5x	12.5x	13.5x	14.5x	15.5x
8.6%	6.1%	11.7%	17.3%	22.9%	28.5%
9.1%	2.4%	7.8%	13.2%	18.5%	23.9%
9.6%	(1.1%)	4.0%	**9.2%**	14.3%	19.5%
10.1%	(4.5%)	0.4%	5.4%	10.3%	15.2%
10.6%	(7.8%)	(3.0%)	1.7%	6.4%	11.2%

Perpetuity Growth Rate (Discount Rate)

Discount Rate	1.5%	1.8%	2.0%	2.3%	2.5%
8.6%	$26.35	$26.35	$26.35	$26.35	$26.35
9.1%	$24.25	$24.25	$24.25	$24.25	$24.25
9.6%	$22.44	$22.44	**$22.44**	$22.44	$22.44
10.1%	$20.86	$20.86	$20.86	$20.86	$20.86
10.6%	$19.46	$19.46	$19.46	$19.46	$19.46

Perpetuity Growth Rate (Discount Rate)

Discount Rate	1.5%	1.8%	2.0%	2.3%	2.5%
8.6%	13.1%	15.9%	18.9%	22.1%	25.7%
9.1%	4.6%	6.9%	9.4%	12.1%	15.0%
9.6%	(2.8%)	(0.9%)	**1.3%**	3.5%	5.9%
10.1%	(9.4%)	(7.7%)	(5.9%)	(4.0%)	(1.9%)
10.6%	(15.2%)	(13.7%)	(12.2%)	(10.5%)	(8.8%)

Exit Multiple Method	
Cumulative PV of LFCF	3,479,731
% of Equtiy Value	*36.3%*
Terminal Value	
Final Year Net Income	1,054,955
2033 P/E Multiple	13.5x
Terminal Value	14,241,893
PV of Terminal Value	6,108,291
% of Equity Value	*63.7%*
Total Equity Value	**9,588,022**
Diluted Shares Outstanding	396,316
Implied Share Price	**$24.19**
Current Share Price	$22.16
Implied Margin of Safety	**9.2%**

Perpetuity Method	
Cumulative PV of LFCF	3,479,731
% of Equtiy Value	*39.2%*
Terminal Value	
Final Year LFCF	936,983
Terminal Growth Rate	2.00%
Terminal Value	12,602,421
PV of Terminal Value	5,405,128
% of Equity Value	*60.8%*
Total Equity Value	**8,884,859**
Diluted Shares Outstanding	396,316
Implied Share Price	**$22.42**
Current Share Price	$22.16
Implied Margin of Safety	**1.2%**

Source(s): S&P Capital IQ

element

Discounted Cash Flow Analysis Assumptions

10-year levered DCF assumptions

Assumptions													Projections					
Year	**2019A**	**2020A**	**2021A**	**2022A**	**Q1'23A**	**Q2'23A**	**Q3'23A**	**Q4'23E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**
Finance Receivables (NWC/Debt)																		
Revenue generating assets	14,088,350	11,718,849	9,733,457	10,876,227	11,623,471	12,438,371	12,852,407	13,186,570	13,186,570	15,270,628	17,342,986	18,996,839	20,650,328	22,294,938	23,983,452	25,518,393	26,938,830	28,151,077
% growth		*(16.8%)*	*(16.9%)*	*11.7%*	*21.9%*	*26.7%*	*25.5%*	*2.6%*	*21.2%*	*15.8%*	*13.6%*	*9.5%*	*8.7%*	*8.%*	*7.6%*	*6.4%*	*5.6%*	*4.5%*
Syndications																		
Syndication volumes as % of RVA	*20.6%*	*24.0%*	*27.2%*	*25.7%*	*23.7%*	*22.1%*	*31.8%*	*26.0%*	*25.9%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Syndication volumes	2,898,498	2,811,598	2,651,967	2,796,428	689,605	688,590	1,020,242	857,127	3,255,564	3,817,657	4,335,747	4,749,210	5,162,582	5,573,735	5,995,863	6,379,598	6,734,707	7,037,769
Syndication yield	*3.1%*	*2.7%*	*2.4%*	*2.2%*	*2.2%*	*1.6%*	*1.7%*	*1.7%*	*1.8%*	*1.8%*	*1.9%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Financing Revenue																		
Overall financing NIM (annual)	*2.9%*	*3.5%*	*4.5%*	*4.5%*	*4.6%*	*4.6%*	*4.4%*	*4.4%*	*4.5%*	*4.3%*	*4.2%*	*4.2%*	*4.1%*	*4.0%*	*4.0%*	*3.9%*	*3.9%*	*3.9%*
Rental revenue margin	*35.2%*	*33.8%*	*36.4%*	*38.7%*	*41.7%*	*40.3%*	*39.1%*	*39.0%*	*40.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*
Interest income margin	*23.0%*	*35.7%*	*48.2%*	*38.2%*	*20.7%*	*20.4%*	*16.1%*	*18.0%*	*18.8%*	*24.0%*	*36.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*
Service Revenue																		
Vehicles under Management			1,430	1,494	1,533	1,500	1,501	1,509	1,509	1,554	1,608	1,656	1,703	1,747	1,789	1,828	1,865	1,902
% growth				*4.5%*	*4.6%*	*1.1%*	*2.4%*	*0.5%*	*2.1%*	*3.0%*	*3.5%*	*3.0%*	*2.8%*	*2.6%*	*2.4%*	*2.2%*	*2.0%*	*2.0%*
Service revenues per vehicle (annual)			362	421	442	486	503	481	478	526	568	608	645	677	704	725	743	758
% growth				*16.2%*	*12.8%*	*11.4%*	*13.7%*	*11.0%*	*12.2%*	*9.5%*	*8.0%*	*7.0%*	*6.0%*	*5.0%*	*4.0%*	*3.0%*	*2.5%*	*2.0%*
Service revenues (annual)			518,004	629,049	677,576	728,516	754,776	724,887	720,945	817,564	913,873	1,007,179	1,097,503	1,182,340	1,259,145	1,325,452	1,385,760	1,441,744
% growth					*18.0%*	*12.6%*	*16.4%*	*12.1%*	*14.8%*	*12.8%*	*11.8%*	*10.2%*	*9.0%*	*7.7%*	*6.5%*	*5.3%*	*4.6%*	*4.0%*
Operating Expenses																		
Compensation as % of net revenue	*34.4%*	*35.1%*	*34.0%*	*31.3%*	*33.6%*	*31.0%*	*29.7%*	*30.0%*	*31.1%*	*30.0%*	*29.8%*	*29.6%*	*29.4%*	*29.1%*	*28.9%*	*28.7%*	*28.5%*	*28.5%*
SG&A as % of revenue	*11.6%*	*12.1%*	*10.7%*	*11.0%*	*12.0%*	*11.4%*	*11.6%*	*12.0%*	*11.8%*	*11.8%*	*11.6%*	*11.4%*	*11.2%*	*11.0%*	*10.8%*	*10.6%*	*10.6%*	*10.6%*
D&A as % of revenue	*4.3%*	*4.4%*	*5.2%*	*5.3%*	*5.4%*	*5.2%*	*5.3%*	*5.1%*	*5.2%*	*5.1%*	*5.2%*	*5.2%*	*5.3%*	*5.3%*	*5.4%*	*5.4%*	*5.5%*	*5.5%*
Capex																		
CapEx as a % of net revenue	*1.5%*	*7.6%*	*8.8%*	*5.8%*	*6.1%*	*7.6%*	*8.1%*	*7.5%*	*7.3%*	*7.4%*	*7.2%*	*7.0%*	*6.8%*	*6.6%*	*6.4%*	*6.2%*	*6.0%*	*6.0%*
Operating Assets																		
A/R With Servicing Income Growth		*(2.3%)*	*(1.9%)*	*23.0%*	*18.5%*	*13.2%*	*17.3%*	*(4.2%)*	*15.4%*	*13.2%*	*11.8%*	*10.2%*	*9.0%*	*7.7%*	*6.5%*	*5.3%*	*4.5%*	*4.0%*
Derivative Financial Instruments With Revenue Growt		*(3.1%)*	*1.1%*	*16.2%*	*16.5%*	*12.1%*	*15.2%*	*(2.1%)*	*14.0%*	*15.5%*	*11.6%*	*9.5%*	*8.0%*	*7.2%*	*6.2%*	*5.2%*	*4.7%*	*4.0%*
Note: Finance recievables and equipment under operating leases are lumped together as revenue generating assets																		
Operating Liabilities:																		
A/P With Wages & SBC		*(1.1%)*	*(2.0%)*	*7.0%*	*33.9%*	*20.7%*	*6.3%*	*(1.1%)*	*13.0%*	*11.7%*	*10.8%*	*8.7%*	*7.3%*	*6.4%*	*5.4%*	*4.5%*	*3.9%*	*4.0%*
Derivative financial instruments With Revenue Growth		*(3.1%)*	*1.1%*	*16.2%*	*16.5%*	*12.1%*	*15.2%*	*(2.1%)*	*14.0%*	*15.5%*	*11.6%*	*9.5%*	*8.0%*	*7.2%*	*6.2%*	*5.2%*	*4.7%*	*4.0%*

Commentary

- Revenue generating assets are projected assuming 4.5% industry growth, a 5% increase in market share by 2031 (from 15% to 20% market share), and adding in the backlog conversion from FY'23 to FY'25 (assumption is that the backlog returns to normalized levels thereafter)
  - Our 4.5% growth is broken down to 2% for fleet expansion, 2% for vehicle price increases matching inflation, and 0.5% for replacement
- Long-term Asset and Service revenue, and vehicle growth assumptions move in line with inflation for services and vehicle prices, as well as a component for modest growth from existing clients and client wins
- Overall NIM is higher than the ~2% NIM from standalone contracts, mostly due to gains on sale and timing of revenue recognition

Source(s): S&P Capital IQ

Comparable Company Analysis

Relative Valuation

Company Name	Equity Value ($M)	Share Price ($)	P / TBV	P / B			P / E		
			LTM	LTM	2023E	2024E	LTM	2023E	2024E
AerCap Holdings N.V.	$18,976	$67.18	0.8x	0.6x	0.7x	0.6x	5.6x	5.8x	6.6x
Air Lease Corporation	$5,948	$38.30	0.5x	0.5x	0.4x	0.4x	8.2x	7.0x	5.9x
FTAI Aviation Ltd.	$5,720	$41.87	nmf	nmf	nmf	nmf	27.8x	26.0x	17.1x
GATX Corporation	$5,375	$109.37	1.4x	1.3x	1.3x	1.2x	16.4x	15.8x	15.7x
Trinity Industries, Inc.	$2,833	$24.64	1.9x	1.5x	nmf	nmf	28.1x	20.3x	13.3x
Textainer Group Holdings Limited	$2,747	$24.64	0.4x	0.4x	0.4x	0.3x	8.8x	10.4x	9.7x
Ryder System, Inc.	$6,530	$106.35	1.8x	1.1x	1.2x	1.1x	9.9x	8.1x	9.1x
Median	**$5,720**	**$41.87**	**1.1x**	**0.9x**	**0.7x**	**0.6x**	**9.9x**	**10.4x**	**9.7x**
Average	**$6,876**	**$58.91**	**1.1x**	**0.9x**	**0.8x**	**0.7x**	**15.0x**	**13.4x**	**11.1x**
Element Fleet Management Corp.	**$8,782**	**$22.16**	**5.9x**	**2.4x**	**2.4x**	**2.2x**	**19.2x**	**17.0x**	**15.2x**

Company Name	Equity Value ($M)	Share Price ($)	Revenue Growth		Net Income Growth		Return Metrics (LTM)		
			2023E	2024E	2023E	2024E	Div. Yield	ROA	ROE
AerCap Holdings N.V.	$18,976	$67.18	10.0%	2.1%	nmf	(11.5%)	--	3.3%	15.9%
Air Lease Corporation	$5,948	$38.30	14.2%	10.1%	nmf	18.4%	2.1%	2.8%	8.0%
FTAI Aviation Ltd.	$5,720	$41.87	64.0%	6.8%	184.2%	52.3%	2.8%	8.7%	nmf
GATX Corporation	$5,375	$109.37	10.3%	7.3%	60.8%	0.7%	2.0%	2.3%	11.7%
Trinity Industries, Inc.	$2,833	$24.64	50.7%	(1.7%)	71.3%	53.2%	4.1%	1.9%	8.7%
Textainer Group Holdings Limited	$2,747	$24.64	(13.9%)	4.1%	(36.9%)	7.6%	2.4%	3.4%	11.5%
Ryder System, Inc.	$6,530	$106.35	(2.5%)	6.4%	(31.0%)	(11.5%)	2.6%	3.7%	15.8%
Median	**$5,720**	**$41.87**	**10.3%**	**6.4%**	**60.8%**	**7.6%**	**2.4%**	**3.3%**	**11.6%**
Average	**$6,876**	**$58.91**	**19.0%**	**5.0%**	**49.7%**	**15.6%**	**2.3%**	**3.7%**	**11.9%**
Element Fleet Management Corp.	**$8,782**	**$22.16**	**(23.3%)**	**7.8%**	**26.0%**	**11.8%**	**2.2%**	**3.0%**	**12.1%**

EFN has no direct comparable companies; the closest are other companies that lease different products (e.g., airplanes, trains, containers, equipment)

Source(s): S&P Capital IQ

Appendix

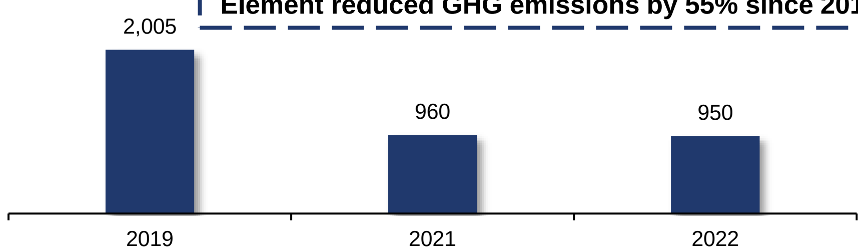
Environmental & Social

Element is an industry leader in environmental & social initiatives

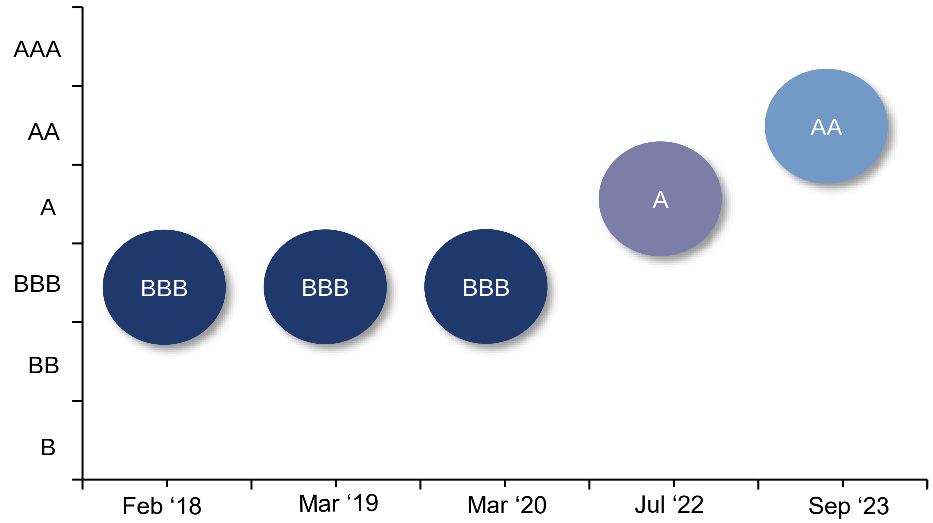
Environmental Initiatives

- Element places a large focus on managing their GHG footprint, helping clients reduce theirs, which moves the fleet management industry closer to a low-carbon economy
- Element's electrification journey serves as their primary source in improving their environmental footprint;
  - 100% of Elements internal fleet to be electrified by 2025

Element reduced GHG emissions by 55% since 2019



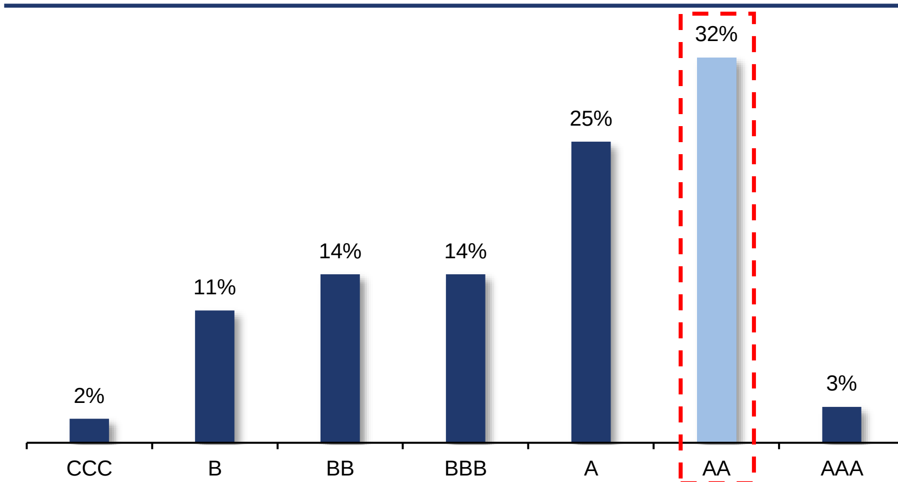
Increasing MSCI ESG Rating



Social Initiatives

- Element's AA ESG rating is driven by their diverse workforce which consists of 51% women and 21% of people of colour
  - Element possess an 87% DE&I index score, a 40 NPS and an 82% employee engagement index score
  - Element is a member of the National Minority Supplier's Development Council and the Women's Business Enterprise National Council
  - Element sustains a diverse supplier network with over 4,800 service-supply business owned by women, BIPOC, and members of LGBTQ+ community
  - Element takes on a variety of initiatives to increase driver safety ~ reducing preventable collisions by 21% vs. industry averages

ESG Rating Relative To Peers



Element falls under an **AA** rating, which 32% of the industry currently have

Sources: The Globe and Mail, Automotive Fleet

Why Was A Turnaround Necessary?

Former CEO Jay Forbes led a successful revamping of Element

Internal Issues Required A Turnaround

What Were The Issues Faced?

- Element was spun-off in 2016, but its first two years of operations were tainted by a loss of two large customers and improper technological integration that frustrated clients
- Element had also entered a joint venture (49.9% stake) into a start-up named 19th Capital in Dec 2016, with a focus on Class 8 trucks providing financing and servicing
  - The joint venture underperformed, experiencing significant impairments in 2018 ($480M) and 2019 ($260M) due to a large drop-in Class 8 vehicle orders and prices
  - Element bought out 100% of the venture on Oct 2018 and did a runoff of the business over the next 36 months
- Overall, these issues at the firm led to a strategic review by the Board in 2017, with the goal being to find a buyer
  - No buyers surfaced, which led to the hiring of Mr. Forbes in June 2018 and the reconstitution of the Board (3 new appointments, 2 additional successful nominations)
  - Incurred $11.9M in costs as part of strategic review conducted mainly in Q4'17 (concluded early 2018)

What Was The Turnaround?

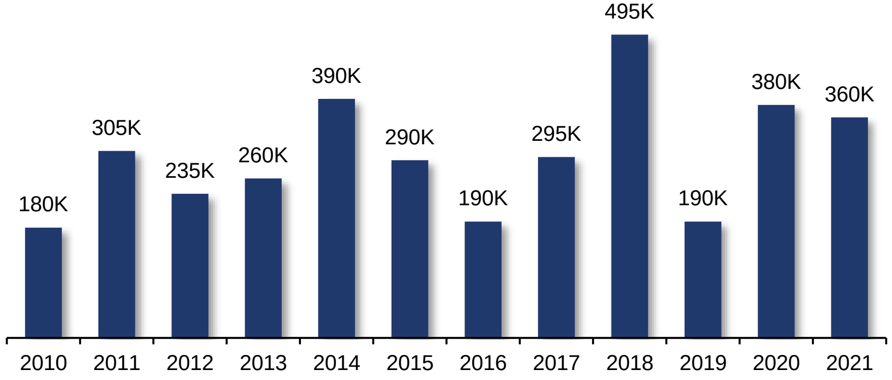
- Initiatives introduced included improving client service and streamlining the firm's structure
  - Investments of $150M for systems and work force efficiencies were made to set in place proper infrastructure to support long-term growth (automation of processes)
  - 80 separate initiatives implemented to reduce complexity of the firm's structure (from 9 layers of management to 5)

Corporate Experience As CEO

Jay Forbes

- Jay Forbes has an extensive turnaround history, most notably Manitoba Telecom Services Inc. (2015-17)
- In 2018, Mr. Forbes was brought in at Element to lead a turnaround effort after no buyers were found and 19th Capital Group led to losses

Steep Decline In NA Class 8 Orders



Decline in 2019 led to defaults due to a drop-in Class 8 prices causing a discrepancy between the market and residual value

How Do TRAC Leases Work?

In-depth breakdown of TRAC leases

Primary Terms Within A Terminal Rental Adjustment Clause (TRAC) Lease

Ford Credit TRAC Lease	
Net Cap Cost	$46,728.54
Term In Months	36
Residual Percent	40%
Residual Amount	$18,691.42
Payments In Advance	Advance
Est Monthly Pay (Before Tax)	$1,004.80
Est Monthly Pay (Including Tax)	$1,086.19

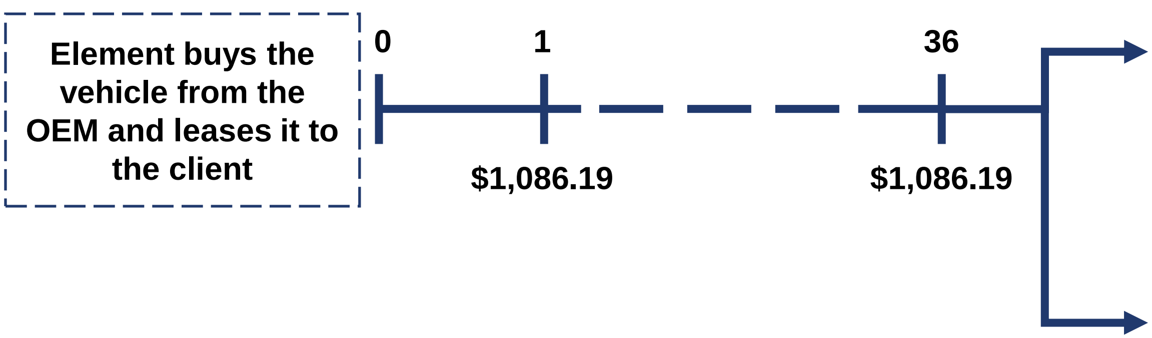
Total amount financed: what the vehicle was worth when the transaction occurred

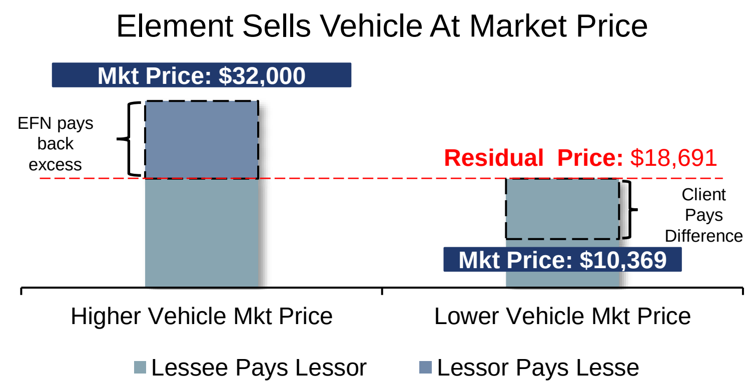
Amount at the end of the 36 months where the client still owes Element if they want to keep the vehicle. The client would pay this value to the firm to receive ownership of the vehicle and this amount is fixed and decided upon when the transaction is made

Monthly payment; the sum of the monthly payments plus the residual amount is higher than the net cap cost representing the interest paid on the lease (Payment is due at the beginning of each payment period in an "Advance" lease)

The purpose is to give flexibility to clients and shield Element from vehicle price volatility

Timeline And Decisions Within A TRAC Lease (Months)





Client Pays: $18,691.42 (Residual Value)

Note: Occurs in the final month with the monthly payment

Source(s): Company Filings

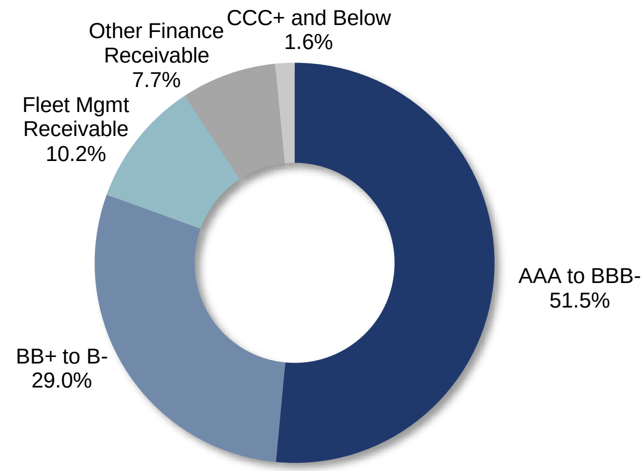
Credit Risk Analysis

Stable outlook given low PCLs and limited residual risk

Why Are PCLs Low Despite Speculative Leases?

- Despite a decent part of leases being BB+ and below, the PCL ratio remains low due to the necessary business-use of fleets for Element's clients and the use of advantageous TRAC leases
  - Element's 60% investment-grade and diversified client base allows for consistent cash flows that offset minor losses from lower-rated leases
  - Net charge-offs (NCOs) are also low, at $0.4M in first half 2023; an increase from 2022 ($0.1M) but still modest
- Roughly ~90% of leases have no residual value risk meaning pricing changes are unlikely to negatively impact Element

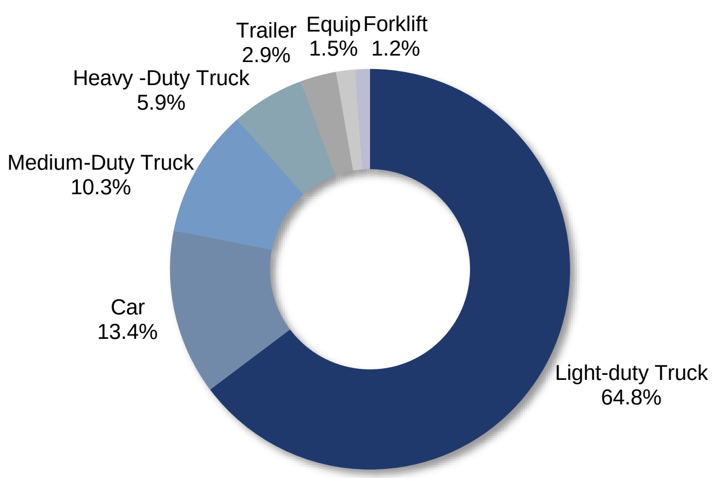
Majority Of Finance Receivables Are AAA To BBB-



Higher Unsecured Debt and Adequate Liquidity

- Element receives funding mainly through securitizations and unsecured debt
  - As of 2023, unsecured debt was 44% of total debt, an increase from 37% the year prior, and 32% in 2021
  - Higher proportion of unsecured debt is positive for the firm as it improves Element's funding flexibility in downturns
- $74.5M of unrestricted cash on hand, along with $1.8B of revolving credit facility and $1.4B of vehicle-backed facilities
- Element's tangible leverage ratio is 5.6x as of 1H'23, down from 6.2x the previous year
  - Management has worked to simplify the firm's capital structure by retiring high-cost preferred shares
  - 9.3% of total capital as opposed to 13.5% in 2020

Leases Are Concentrated On Light-Duty Trucks



Source(s): Fitch Ratings, DBRS Morningstar

United Auto Workers (UAW) Strike

Effects from strikes are not material for Element

Shorter Than Expected Striking

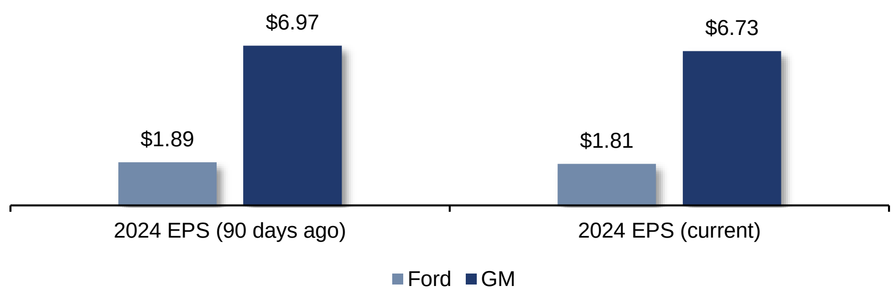
- UAW strike involved unionized auto workers and the Big 3 automakers, leading to lower production and 20-30% reductions in market days supply for certain vehicles
- The Big 3 produce half of all new vehicles in the US
- While the strikes did cause disruption to production, it only lasted a **month and a half**, which was shorter than had been expected
- Last major strike was against GM in 1970 - lasted 2 months and cost $1B

Minimal Effect On Element

- Despite the strikes, production capacity continued to improve, leading to originations of $2.1B
  - This represents a 44% rise YoY in Q3
- Element's order backlog decreased to $2.5B and continues declining after peaking at $3B in Q1 2023
  - While there were some fears about the backlog reversing its steady decline, Element's Q3 earnings but the worries to rest
- Moreover, plant closures caused by strikes had a bigger effect on consumer vehicles rather than commercial fleet

Impact On Big 3

- At the height of the strikes, there were no widespread plant shutdowns, but rather, targeted strikes
  - Vehicles were still being produced at most auto plants
- Costs will go up and EPS will decline; wage increases will vary from 25-70% (e.g., base vs. starting wages)



Element 2024 Expectations

- Production disruptions and contract negotiations will likely lead to higher vehicle prices, although impact may be low
  - The auto market is already hot, so its unlikely that all new costs get passed on to consumers
- Expectations for Element are only a 1.5% hit to 2024 EPS given a roughly 200,000 reduction in vehicle production
  - Core EPS still expected to grow at least 10% due to client onboarding and easing production bottlenecks
  - UAW agreements are locked in until 2028, providing peace of mind to Element for the foreseeable future

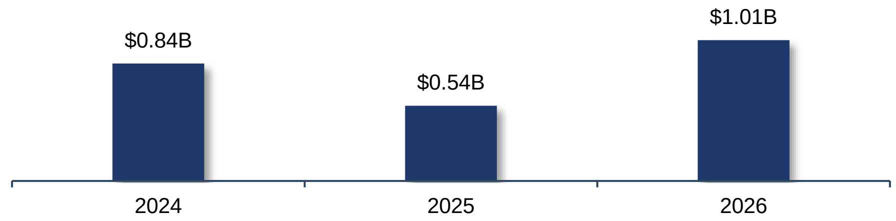
Source(s): Bloomberg, CNBC, RBC Equity Research

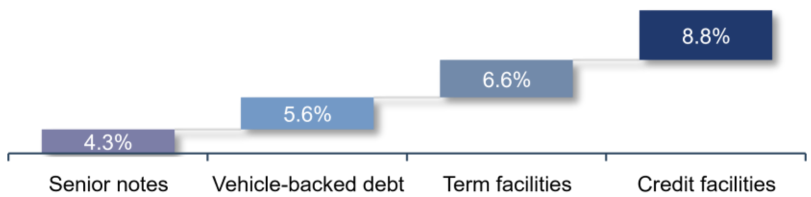
element

Leverage

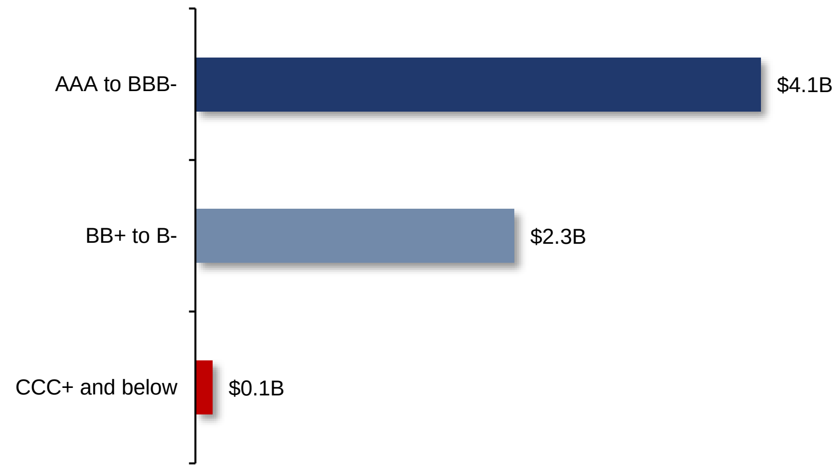
Comfortable leverage profile with matched debt

Breakdown Of Debt





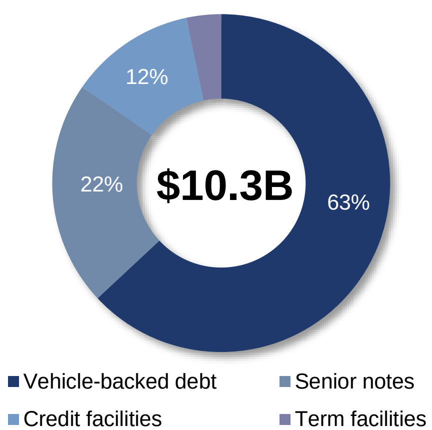
Credit Risk Exposure



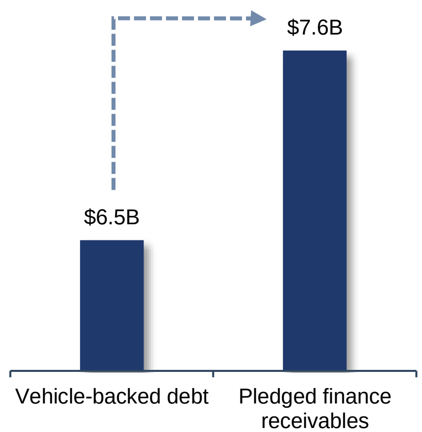
Debt Is Matched By Finance Receivables

- Element's loans are backed by clients' vehicles which are used as collateral, potentially posing a risk if the auto market faces severe pressures and Element needs to sell the vehicles
  - However, this risk is mitigated by the use of TRAC leases and because most of Element's clients are stable firms
  - Element also has $1B more pledged finance receivables than vehicle-backed debt, adding a buffer of safety
- When looking at debt used to fund operations, Element's debt-to-equity ratio is 1.00 (reasonable for a growing company)
  - Overall, Element uses debt responsibly to fund operations and grow the firm, even in high-rate environments

