2022 Q1 REPORT

Trends

by Element Fleet

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Executive Summary

The global economy continues to face disruption due to the pandemic. Supply chain shortages and rising energy prices have caused significant supply and demand imbalances. **This has contributed to an inflation rate of 7.5%,** the highest inflation rate in the U.S. since 1982.

Considering the changing market landscape, taking action to mitigate risks, control costs and align fleet strategy with corporate strategy is critical to **keeping your fleet operations running as efficiently as possible.**

Macroeconomic events impact each facet of the fleet journey:

Automotive supply chain constrains have lengthened order to delivery timelines significantly and both new and used vehicles prices are inflated.

Maintenance delays and rising costs are common in repair shops due to ongoing labor shortages, parts shortages, and rising raw material costs.

Geopolitical conflicts such as the war in Ukraine continue to cause volatility in oil prices affecting fuel costs. Similarly, commodity prices such as natural gas are increasing, and these often affect electricity costs.

Many fleets are looking for ways to reduce their environmental footprint. Fortunately, there are many tailwinds driving fleet electrification forward.

https://www.cnbc.com/2022/01/12/cpi-december-2021-.html

Report Contents

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Global Supply Chain

Vehicle production delays pose challenges for many fleets. Get ahead of model year 2023 planning. Communicate budget and timing expectations with your stakeholders.

Global Supply Chain

Key trends

Vehicle production delays continue due to global automotive supply chain constraints. This is reducing new and used vehicle inventory and keeping vehicle prices inflated. In fact, in the U.S. and Canada, the average vehicle listing price increased 18.6% above the start of 2021. Similarly, in Mexico, vehicle prices are on average 14% higher relative to last year. These trends are expected to continue in 2022.

We are closely monitoring the situation and mining our fleet portfolio for insights. Notably, the average vehicle capital cost is increasing quarter over quarter and our clients' fleets continue to age. In fact, the average vehicle age (months) is 20% higher compared to the same period last year due to delayed vehicle replacement.

18.6%

average increase in vehicle price

Recommended actions

2x

expected vehicle lead times

Some automotive Original Equipment Manufacturers (OEMs) are experiencing longer delays than others. **We recommend expanding OEM partners early in the year** and considering alternative vehicle models that meet your needs. In addition, consider re-distributing vehicles from high to low mileage drivers to optimize your fleet vehicle usage. Vehicle lead times are expected to double. Therefore, it is important to anticipate your fleet replacement needs and plan for the next 12-18 months. Partner with your account management team to guide you through the model year 2023 planning process.

We also recommend budgeting for higher costs in 2022 and communicating expectations with your key stakeholders (finance teams, senior leadership and drivers) to enable resources for your fleet renewal plans. Plan for delayed TRAC gains on sale (credits from sold vehicles) due to longer fleet replacement windows. Also, keep in mind that as vehicles age, maintenance repairs and vehicle downtime increase furthering budget planning needs.

https://www.coxautoinc.com/market-insights/new-vehicle-supply-exceeds-1-million-units-as-domestic-automakers-build-inventory/

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CLIENT SUCCESS STORY

Helping businesses thrive despite OEM production delays

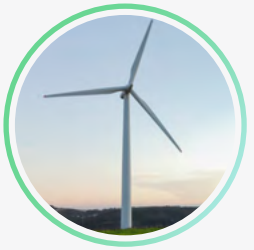
CHALLENGE:

No longer needed vehicles ordered that were already at upfitter and couldn't be canceled

CLIENT 1

9 Vehicles

CLIENT 2



Needed additional vehicles due to unexpected OEM cut-offs Solution

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Element's Strategic Consulting experts identified a solution, **transferring 9 vehicles from client 1 to 2**

RESULTS:

CLIENT 1

avoided over

$15k loss

per unit

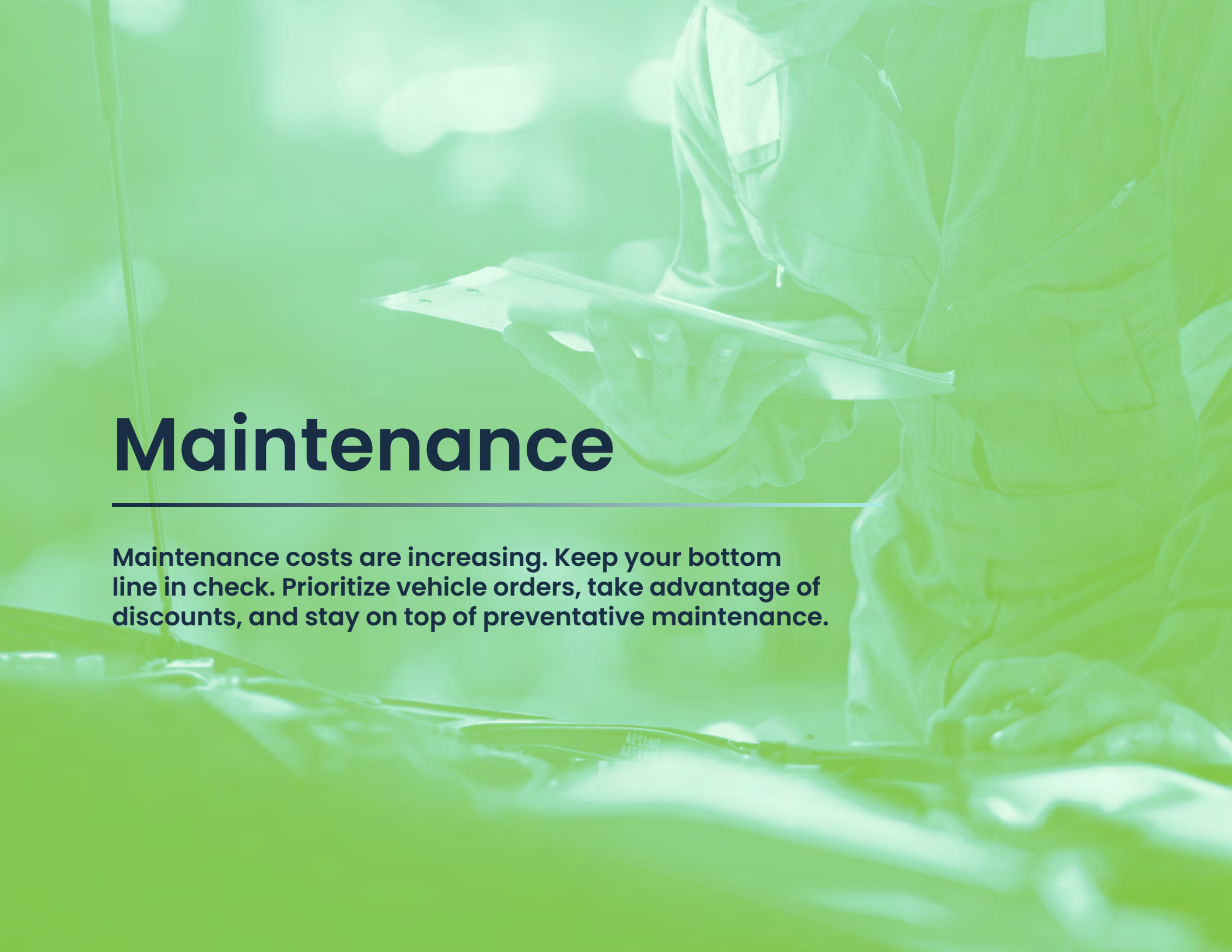
CLIENT 2

saved over

$7,000

per unit

in stock fees and downsized engine



Maintenance

Maintenance costs are increasing. Keep your bottom line in check. Prioritize vehicle orders, take advantage of discounts, and stay on top of preventative maintenance.

