October 2024

ZIGUP

# Investor Relations Update.

## Welcome to the first edition of a newsletter focused on recent events of relevance to investors and other external stakeholders.

It covers corporate & business news, industry awards, IR activities and interviews as well as selected FAQs from recent IR events and roadshows.

This newsletter is planned to be published 2-3 times a year - I hope you find it an interesting read.

*Ross Hawley, Head of IR*

### News

Covering recent RNS, industry awards and activity across the operating businesses.

### IR Activities

We have been busy with a Spanish CME visit, analyst modelling sessions and website upgrades.

### IR Calendar

**4 December**
Interim results
**9 January**
Panmure Liberum Conference
**18 March**
Berenberg UK Conference

### Spotlight interview

We talk to Tim Bailey, UK Fleet Director, about fleet supply and the ZEV mandate.

### Sustainability focus

Looking at our work on embedding circular economy principles.

### Investor FAQs

Covering our fleet reconciliation, growth & replacement capex and our leverage calculation.

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# News: Corporate

## We highlight notable corporate news over the past couple of months,together with business awards recognising our focus on providing excellent customer service.

### AGM:

The AGM was held on 24th September in London, where all resolutions were passed, each with over 96% votes cast in favour.  For detailed voting see RNS.

### AGM trading statement:

Our trading statement at the time of the AGM highlighted improving vehicle supply and an unchanged outlook for the full year. See here.

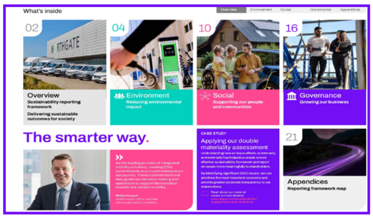
### Directorate change:

On 4th October we announced that Philip Vincent will leave in the New Year to take up another CFO role, as yet undisclosed.  We have commenced the search for his successor. See here.

### FY 2024 Sustainability Report:

We published our progress report in early September, setting out our revised ESG framework and core commitments. See here.






### Recent Industry Awards.

ZIGUP has won a number of notable awards over the past few months.

Northgate: Best Eco Initiative

FMGRS - Highly Commended: Apprentice Panel Tech of the Year

Northgate Spain: Sustainable Mobility

FMG - Highly Commended: Fleet Supplier of the Year

FMG - Highly Commended: Wellbeing

Northgate Spain: Best Rental Company

Northgate Spain: Excellence in Customer Service

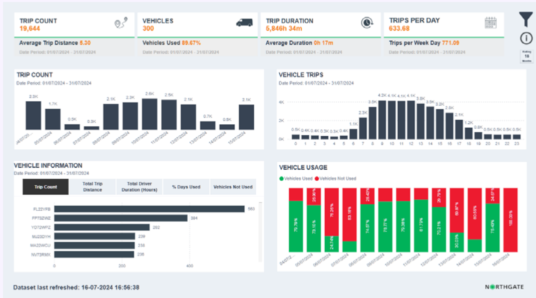
All of our industry recognition is listed on the ZIGUP website, see here.

# News: Business

## Across our strategic pillars of Enable, Deliver and Grow, our people have been busy supporting customers and developing new products and services. Here are examples of recent initiatives and actions.

### Fleet Management Portal.

A new fleet management portal is being trialled by selected customers, providing insight with transparent and reliable data through dashboards helping optimise day-to-day needs along with strategic insights.





### Fleet Mobility Live 2024.

One of the largest UK trade shows took place in Birmingham's NEC, and our operating brands were well represented with Northgate, ChargedEV and FMG all engaging with existing and new customers.

### Northgate UK Conference.

The start of October saw Northgate's first One Team Conference & Customer First Awards dinner, with key suppliers and 300 managers from across the rental businesses sharing best practice and celebrating the significant achievements in customer service. Read article in Fleet News on our Customer First programme. See here.


### New branches.

We are getting closer to customers in Barcelona and Dundee (FMG RS), to provide greater responsiveness and capacity.


# Investor Relations: Activities

## ZIGUP's IR efforts since our July results have included some notable events and website upgrades, showcasing key aspects of our business. We are always delighted to show current and prospective investors our operations, so do please get in touch. Recent activities have included:

### Spanish site visit.

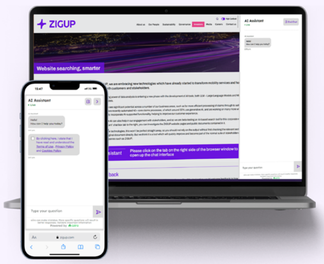
Analysts and investors were invited on September 26 to our Spanish operations HQ in Madrid, for a broad range of presentations by the regional leadership team, alongside site visits to two major Madrid branches. The management presentations are available on our website, and we would be very happy to run through the slides with anyone who was unable to make the visit. See here.

### Website improvements.


Following the publication of the FY2024 Annual Report, the ZIGUP website has seen significant upgrades, including new pages on How We Create Value; alongside greatly enhanced Sustainability and Our People pages. We have also included a number of new videos discussing Group Strategy, ESG Commitments and our Investment Case. www.zigup.com

### Website Searching, Smarter.

In late September, we added an AI-powered search function to the site, allowing visitors to undertake analysis on all of the web pages and documents contained on the corporate site. This is one of the first corporate websites to trial such a feature, and reflects the Group-wide commitment to partnering with technology innovators to improve analytics and the customer experience. Try it for yourself!



### Analyst modelling sessions.

In early September, we held a series of 1-1 sessions with our coverage analysts, focusing on cashflow and capex dynamics and answering their modelling questions. As part of this we looked at the disclosures we make on our fleet movements and how they provide the basis for our capex decisions each year. The FAQs discusses three of the topics discussed, being ***Fleet reconciliation***, ***Growth & Maintenance Capex***, and ***calculating our Leverage.***

# Investor Relations: FAQs
## Summary

We plan to set out FAQs and responses from recent investor and analyst engagement in each newsletter. For this edition, the topics came from the recent analyst modelling sessions held in early September. A summary of each is set out below, with fuller technical descriptions in the Appendix.

