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## ASX Release

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

## TRADING UPDATE MERGER UPDATE COMPANY TRANSFORMATION AND COST REDUCTION PLAN

### Trading Update

Eclipx Group Limited (ASX:ECX) (**Eclipx**) provides this update following a review of trading for the first five months of FY19.

### Trading performance

Eclipx Group's financial performance has softened since the update provided by Eclipx on 29 January 2019. The reasons for the softening performance include the following:

- Grays Industrial and Insolvency has continued to underperform, and has outweighed the continuing growth in motor vehicle auctions;
- Right2Drive's results for the last 2 months have been impacted by factors including:
  - softer trading conditions than anticipated at the time of our January 29 guidance;
  - a re-assessment of recovery rates on some debtor groups including its non-insurer based (individual) exposures, which has resulted in the need for a higher level of provisioning; and

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- the impact of process errors identified following queries arising from due diligence;
- Reduced end-of-lease earnings and lower new business writings in Fleet, as customers extend lease terms;
- Consumer (excluding Novated) has been impacted by lower than expected new car sales and trade-ins arising from market softness; and
- Increased Fleet receivable provisioning of \$0.4m taken in February under the new AASB 9 standard, although the company is confident that this amount will be recovered.

The factors noted above have resulted in a decline, particularly in February, in Eclipx Group NPATA which is now down 42.4% compared with the first 5 months of FY18.

As a result of these issues, we no longer expect to achieve reported NPATA consistent with FY18 (as advised on 29 January 2019), and in this uncertain environment we will not be providing full year guidance for the Group at this time. The Eclipx Board will consider the interim dividend at the appropriate time in the light of these circumstances, and will also test carrying values of goodwill at the half year.

### **There are some positives**

We can take some positives out of our trading performance for the 5 months to 28 February 2019. We expect the full year FY19 result for our core Fleet and Novated businesses to be broadly in line with FY18. These businesses, along with Commercial, generated \$61.2m NPATA (Fleet, Commercial and Novated) in FY18 (see Appendix for details).

As at 28 February 2019, total group Assets Under Management or Financed (**AUMOF**) is at \$2.46bn, up +5.85% on the position at end February 2018.

As discussed at the AGM, initiatives underway or recently completed to improve 2H19 performance include:

- Removal of \$2.3m of FY19 YTD pre-tax losses by restructuring our non-Novated Consumer businesses
- Reducing credit risk and enhancing cash management by decreasing non-insurer (individual) accident replacement hires within Right2Drive and substituting direct hires from corporates and car rental aggregators
- Changes in Grays in late February expected to generate a net cost reduction of \$2.6m in 2H19
- Integration of our NZ Fleet and SME businesses to deliver cost reductions and sales efficiencies

## The introduction of new accounting standards AASB 9 and AASB 15

The Group continues to work on the process for introduction of AASB9 and AASB15. Eclipx is also in the course of considering the impact of the process errors which it has identified on past financial years, and will advise further when in a position to do so, although it currently expects the amounts involved to be within materiality tolerances.

We foreshadowed on pages 75 and 76 of our 2018 annual report that the Group will need to record a transitional adjustment to retained earnings of \$30.5m after tax (in aggregate) as a result of the changes in accounting standards. We now expect that the accounting standard adjustment to retained earnings will substantially increase. We are undertaking significant work to assist us in finalising the calculation. Further information will be provided with the release of 1H FY19 results.

### The future

Eclipx has reviewed its operations and intends to simplify its core businesses, focusing on:

- Fleet & Commercial equipment – Australia and New Zealand
- Novated leasing
- New car buying and trade-in services

Eclipx has also identified two businesses units that may be non-core and they are currently under review:

- Grays
- Right2Drive

We are considering whether we can maintain the benefits they provide without full ownership.

The intentions outlined above are subject to compliance with the Scheme Implementation Agreement with McMillan Shakespeare Limited (**MMS**) dated 8 November 2018 (**SIA**), while it remains on foot (refer to the Merger Update below).

#### *Fleet and Commercial*

The core Fleet AU and NZ Commercial businesses generated \$51.2m or 66% of Eclipx's FY18 NPATA. Fleet continues to perform solidly. However, heightened business uncertainty and softer trading conditions in Australia and New Zealand are reflected in a number of Fleet customers extending existing lease terms. This has had the flow on effect of deferring a number of returned end-of-lease vehicles and, as a result, end-of-lease profit this year is

expected to be lower than previously expected. An additional impact is lower new business writings. Notwithstanding this, as stated above, we expect the full year FY19 result for our core Fleet and Novated businesses to be broadly in line with FY18.

Group Vehicles Under Management or Financed (**VUMOF**) is up +5.6% compared to the corresponding period in FY18.

In Commercial, as foreshadowed in the 29 January announcement, provisioning has been required in relation to equipment finance exposures, some of which have become non-performing. The equipment finance exposure, which is to Viewble, has resulted in a provision expense of \$1.6m pre-tax for the 5 months to 28 February 2019. As noted in that announcement, our total exposure is \$5.5m and further provisioning may be required.

#### *Consumer*

Eclipx's Novated businesses generated \$9.9m or 12.7% of Eclipx's FY18 NPATA. These businesses have continued to grow into FY19 with 11% growth in New Business Writings in the 5 months to February.

Australian new vehicle sales for the five months to 28 February 2019 declined 9% when compared to the first five months of FY18. This has resulted in lower than expected new car sales and trade-in activity for the Eclipx Consumer segment. Eclipx's non-novated consumer businesses generated a negative contribution of \$1.9m to Eclipx's FY18 NPATA.