Maintenance

Key trends

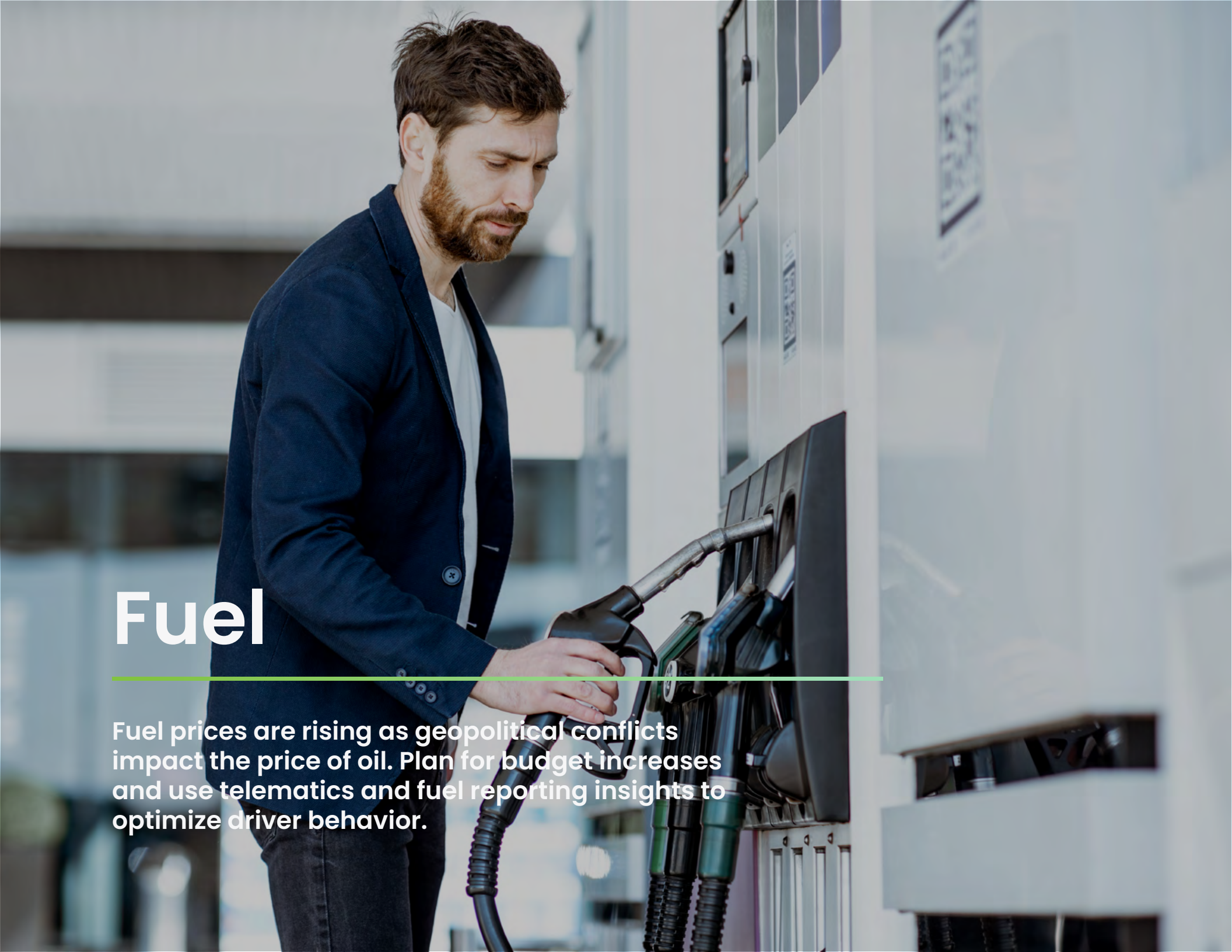
Fleet maintenance costs are high and still rising. Based on our portfolio maintenance data, last calendar year, **prices increased by 11% relative to the year prior.** This trend continues into 2022 and there are many contributing factors. Reasons include the shortage of vehicle replacement parts, higher cost of raw materials such as crude oil and rubber along with rising labor rates (especially in urban areas). Adding to this, longer vehicle replacement cycles due to the shortage of new vehicles contribute to more costly repairs. To that same effect, our maintenance portfolio data shows that **holding vehicles over 100K miles/160K kilometers can lead to 50% higher downtime hours per vehicle** compared to those below this mileage threshold.

Year	2019	2020	2021
Preventative Maintenance	$57	$59	$64
Repairs	$183	$194	$218
Total	$240	$253	$282
Total % Increase		**6%**	**11%**

*PM: Preventative Maintenance | Source: Element's proprietary maintenance data. Averages are based on per transaction costs for passenger vehicles.

Recommended actions

To offset rising maintenance costs, **we recommend prioritizing vehicle order placements and treating your replacement strategy as a continuous routine rather than a one-time event.** This is especially important today with the ongoing OEM production delays. We also recommend taking advantage of available fleet discounts. Being part of a structured maintenance program can help you realize the benefits of a nationwide maintenance network with negotiated pricing. **Element's national account maintenance network realizes 8-15% cost savings.** Additionally, using preventative maintenance as a first line of defense can help you minimize unexpected repairs. The longer-lasting synthetic oil used in vehicles today can lead to more time between oil changes. However, it's important to stay on top of tire rotations and critical inspections (such as brakes) for increased safety and productivity. Automated driver alerts and exception reporting can help keep preventative maintenance top of mind.



Fuel

Fuel prices are rising as geopolitical conflicts impact the price of oil. Plan for budget increases and use telematics and fuel reporting insights to optimize driver behavior.

Fuel

$4.30 per gallon
U.S. national average

$1.80 per liter
Canadian national average

20%
Increase in fuel price in Mexico

Key trends

Geopolitical conflicts such as the war in Ukraine continue to have an impact on the fleet industry. Unfortunately, increased fuel prices in recent months are further inflated due to constrained oil supply resulting from this conflict. This can pose significant, unplanned cost implications.

On February 8, the EIA forecasted U.S. gas to be $3.24 for 2022, the national average is exceeding $4.30 as of Mar 11 '22. In Canada, we forecasted fuel prices to be $1.39/L for 2022, the national average is exceeding $1.80/L as of Mar 11 '22. This trend is consistent in Mexico where fuel prices have increased by more than 20% since the lowest point in 2020 following global conflicts.

Recommended actions

- Review fuel expense budgets with your finance team, so that they are aware of the situational headwinds.
- Leverage telematics insights to encourage more eco-friendly driving behavior.
- Monitor speeding, harsh acceleration and idling which negatively affect vehicle fuel efficiency.
- Remain vigilant to potential fuel fraud by monitoring exceptions such as over the tank capacity and non-fuel purchases.
- Review your personal use charge policy to offset the increased cost of drivers using the company-provided vehicle.

Sustainability

There are many tailwinds for fleet electrification. We recommend a pilot-first approach to help you scale learnings and simplify your fleet's transition to EVs.

Sustainability

Key trends

There are many tailwinds driving electric vehicle (EV) adoption. In fact, BCG expects 47% of all light vehicles sold globally will be fully electric or hybrids in 2025. Governments continue to influence adoption through a mix of mandates and incentives across Europe, China, and North America. In addition, many organizations are making commitments to corporate sustainability such as reaching targets set out by the EV100 initiative, reducing overall fleet emissions, or converting 100% of their fleet to hybrid to electric. On the OEM side, **EV availability continues to increase in the near term as announced EV models are expected to jump from 300 in 2021 to over 1,000 in 2030.** Further driving this trend, the U.S. Environmental Protection Agency (EPA) will require automakers to improve vehicle efficiency by 5 to 10 % per year until 2026. Additionally, falling battery costs are expected to bring total cost of ownership (TCO) parity by 2024 to 2026 for many light-duty vehicle use-cases which could further improve EV adoption rates. Finally, **over 80% of EV charging is done in a private setting such as at home or in a workplace setting** which can help reduce dependance on public infrastructure.

47%

all light vehicles

fully electric by 2025

Recommended actions

Position your EV fleet strategy to take advantage of these major tailwinds. We recommend ensuring that you evaluate all possible government incentives to help you reduce the investment required to electrify your fleet. Additionally, leverage EV inclusive TCO tools to find early opportunities to electrify where TCO is comparable between internal combustion engine (ICE) vehicles and EVs. Review your organization's sustainability goals and engage stakeholders early on to ensure you are getting the internal support needed. Pilot available EVs today at a small scale so that you can put yourself at a readiness state to electrify quickly when TCO parity is reach for your relevant vehicle classes. In terms of EV charging, we recommend ensuring that home/depot/workplace charging is part of your infrastructure planning and deployment to mitigate the cost of large-scale public charging.

https://www.bcg.com/en-us/publications/2021/why-evs-need-to-accelerate-their-market-penetration
http://blogs.edf.org/climate411/files/2021/04/EDF_EV_Market_Report_April_2021_Update.pdf
https://www.forbes.com/wheels/news/new-fuel-efficiency-standards-epa/
https://about.bnef.com/blog/battery-pack-prices-fall-to-an-average-of-132-kwh-but-rising-commodity-prices-start-to-bite/

Looking to navigate complex changes that come with fleet electrification? This quarter, we launched Arc by Element™, an end-to-end electric vehicle offering to support the EVs in your fleet from planning, acquisition, financing to charging infrastructure, maintenance, and remarketing.

To learn more about our EV offering visit: www.elementfleet.com/arc

"At Element, we specialize in making the complex simple for our clients in everything we do. With the transition to EVs, this means helping clients navigate considerations such as charging infrastructure, total cost of ownership trends and managing mixed ICE/EV fleets over the gradual electrification of their fleets."

Avninder Buttar
Vice President, EV Strategy at Element

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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