Long-term Debt



Margin of Safety



Source(s): Company Filings, MD&A

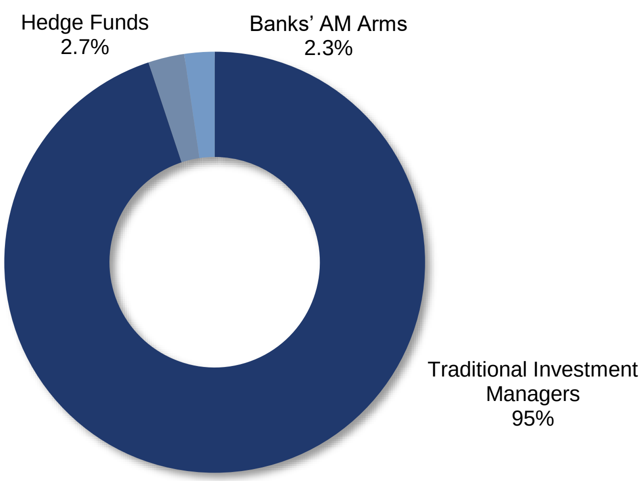
Ownership Structure

Long-only asset managers are high conviction shareholders in Element

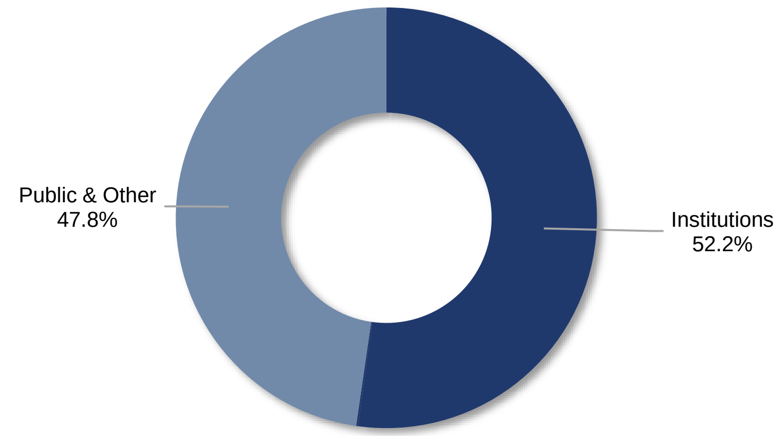
Top Holders

Top Holders	% of Shares Outstanding
Massachusetts Financial Services Co.	9.86%
T. Rowe Prince Group	4.74%
RBC Global Asset Management	4.06%
The Vanguard Group	3.67%
CIBC Global Asset Management	3.05%
CI Global Asset Management	2.87%
BMO Asset Management	2.60%
EdgePoint Investment Group	2.28%
Blackrock	1.49%
Dimensional Fund Advisors	1.41%
Norges Bank Investment Management	1.19%
Mawer Investment Management	1.02%
TD Asset Management	0.97%
Picton Mahoney Asset Management	0.91%
Scotia Asset Management	0.79%
HSBC Global Asset Management	0.78%
Tetrem Capital Management	0.55%
Guardian Capital	0.51%

Ownership Type



Ownership Breakdown



Source(s): S&P Capital IQ

Full Discounted Cash Flow Analysis

Intrinsic valuation

	Historicals							Projections										
Year	**2019A**	**2020A**	**2021A**	**2022A**	**Q1'23A**	**Q2'23A**	**Q3'23A**	**Q4'23E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**
Financing:																		
Net financing revenue	**411,180**	**405,687**	**436,945**	**488,741**	**132,880**	**141,898**	**141,898**	**145,052**	**561,728**	**662,745**	**731,874**	**790,268**	**844,598**	**898,486**	**949,745**	**997,769**	**1,045,227**	**1,086,632**
% growth		*(1.3%)*	*7.7%*	*11.9%*	*15.4%*	*15.1%*	*13.6%*	*15.6%*	*14.9%*	*18.0%*	*10.4%*	*8.0%*	*6.9%*	*6.4%*	*5.7%*	*5.1%*	*4.8%*	*4.0%*
Servicing income	**493,345**	**481,854**	**472,465**	**581,018**	**156,199**	**169,807**	**175,889**	**168,536**	**670,431**	**758,699**	**848,074**	**934,662**	**1,018,483**	**1,097,212**	**1,168,487**	**1,230,019**	**1,285,985**	**1,337,939**
% growth		*(2.3%)*	*(1.9%)*	*23.0%*	*18.5%*	*13.2%*	*17.3%*	*13.0%*	*15.4%*	*13.2%*	*11.8%*	*10.2%*	*9.0%*	*7.7%*	*6.5%*	*5.3%*	*4.5%*	*4.0%*
Syndication revenue	**89,577**	**75,552**	**64,412**	**62,290**	**14,880**	**11,361**	**17,326**	**14,571**	**58,138**	**68,718**	**82,379**	**94,984**	**103,252**	**111,475**	**119,917**	**127,592**	**134,694**	**140,755**
% growth		*(15.7%)*	*(14.7%)*	*(3.3%)*	*8.0%*	*(23.5%)*	*8.3%*	*(17.5%)*	*(6.7%)*	*18.2%*	*19.9%*	*15.3%*	*8.7%*	*8.0%*	*7.6%*	*6.4%*	*5.6%*	*4.5%*
Net Revenue	**994,102**	**963,093**	**973,822**	**1,132,049**	**303,959**	**323,066**	**335,113**	**328,160**	**1,290,298**	**1,490,162**	**1,662,327**	**1,819,915**	**1,966,333**	**2,107,172**	**2,238,148**	**2,355,380**	**2,465,906**	**2,565,326**
% growth		*(3.1%)*	*1.1%*	*16.2%*	*16.5%*	*12.1%*	*15.2%*	*12.3%*	*14.0%*	*15.5%*	*11.6%*	*9.5%*	*8.0%*	*7.2%*	*6.2%*	*5.2%*	*4.7%*	*4.0%*
Non-Interest Expenses:																		
Wages & SBC	(341,499)	(337,790)	(331,004)	(354,189)	(102,010)	(100,199)	(99,528)	(98,448)	(400,185)	(447,049)	(495,136)	(538,175)	(577,259)	(614,090)	(647,464)	(676,331)	(702,783)	(731,118)
General & Administrative	(115,256)	(116,336)	(104,401)	(124,848)	(36,558)	(36,755)	(38,931)	(39,379)	(151,623)	(175,839)	(192,830)	(207,470)	(220,229)	(231,789)	(241,720)	(249,670)	(261,386)	(271,925)
Depreciation & Amortization	(42,252)	(42,491)	(50,537)	(59,799)	(16,297)	(16,704)	(17,832)	(16,743)	(67,576)	(75,998)	(86,441)	(94,636)	(104,216)	(111,680)	(120,860)	(127,191)	(135,625)	(141,093)
Amortization of Convertible	(13,185)	(6,259)	(3,580)	(3,831)	(999)	(1,016)	(1,033)	--	(3,048)		--	--	--	--	--	--	--	--
Amortization of Intangibles	(36,859)	(38,291)	(35,313)	(36,477)	(9,433)	(9,378)	(9,369)	(9,237)	(37,417)	(36,735)	(36,735)	(36,735)	(36,735)	(36,735)	(36,735)	(36,735)	(36,735)	(36,735)
Total Non-Interest Expenses	**(549,051)**	**(541,167)**	**(524,835)**	**(579,144)**	**(165,297)**	**(164,052)**	**(166,693)**	**(163,807)**	**(659,849)**	**(735,621)**	**(811,142)**	**(877,016)**	**(938,439)**	**(994,294)**	**(1,046,779)**	**(1,089,926)**	**(1,136,529)**	**(1,180,870)**
Income Before Taxes	**445,051**	**421,926**	**448,987**	**552,905**	**138,662**	**159,014**	**168,420**	**164,353**	**630,449**	**754,541**	**851,185**	**942,899**	**1,027,894**	**1,112,878**	**1,191,369**	**1,265,454**	**1,329,377**	**1,384,455**
Operating Margin	*44.8%*	*43.8%*	*46.1%*	*48.8%*	*45.6%*	*49.2%*	*50.3%*	*50.1%*	*48.9%*	*50.6%*	*51.2%*	*51.8%*	*52.3%*	*52.8%*	*53.2%*	*53.7%*	*53.9%*	*54.0%*
Income Tax	*(105,922)*	(100,418)	(106,859)	(131,591)	(33,002)	(37,845)	(40,084)	(39,116)	(150,047)	(179,581)	(202,582)	(224,410)	(244,639)	(264,865)	(283,546)	(301,178)	(316,392)	(329,500)
Net Income	**339,129**	**321,508**	**342,128**	**421,314**	**105,660**	**121,169**	**128,336**	**125,237**	**480,402**	**574,960**	**648,603**	**718,489**	**783,255**	**848,013**	**907,823**	**964,276**	**1,012,985**	**1,054,955**
% margin	*34.1%*	*33.4%*	*35.1%*	*37.2%*	*34.8%*	*37.5%*	*38.3%*	*38.2%*	*37.2%*	*38.6%*	*39.0%*	*39.5%*	*39.8%*	*40.2%*	*40.6%*	*40.9%*	*41.1%*	*41.1%*
% growth					*4.2%*	*5.4%*	*18.3%*	*56.5%*	*14.0%*	*19.7%*	*12.8%*	*10.8%*	*9.0%*	*8.3%*	*7.1%*	*6.2%*	*5.1%*	*4.1%*
Add: D&A	92,296	87,041	89,430	100,107	26,729	27,098	28,234	25,980	108,041	112,733	123,176	131,371	140,951	148,415	157,595	163,926	172,360	177,828
Less: Capital Expenditures	(15,114)	(72,906)	(85,949)	(65,610)	(18,660)	(24,616)	(27,250)	(24,612)	(95,138)	(110,272)	(119,688)	(127,394)	(133,711)	(139,073)	(143,242)	(146,034)	(147,954)	(153,920)
Operating Assets:																		
Finance receivables	11,986,974	9,561,622	7,436,275	8,069,386	8,611,256	9,278,405	9,561,738	9,810,343	9,810,343	11,360,809	12,902,571	14,132,979	15,363,116	16,586,649	17,842,843	18,984,785	20,041,540	20,943,410
Equipment under operating leases	2,101,376	2,157,227	2,297,182	2,806,841	3,012,215	3,159,966	3,290,669	3,376,226	3,376,226	3,909,819	4,440,416	4,863,860	5,287,211	5,708,290	6,140,609	6,533,608	6,897,290	7,207,668
A/R	219,676	226,952	204,873	215,817	221,156	227,655	243,526	233,346	233,346	264,068	295,175	325,312	354,486	381,888	406,696	428,112	447,591	465,674
Derivative financial instruments	41,396	53,629	26,302	131,943	98,777	123,694	111,866	109,545	109,545	126,513	141,130	154,509	166,940	178,897	190,016	199,969	209,353	217,793
Total Operating Assets	14,349,422	11,999,430	9,964,632	11,223,987	11,943,404	12,789,720	13,207,799	13,529,460	13,529,460	15,661,209	17,779,291	19,476,660	21,171,754	22,855,723	24,580,164	26,146,474	27,595,774	28,834,545
Operating Liabilities:																		
A/P	924,936	1,062,610	1,206,550	1,465,198	1,453,550	1,502,675	1,637,965	1,620,189	1,620,189	1,809,922	2,004,609	2,178,856	2,337,093	2,486,207	2,621,326	2,738,193	2,845,289	2,960,005
Derivative financial instruments	39,145	68,282	28,575	81,730	66,455	59,567	49,581	48,552	48,552	56,073	62,551	68,481	73,991	79,290	84,219	88,630	92,789	96,530
Total Operating Liabilities	964,081	1,130,892	1,235,125	1,546,928	1,520,005	1,562,242	1,687,546	1,668,742	1,668,742	1,865,995	2,067,160	2,247,337	2,411,083	2,565,497	2,705,544	2,826,823	2,938,078	3,056,535
Net Working Capital	13,385,341	10,868,538	8,729,507	9,677,059	10,423,399	11,227,478	11,520,253	11,860,719	11,860,719	13,795,213	15,712,131	17,229,323	18,760,670	20,290,226	21,874,620	23,319,651	24,657,696	25,778,010
Change in Net Working Capital	1,377,919	2,516,803	2,139,031	(947,552)	(746,340)	(804,079)	(292,775)	(340,466)	(1,843,194)	(1,934,495)	(1,916,918)	(1,517,192)	(1,531,348)	(1,529,555)	(1,584,394)	(1,445,031)	(1,338,045)	(1,120,314)
Borrowings	11,892,861	9,864,336	8,038,963	8,807,859	9,385,852	10,060,280	10,373,479	10,643,189	10,643,189	12,325,282	13,997,931	15,332,794	16,667,364	17,994,767	19,357,606	20,596,493	21,742,961	22,721,394
Net change in borrowings	(1,377,919)	(2,028,525)	(1,825,373)	768,896	577,993	674,428	313,199	269,710	1,835,330	1,682,092	1,672,649	1,334,863	1,334,570	1,327,404	1,362,839	1,238,887	1,146,468	978,433
Levered Free Cash Flow	**416,311**	**823,921**	**659,267**	**277,155**	**(54,618)**	**(6,000)**	**149,744**	**55,850**	**485,441**	**325,019**	**407,823**	**540,137**	**593,717**	**655,203**	**700,622**	**776,023**	**845,814**	**936,983**
% growth										*(33.0%)*	*25.5%*	*32.4%*	*9.9%*	*10.4%*	*6.9%*	*10.8%*	*9.0%*	*10.8%*
Discount Period								0.25		1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25
Discount Factor								0.98		0.89	0.81	0.74	0.68	0.62	0.56	0.52	0.47	0.43
PV of Levered Free Cash Flow								**54,586**		**289,886**	**331,928**	**401,172**	**402,402**	**405,239**	**395,433**	**399,685**	**397,532**	**401,868**

Source(s): S&P Capital IQ

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