#### *GraysOnline*

Activity in the Insolvency and Industrial auction divisions remains depressed at a cyclical low point. Additionally, investments have been made to scale Grays' Auto division to meet increasing demand from the market and ECX end of lease vehicles. Grays remains well positioned to capitalise on any future improvements in external conditions with its market leading position in the Australian Industrial and Insolvency auction sector. GraysOnline was recently named the 6th most popular Australian online retailer as ranked by ecommerce resource site Power Retail.

#### *Right2Drive*

In addition to some softness in revenue as we transition to a new operating model, the adoption in FY19 of AASB9 is negatively impacting R2D's NOI. The application of AASB 9 requires us to apply higher discount rates on Right2Drive revenue derived from non-investment

grade customers, principally those where counterparties do not have their own insurers. In order to reduce the impact of the higher discount rates, Eclix has commenced transitioning the business towards increased Leisure and Direct hires, which have better cashflows and superior recovery rates. It is also putting in place process improvements to ensure the integrity of data going forward, and moving Right2Drive's finance function to Eclix's head office.

### **Right2Drive and Grays Strategic Review**

Eclix has commenced a review of its ownership of both Right2Drive and Grays. It has recently become aware of interest in acquiring both the Right2Drive and Grays businesses and has sought and obtained a waiver from MMS of Eclix's exclusivity obligations under clauses 10.2, 10.3 and 10.4 of the SIA (No shop, No talk, Due diligence information) to permit it to explore a potential sale with an interested party (the waiver is limited to this, and is conditional on Eclix notifying MMS of material developments).

Eclix will engage with the interested party to identify whether a transaction can be concluded at a price, and on terms, which are advantageous to Eclix shareholders.

However, the approach received is conditional and non-binding and there is no certainty that a transaction will be agreed.

### **Merger Update**

Eclix has not been able to reach agreement with MMS on the terms of the Scheme Booklet. While the SIA is still on foot, and Eclix continues to comply with the SIA, Eclix considered that it may not be possible for the Scheme to become effective by the 30 April 2019 End Date specified in the SIA, and accordingly requested that MMS agree to an extension of the End Date by two weeks to 14 May 2019. MMS has indicated to Eclix that it believes that it is now in practice impossible to complete the remaining steps necessary for the Scheme to become effective by the 30 April 2019 End Date specified in the SIA but has rejected Eclix's request to extend the End Date.

On this basis, Eclix advises that the merger is unlikely to proceed.

### **Company transformation and cost reduction plan**

Eclix previously advised (on 29 January 2019) that it had commenced a cost reduction programme.

Subject to compliance with the SIA while it remains on foot<sup>1</sup>, this will be expanded to encompass a company transformation and business simplification programme overseen by an independently resourced and managed Transformation Office tasked with delivering a streamlined and more productive Eclipx operating model.

This plan is expected to result in an annualised cost reduction of ~\$20m (10%) over the course of the next 18 months. Key components include:

- Integrating Fleet and Novated, identifying non-core businesses and re-structuring of central support around the ongoing core fleet and novated businesses
  - Integrating Eclipx NZ commercial leasing into FleetPartners NZ
  - Integrating our three Novated leasing products into one platform
- Simplifying Head Office and shared services by:
  - consolidating and streamlining business unit support functions
  - achieving a reduced property footprint following the integration of FleetPlus and Fleet Partners in late 2018 and the integration of Eclipx NZ commercial leasing with FleetPartners NZ in March 2019 as well as relocation of the ECX Head Office to our facility in St. Leonards
- Continuing to explore productivity initiatives across the group
  - Back office process improvement
  - Improved data analytics and forecasting systems and capability

Eclipx will provide further detail following the End Date under the SIA.

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<sup>1</sup> The SIA is terminable following the 30 April 2019 End Date.

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## APPENDIX

| NPATA                                       | \$m          | %           |
|---|--------------|-------------|
|   | FY18         | FY18        |
| Fleet & Commercial                          | 51.2         | 66%         |
| Novated (Inc. FleetChoice)                  | 9.9          | 13%         |
| <b>ECX Fleet and Novated</b>                | <b>61.2</b>  | <b>78%</b>  |
| Car Buyers                                  | 0.0          | 0%          |
| CarLoans(ex. FleetChoice)                   | (1.9)        | -2%         |
| <b>New car buying and trade in services</b> | <b>(1.9)</b> | <b>-2%</b>  |
| Grays                                       | 10.4         | 13%         |
| Right2Drive                                 | 8.4          | 11%         |
| <b>Total</b>                                | <b>78.1</b>  | <b>100%</b> |

This announcement contains certain forward-looking statements including predictions of possible future events. Forward looking statements are predictions rather than statements of fact. They are inherently uncertain and are subject to known and unknown risks and uncertainties. There is no certainty that forward looking statements will be met, and actual outcomes may differ materially from outcomes expressed or implied by such statements. While they represent views of Eclix as at the date of this announcement, those risks and uncertainties include matters outside the control of Eclix which cannot be predicted. Neither Eclix nor its officers, employees or agents guarantees that outcomes will match what is expressed or implied in the forward looking statements.

**ENDS**

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### **About Eclipx**

About Eclipx: Eclipx is a leading provider of fleet, equipment leasing and management, vehicle rentals and online auction services to corporate, SME and consumers in Australia and corporate and SME customers in New Zealand. As at 30 September 2018, Eclipx managed or financed 117,060 vehicles with \$2.4 billion in assets under management. It operates in Australia and New Zealand under nine primary brand names, "FleetPartners", "FleetPlus", "CarLoans.com.au", "Georgie", "areyouselling.com.au", "FleetChoice", "AutoSelect", "Right2Drive" and "GraysOnline". GraysOnline was recently named the 6<sup>th</sup> most popular Australian online retailer as ranked by ecommerce resource site Power Retail.