2022 Q3 REPORT

Trends

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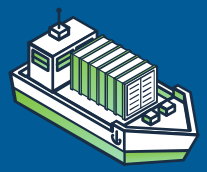
Executive Summary

Uncertainty continues in the global economy coming out of the pandemic. Many companies face tighter financial conditions due to higher-than-expected inflation worldwide – especially in the U.S. and major European economies. Supply and demand imbalances, supply chain disruption and high gas prices continue to impact all major areas of fleet spend including vehicle depreciation, fuel, and maintenance.

Whether you are focused on delivering your 2022 fleet objectives, starting to prepare your 2023 budget or a combination of the two, you have come to the right place. This report covers the latest macroeconomic trends and provides recommendations to help you keep your fleet in check. Highlights for this quarter include:

Sales of Electric Vehicles (EV) in the U.S. have reached a tipping point, which indicates mass adoption is underway. A pilot-first approach can inform longer-term decisions and enable a proper electrification scale.



As supply chain constraints pose a continued challenge to the industries, planning for longer cycle replacements and placing orders as soon as banks open will continue to be critical to minimizing disruptions.

Since vehicles continue to be held for longer periods of time, it is vital to budget for higher maintenance costs and consider a new baseline for determining year-over-year spend.

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Sustainability

EV growth, battery innovations and Original Equipment Manufacturer (OEM) investments in the EV space continue to promote adoption. Establish your fleet sustainability strategy and consider deploying a pilot-first approach.

Sustainability

Key trends

Global EV adoption is on the rise. The U.S. has passed the 5% tipping point observed in other countries signaling the start of mass EV adoption. In fact, Bloomberg estimates that if this trend continues, similar to the 18 countries that have made the EV pivot, 25% of new global car sales could be electric by 2025.[1] Meanwhile, Canada is expected to reach the 5% tipping point this year and Mexico will see EV sales rise by 2% to 4% by 2025.[2]

Battery innovations help to reduce emissions further and increase EV range. A new report from the advocacy group Transport & Environment (T&E) claims that solid-state batteries could reduce the carbon footprint of producing EVs by 39%, by reducing the amount of graphite and cobalt. Automakers like Nissan are working to produce solid-state batteries by 2028 for certain electric pickups and SUVs.

Factors Driving Electrification

- **EV Investment**
- **EV Adoption**
- **High Gas Prices**
- **Battery Innovation**

In order to keep up with demand, OEMs have been making significant **investments in EV production**. These investments now account for $526 billion through 2026.[3] Last year's U.S. executive order set a target for vehicle sales to make 50% by 2030, including EVs and plug-in hybrids.[4] Carmakers, the mineral industry, and emission regulating entities are now working to solidify a supply chain centered in the North American market to support EV demand.

Another trend driving the electrification movement is the **high cost of gas**. Some electric vehicles have now achieved cost parity with internal combustion engine (ICE) vehicles due to increasing prices at the pump.

1. https://www.bloomberg.com/news/articles/2022-07-09/us-electric-car-sales-reach-key-milestone
2. https://about.bnef.com/blog/electric-vehicles-start-gaining-traction-in-latin-america/
3. https://www.bloomberg.com/news/articles/2022-07-08/carmakers-start-to-starve-combustion-models-out-of-existence#xj4y7vzkg
4. https://www.whitehouse.gov/briefing-room/presidential-actions/2021/08/05/executive-order-on-strengthening-american-leadership-in-clean-cars-and-trucks/

Fuel Prices

Here's the latest fuel prices and the average cost for the past 12 months:

	Past 12 months average cost	Fuel prices as of September 8, 2022
	$3.52	$3.75
	$1.35	$1.52
	$20.75	$21.65

Source: https://gasprices.aaa.com/
https://www.caa.ca/gas-prices/
https://gasolinamexico.com.mx/

Inflation Reduction Act

The legislation signed into law on August 16, 2022, provides a federal income tax credit - 45W credit - opportunity on commercial purchases of EVs acquired after December 31, 2022.

For EVs, the 45W credit is the lesser of:

1. 30% of the cost of the EV or

2. The incremental cost of the EV over a comparable non-EV. The 45W credit is capped at $7,500 for vehicles that weigh less than 14,000 pounds (lbs) and up to $40,000 for vehicles that have a gross vehicle weight of at least 14,000 lbs.

Element Fleet Management will continue to review the legislation and work with the Internal Revenue Service (IRS) and outside counsel to ensure that we understand the requirements and can take advantage of the opportunities provided by the credits.

Sustainability

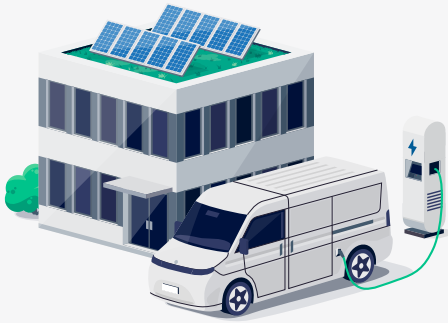
Recommended actions

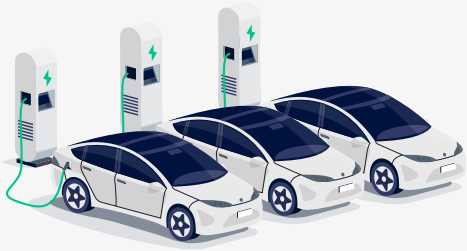
1. Ground yourself on your current fleet composition and fleet sustainability goals. Consider EV availability and choose reliable OEM partners for your needs.

2. Find the best charging solution for your fleet and operating needs (e.g., home vs. depot charging and Direct Current Fast Chargers vs. level 2 chargers) and secure the additional budget needed for this infrastructure.

3. Train your drivers appropriately to get the most from their EV. EVs are more technologically advanced. They require new driver habits and operational considerations such as EV charging times for route planning and productivity.

4. Get started early with an EV pilot to obtain critical learnings for your fleet transition. Consider our Arc by Element™ end-to-end solutions including EV pilot design to charging solution planning, financing and more.





Global Supply Chain

OEM production volumes are gradually improving, despite supply chain issues persisting as China lockdowns continue to impact production. OEMs are making incremental changes for model year (MY) 2023 to reduce their reliance on parts and components that are most at-risk due to supply chain disruption.

Global Supply Chain

Key trends

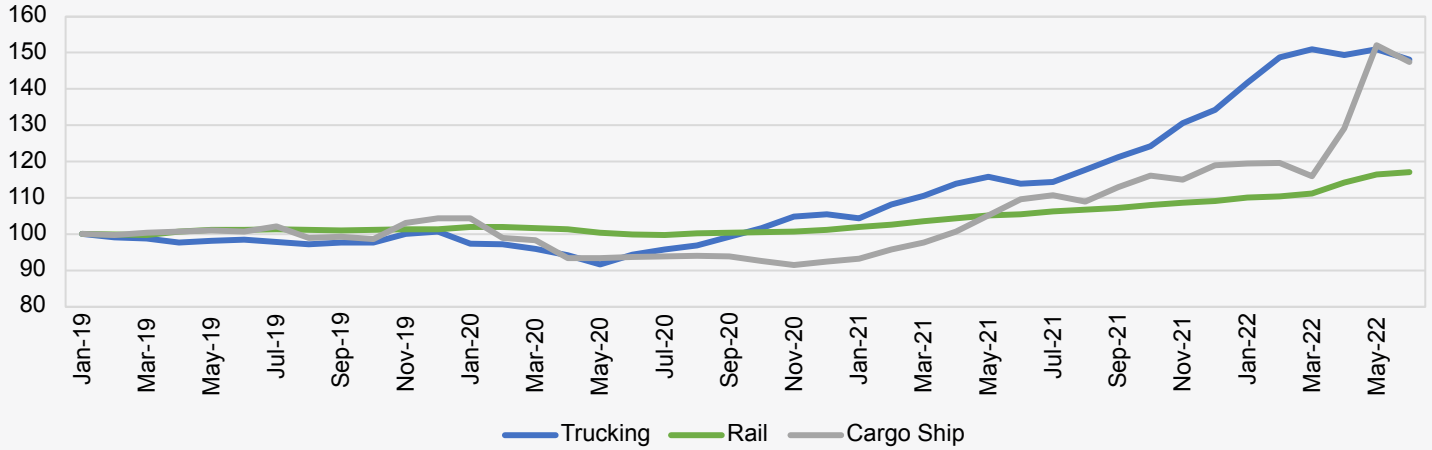
The microchip shortage is moving towards resolution as anticipated. However, other supply chain constraints such as difficulty moving units between plants, upfitters, and dealers, and volatile commodity prices due to the war in Ukraine, will continue to affect vehicle availability and lengthen Order-To-Delivery cycle time.

Transportation Challenges Leading to Higher Vehicle Prices and Longer Delivery Times

The supply chain challenge also encompasses a domestic transportation issue rather than a foreign manufacturing and shipping problem. Since 2019, freight rates have increased about 50%, driven by a shift from services to goods consumption: COVID has led to record demand on goods transportation. On top of that, there has been an industry shortage of truck drivers, aggravating the vehicle delivery process even further.

Since 2020, freight costs from Asia have increased by approximately 500%[5] for a regular container, from US$2,500 up to US$15,000. While freight rates in Mexico have increased about 25% since 2020 and transportation delivery time have increased from 45 days up to 100 days, impacting just-in-time production lines.

Freight Rates Have Increased up to 50%



Source: https://fred.stlouisfed.org/series/PCU484121484121

5. https://mexicodailypost.com/2021/11/23/575-increase-in-the-price-of-ship-freight-from-china-to-mexico/

Global Supply Chain

Recommended actions

Order-To-Delivery cycle times far exceeds the 90 days pre-pandemic levels, therefore, consider implementing the strategies below to minimize disruption:

1. Plan to have one replacement cycle per year based on an 18-to-24-month forecast instead of 2 months, which was the recommended action based on a 12-month forecast before the pandemic.

2. Place orders as soon as the order banks open. Some banks are opening and closing on the same day, so we recommend being ready beforehand for agility when submitting your orders.

3. Revise the need for a vehicle for some functions of your business and be flexible.

4. Take advantage of a strong resale market. We recommend selling any spares or underutilized assets for a premium price.

5. Budget for higher costs: new vehicle pricing for MY 2023 over MY 2022 is expected to be similar to MY2022 over MY2021, above 8%. In Mexico, plan your budget for +10%.

Maintenance

Vehicles are being held for longer periods of time, resulting in more frequent and costly repairs. In the current scenario, a 10% increase in vehicle age would likely result in a 15% to 20% increase in maintenance spend.

Maintenance

Key trends

Inflation is likely the most significant factor impacting businesses everywhere, and fleet maintenance is no different. When we add labor shortages and parts delays on top of inflation, it is a perfect storm for higher maintenance costs.

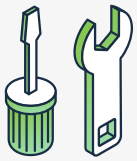
In pre-pandemic times, it was normal for fleets to have two replacement cycles per year based on a 12-month forecast. Consequently, since maintenance spend is a function of vehicle age and mileage, keeping up with preventative maintenance was less of a challenge than it is today.

With the current scenario of shorter vehicle availability windows, and units kept in service for longer than ever, it has become a common practice to have only one replacement cycle per year based on an 18-to-24-month forecast, which has directly increased the need for vehicle check-ups.

To put this in perspective, before the pandemic, **a 10% increase in vehicle age would roughly result in a 10% increase in maintenance spend**. However, in the current scenario, **a 10% increase in vehicle age can result in a 15% to 20% increase in vehicle maintenance.**

Overview of maintenance spend from 2020 to 2022

Maintenance – U.S.

	2020 to 2021:		2021 to 2022:
Oil Change	↑ 9%		↑ 8%
Tire Costs	↑ 9%		↑ 9%
Repair Costs	↑ 5%		↑ 11%

Overview of maintenance spend from 2020 to 2022

Maintenance - Canada

2020 to 2021:		2021 to 2022:
↑ 7%	Oil Change	↑ 8%
↑ 2%	Tire Costs	↑ 13%
↑ 8%	Repair Costs	↑ 9%

Overview of maintenance spend from 2020 to 2022

Maintenance - Mexico

2020 to 2021:		2021 to 2022:
↑ 2%	Oil Change	↑ 6%
↑ 14%	Tire Costs	↑ 16%
↑ 7%	Repair Costs	↑ 18%

Maintenance

Recommended actions

1. Leverage preventative maintenance to prevent unexpected repairs and longer vehicle downtime.
2. Connect with your finance team and review maintenance costs, as you budget for fleet maintenance spend in 2023.
3. Plan for a higher budget and determine an appropriate comparison baseline.
4. Schedule appointments in advance and keep up with preventative visits, as this increases the chance of a premium return in auctions when it comes time to sell the units.
5. Use a national account maintenance network to realize 8% to 15% cost savings. In Mexico, using these networks can lead to cost savings of 10% to 20% in maintenance services and up to 40% in tires.
6. Redistribute vehicles from high to low mileage drivers to extend vehicle useful life.

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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