### Q1. How should we best use the Fleet Reconciliation table?

We started off the discussion with each analyst by looking at the fleet reconciliation table provided as an appendix to the analyst result presentation slides. This provides the foundation for modelling our fleet capex, being the key element within our cash flows and allows for a buildup of fleet cashflow forecasting which will be aligned with our commentary at results.

The slide helps understand the movement in group fleet, identifying the differences between owned fleet (for capex purposes) and operational fleet (which includes leased vehicles and so relevant for VoH – Vehicles on Hire). It also provides the key building blocks for identifying growth vs replacement capex by segment.

### Q2. What is the best way to model growth and replacement capex?

A key part of capex modelling is to identify what is growth vs replacement capex, and we know analysts currently use a number of different methods to model capex. We discussed the way in which we approach what is a relatively straight forward modelling concept and used by other businesses such as Ashtead plc, which all the analysts found very helpful.

We believe that it is easiest to derive growth capex as the starting point, on the basis of the fleet reconciliation discussed earlier, and calculated separately by segment. Replacement capex then falls naturally out of the calculation, but can also be derived from first principles.

Growth capex
If fleet size grows: the calculation is ***growth in fleet x cost per vehicle***
If fleet size contracts: you calculate contraction as ***reduction in fleet x the proceeds per vehicle***

Replacement capex
Replacement capex: ***volume of replacements x the NRC (net replacement cost per vehicle)***

### Q3. Please remind us of your Leverage calculation.

Leverage is a fundamental part of our capital allocation approach, and we have a stated policy of keeping within a 1-2x range, but we have noted that we will go to the top of that range or above should we find growth opportunities, particularly inorganic.

Our leverage is calculated in accordance with our lender requirements who have a cap of 3x, and on the basis of ***closing net debt divided by underlying EBITDA***, which is calculated as trailing 12M EBITDA on a pre-IFRS16 basis.

# Spotlight: Interview

## For this newsletter we sat down with Tim Bailey, UK Fleet Director to talk about fleet supply, the ZEV mandate and what the UK rental industry is looking to encourage as part of policy and regulation.

### Q: Tim - you have been sounding quite optimistic on UK vehicle supply recently, can you explain why?

The industry has had a few years of extremely restricted supply for both cars & vans to the fleet market, with vans impacted for longer, while the manufacturers (OEMs) resolved their global supply chain issues. Those issues have largely been resolved and, while it's now exacerbated by the transition to EVs, and in the UK by the ZEV Sales Mandate, supply of diesel vans and petrol cars has unquestionably improved, and availability looks far better in the short to medium term.

### Q: You say that supply is becoming somewhat complicated by the ZEV Sales Mandate. Why is that?

The ZEV Mandate was designed to encourage OEMs to sell more electric vehicles but on its own the mandate is simply not enough. There is insufficient demand in the market outside of company cars (driven by tax benefits such as BIK) with consumers holding back on both new and used EVs. Demand for eLCVs is lower than last year (5.9% of registrations in 2023, down to 4.8% in 2024 YTD and down 9.5% in absolute terms) when it should be growing, to 10% by the end of 2024, and to 16% next year. EVs clearly need more incentives to create that demand.

With the need for a considerable ramp up by the end of the year of the proportion of new vehicles being electric, this may result in the OEMs making fewer petrol & diesel vehicles available to the market. So, vehicles could be available, might even have been built, but held back while they try to catch up on EV sales. Far from ideal but deemed necessary given the penalties the OEMs face.

### Q: What is the rental industry doing to help regulators and the new government focus on the key issues?

A lot! The British Vehicle Rental & Leasing Association (BVRLA) is heavily engaged with MPs, Ministers and various Government departments such as OZEV and DfT, helping to inform their decision-making by highlighting the most effective approaches to decarbonisation and what will drive change. I chair the Commercial Vehicle Committee of the BVRLA and we have driven eLCV transition to the top of the industry's agenda and we continue to engage at all levels, including a recent meeting with our local Darlington MP, Lola McEvoy, at the Houses of Parliament (below).

The members of the BVRLA buy about 50% of all new vehicles in the UK each year and operate a combined fleet of 4 million cars, vans & trucks, roughly one in ten vehicles on UK roads. As such, we are in a very strong position to guide and effect change and are recognised as such. And ZIGUP, given our own significant expertise in the area, has a key role to play with the BVRLA and is helping to clarify the challenges and potential solutions to politicians and civil servants alike.

# Spotlight: Sustainability
## Circular Economy

In our FY2024 Sustainability report, we set out a number of key programmes we are undertaking to improve our environmental footprint. Here we take a closer look at projects for increasing the circular economy:

Circular economy principles centre around the core elements of eliminating waste & pollution; circulating products & materials; and regenerating nature. Our core contributions are through providing flexible rental solutions which maximise the utilisation of a vehicle through its life, and getting vehicles back in use after an incident.

ZIGUP's businesses have significant potential to further increase the adoption of circular economy principles both operationally and by collaborating with suppliers and customers. Preventative servicing and maintenance, along with increased reuse and refurbishment within servicing and body shop environments, enable us to optimise the efficiency of our vehicles and support the transition towards a circular economy, creating economic and environmental value.

### FY2025 Plans

Working with parts suppliers to find opportunities to reduce disposable packaging waste and move towards reuseable delivery containers.

### Group Policy

We have developed a Waste and Resource Efficiency Policy to promote the adoption of circular economy principles, across the Group. See here.

**128k**

### