2022 Q4 REPORT

Trends

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Executive Summary

The ongoing war in the Ukraine has negatively impacted energy markets in a significant way for the unforeseeable future. Such a scenario coupled with all-time high inflation rates will continue to contribute to volatile prices and make evaluations around trends such as fuel, acquisition, and supply chain even more critical to keep fleets running profitably.

Keeping up with evolving market developments and being agile will position your business to manage fleet costs amidst uncertainty.

Macroeconomic trends covered in this report:

Sustainability: New investment in charging infrastructure is a positive step towards driving fleet electrification. Take advantage of this tailwind to start planning your EV transition.

Acquisition: Many manufacturers paused or reduced vehicle production due to the microchip shortage. The average vehicle delivery time is 150 days. To accelerate the ordering process, consider ordering standard vehicle options.

Fuel: After a short relief at the pump during summer, fuel prices are rising again. Plan for a budget increase and use tools to monitor fuel spend, such as telematics and fuel fraud programs.

Safety: New data from the Insurance Institute for Highway Safety demonstrates significant reduction in crash rates. As winter approaches, review safety policies while adopting crash avoidance technologies to increase driver safety.

Report Contents

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Sustainability

New federal investments in charging networks will contribute to advancing vehicle electrification. Partnering with Element Fleet Management will enable you to develop the best-in-class charging solution to electrify your fleet and manage costs.

Sustainability

Key trends

In September 2022, the first 35 states to have received approval to start their Electric Vehicle (EV) Infrastructure Deployment Plans were announced by the U.S. Department of Transportation. These states can now unlock more than $900 million in National Electric Vehicle Infrastructure (NEVI) formula funding for fiscal year 2022-2023 to help build EV chargers across approximately 53,000 miles of highway across the country[1]. This significant milestone to electrification will reduce range anxiety by making charging stations as accessible as gas stations. The target is to install a national network of 500,000 public chargers in the U.S. within the next five years.

In Canada, governments have committed more than $1.4 billion to build out charging infrastructure to date. Moreover, new funding for EV charging options for drivers along Trans-Canada Highway was announced during the country's annual EV Week this summer. Through the Natural Resources Canada's Zero-Emission Vehicle Infrastructure Program (ZEVIP) more than 34,500 new charging stations are expected to be installed from coast to coast by 2027[2].

In Mexico, while advancements in charging infrastructure have yet to progress, out of the estimated 2,000 public charging points installed throughout the country, almost all of them are free[3]. Additionally, despite still being 3% of Total Car Sales in 2022, EV sales have increased by over 120% compared to 2021.

1. https://highways.dot.gov/newsroom/biden-harris-administration-announces-approval-first-35-state-plans-build-out-ev-charging
2. https://www.electrive.com/2022/08/10/canada-releases-more-ev-infrastructure-funding-zevip/
3. https://mexicobusiness.news/mobility/news/ev-advances-mexico

Sustainability

Recommended actions

1. Rising fuel prices have pushed certain ICE vehicles to reach parity with EVs. Leverage TCO insights to project cost estimates such as fuel/electricity over the life of an ICE vehicle vs EV.
2. Leverage Greenhouse Gas Emissions data to inform your sustainability goals.
3. Engage internal stakeholders early to understand the level of support needed across the organization.
4. Ensure infrastructure planning is part of your plan when it comes to assessing different charging options needed.
5. Given different vehicle availability circumstances in Mexico, consider hybrid vehicles as part of your EV strategy plan.

CASE STUDY

An IT company and its commitment to electrification

SITUATION:

Client has a target set to convert their global fleet of 4K+ vehicles to EVs by 2030. The technology company was looking to begin the transition process with a pilot-first approach.

SOLUTION:

Client partnered with Element to take advantage of depth of expertise and scale the implementation of their EV pilot program

This included vehicle/driver selection, charging solutions, vehicle ordering, reimbursement strategy, driver communication and change management

RESULT:

Successful pilot launch with 26 vehicles deployed, home charging installations completed and overall satisfaction with Pilot Program of 91% of participants.

Scope 1 tailpipe emissions reduced to zero per unit and 84 metric tonnes reduction in CO_2 emissions

CASE STUDY

Grupo Modelo's commitment to electric vehicles

SITUATION:

The Mexican brewing company Grupo Modelo was looking for a strategic partner to help with EV implementation across their fleet.

Target is set to have EVs for at least 15% of its fleet by 2025 and to switch 500 units by 2040. In the first year, the company estimates saving 200 tons of CO2 gr of carbon dioxide.

SOLUTION:

The company partnered with Element and started discussing electric vehicles about 3 years ago

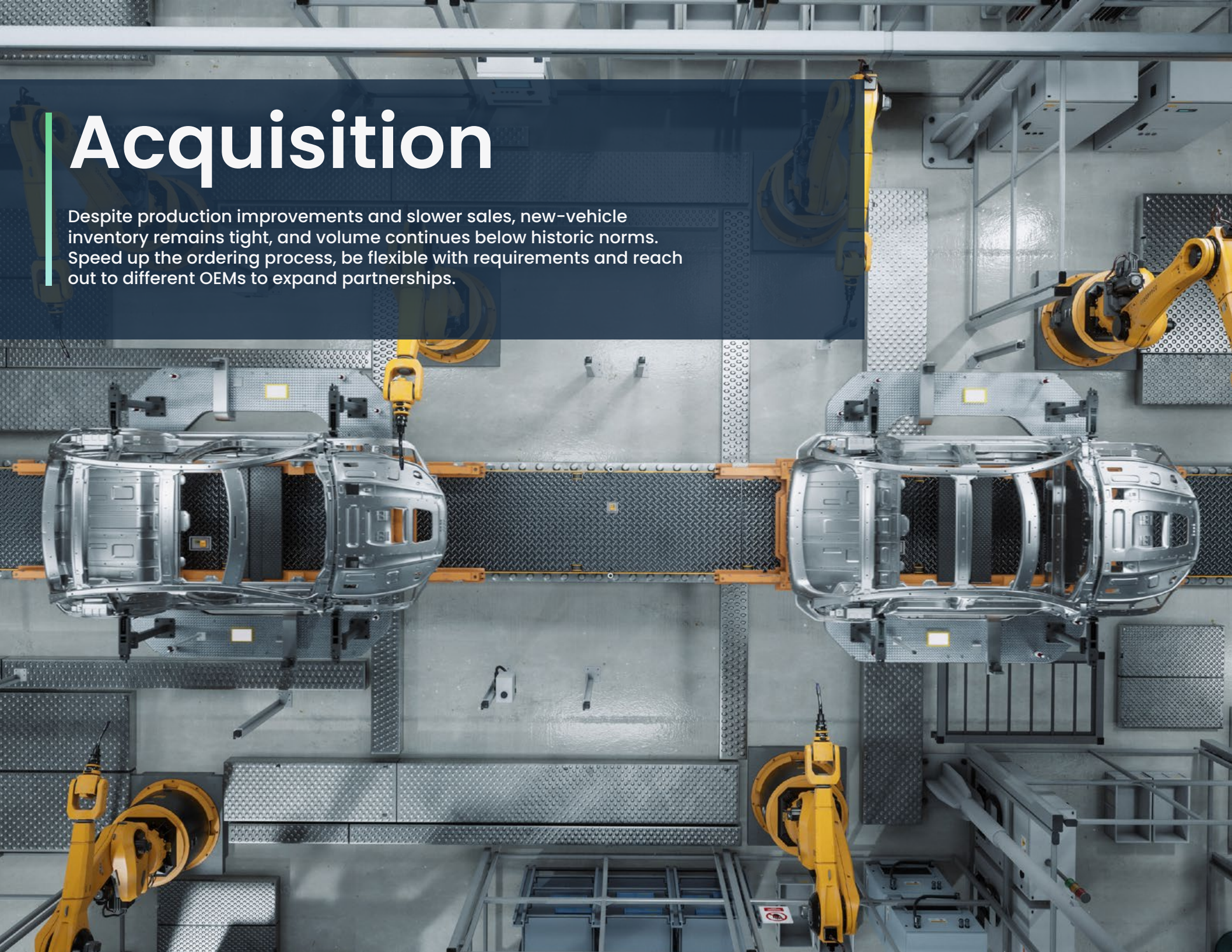
In the end of 2021, the company introduced 20 units of heavy trucks into its operation. It is the first electric heavy truck fleet in Mexico

RESULT:

Following an initial delivery of 20 BYD 21-tonne trucks in 2021, the company is planning to have 35 more units by year-end 2022, an additional 30-35 e-trucks by the beginning of 2023, and further expansion is also planned.

Acquisition

Despite production improvements and slower sales, new-vehicle inventory remains tight, and volume continues below historic norms. Speed up the ordering process, be flexible with requirements and reach out to different OEMs to expand partnerships.



Acquisition

Key trends

While there have been improvements on the new-vehicle inventory, gains differ when looking at domestic brands vs Asian Original Equipment Manufacturers (OEMs). The impact of semiconductor shortages recently hit Toyota hard: the planned global production volume is expected to fall short by 100,000 units in October. The initial goal was to produce approximately 900,000 units[4].

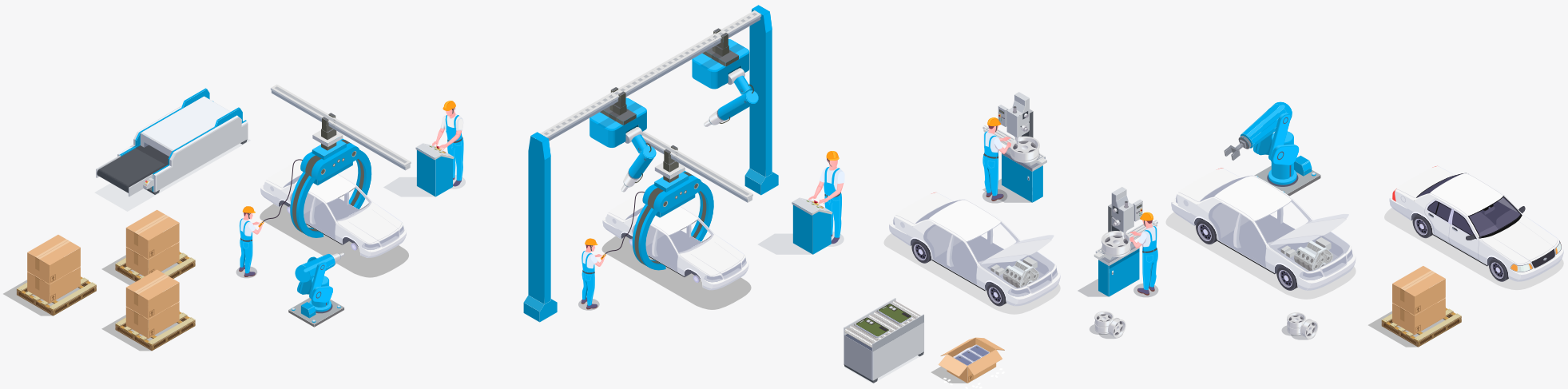
On the other hand, the new-vehicle inventory level index did improve since last quarter and is up in comparison to the same period last year. According to Cox Automotive, it is moving in the right direction, but still far from where it was before the pandemic. For comparison, before COVID-19, the index was 61 but now it is at the 31 mark. This indicates that back in 2019 more dealers felt their inventory was growing, not declining[5].

4. https://www.thedetroitbureau.com/2022/09/toyota-latest-to-take-the-hit-on-semiconductors/
5. https://www.coxautoinc.com/news/q3-2022-cadsi/

Acquisition

Recommended actions

1. Plan for longer replacement cycles as order-to-delivery times are averaging +150 days.
2. Review vehicle usage per different employee's functions.
3. Speed up the ordering process by submitting a batch order with standard options.
4. Ensure your drivers' safety policies and training are up to date to avoid accidents and unnecessary repairs while new vehicle inventories are low.
5. Take a holistic approach in regards to vehicle renewal and new acquisition plans
6. Consider a budget increase for each fleet group at least 10-15% to maintain vehicle level, trim and specs for your fleet.



Fuel

Fuel prices continue to trend upwards due to uncertainty in the global oil market and reduced oil production. Review fuel budget with your finance team and plan for a buffer, as the situation is volatile due to geopolitical factors.

Fuel

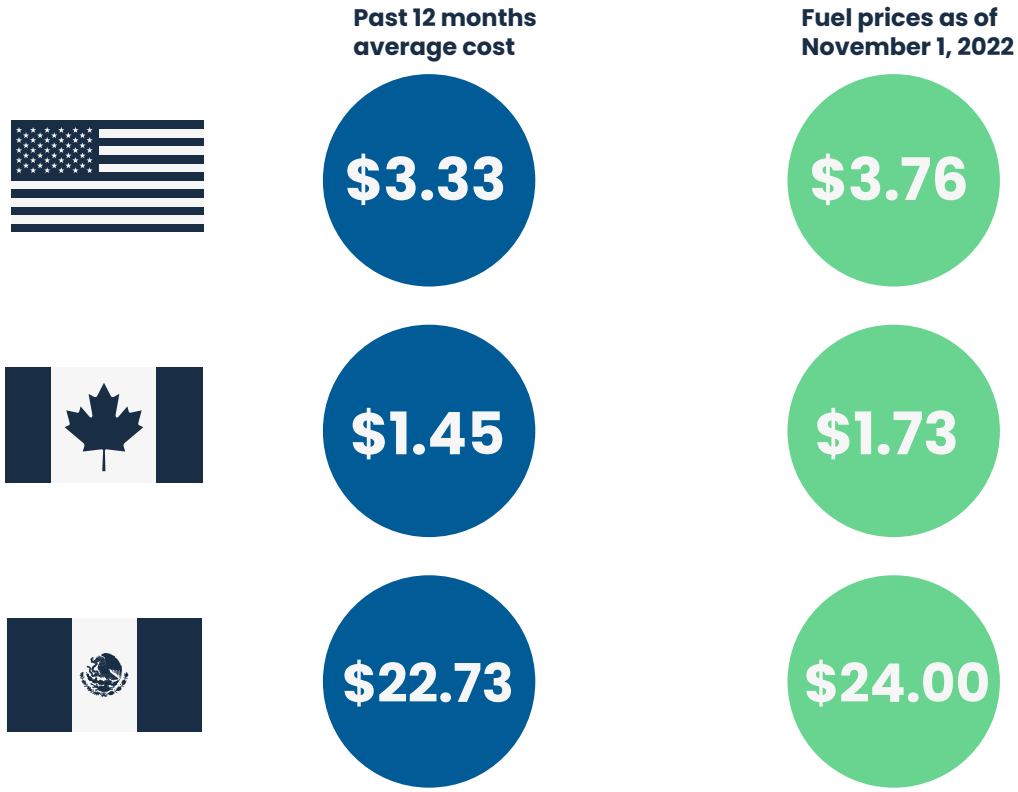
Key trends

Global oil supply disruptions and lower inventories continue to impact rising fuel costs. The price at the gas pumps is expected to increase as OPEC Plus cuts oil production due to uncertain economic and oil market outlook worldwide[6].

Refinery issues such as outages and fires have caused fuel prices to rise in parts of the United States[7] and Canada. US state California has particularly been hit by higher fuel prices due to refinery issues, which has driven up fuel prices in other states such as Oregon and Arizona, as well as the Canadian province Alberta. Refinery shutdowns in Washington state have also impacted fuel price increases in Canadian provinces British Columbia and Vancouver[8].

Over the last year, fuel prices have increased by approximately 16% in the U.S. and Canada, and 9% in Mexico.

Fuel prices and the average cost for the past 12 months:



Source:
U.S. https://gasprices.aaa.com/
Canada https://www.caa.ca/gas-prices/
Mexico https://www.globalpetrolprices.com/Mexico/gasoline_prices/

6. Why are gas prices going up? OPEC cuts production by 2 million barrels (usatoday.com)
7. California refinery outages push Oregon gas prices back toward record highs, AAA says - KTVZ
8. Oil prices have fallen — so why is the price of gasoline skyrocketing across Canada? | CBC News

Fuel

Recommended actions

1. Plan for fuel budget increases and set realistic expectations of projected fuel spend.
2. Incorporate telematics to monitor speeding, idling, and harsh acceleration to enhance fuel efficiency and encourage self-correcting by drivers.
3. Utilize a fuel management program to prevent fuel fleet fraud by identifying drivers with fraudulent or non-compliant fuel practices.
4. Coach drivers to leverage fleet management applications to help drivers identify lower-priced fuel and lowest cost gas stations.
5. Ensure that vehicles aren't overloaded and that you are using the most fuel-efficient vehicles for each job, as this will help you to save on fuel costs.

Safety

Review vehicle selectors according to new advanced safety features including crash avoidance technologies to reduce crash rates. Seasonal safety should also be taken into consideration as part of a comprehensive safety program.

Safety

Key trends

Due to the adoption of advanced safety features such crash avoidance technologies, there has been a reduction in crash rates. As you consider seasonal safety, also consider how your fleets can benefit from adding safety features to reduce accidents.

According to a 2022 study from the Insurance Institute for Highway Safety (IIHS)[9]:

Automatic emergency braking resulted in

50%

reduced front-to-rear crashes

Automatic emergency braking resulted in

41%

reduced large truck front-to-rear crashes

Rear automatic braking resulted in

78%

reduction in backing crashes

(when combined with rearview camera and parking sensors)

Blind spot detection led to

23%

reduction in lane-change crashes with injuries

Lane departure warning decreased injuries by

21%

in single-vehicle, sideswipe, and head-on crashes

9. https://www.iihs.org/media/290e24fd-a8ab-4f07-9d92-737b909a4b5e/4GauQQ/Topics/ADVANCED%20DRIVER%20ASSISTANCE/IIHS-HLDI-CA-benefits.pdf

Safety

Recommended actions

1. Couple safety policies with the adoption of crash avoidance technologies, particularly as inclement weather becomes more severe.

2. Revisit driver training and education during the fall and winter months to prevent accidents and to help drivers navigate dangerous road conditions.

3. Consider stocking up on snow tires early in case of supply chain disruptions.

4. Monitor driver behavior through telematics, Motor Vehicle Record (MVR) checks, and a DUI (driving under the influence) policy to keep fleet costs in check, especially with the holidays around the corner.

Element's Strategic Consulting

Element's strategic consulting team brings deep expertise to **help you realize greater productivity and reduced total cost of ownership.** Leveraging the most robust benchmarking database in the industry with over 1 million vehicles under management, the team uses advanced analytics to mine data for actionable insights. In 2021, **the team identified over $1.5B in cost savings for clients** across U.S and Canada and over $101M in Mexico.

Find out more about Element's strategic consulting services here or get in touch with us!

Steve Jastrow

Vice President, Strategic Consulting & Analytics

Steve is a client-focused executive leader with over 25 years of experience leading high performing finance, commercial consulting, data and analytics organizations within the General Electric Corporation and Element Fleet Management. At Element, he leads a team of over 40 experts with on average 13 years of industry experience. The team is focused on supporting clients' fleet goals including fleet cost savings, operational efficiencies and sustainability through financial modelling and advanced analytics.

Javier Cabrera

Strategic Consulting Mexico Leader

Javier leads the Strategic Consulting team in Mexico and has more than 13 years of experience in management consulting, strategic sourcing and automotive. He has worked in several strategy and operations projects in over 8 industries. He leads the team in Mexico to address the needs of over 120 strategic clients by building financial models, developing improvement analysis and ad-hoc optimization projects for cost savings. Javier holds a Masters in Business Administration from the UVM Mexico City.

Acknowledgements

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About Element Fleet Management Corp.

Element Fleet Management (TSX: EFN) is the largest pure-play automotive fleet manager in the world, providing a 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's suite of services span the total fleet lifecycle, from acquisition and financing to program management and remarketing – helping clients optimize performance and improve productivity.

Learn more about Element's strategic consulting services here or get in touch with us!
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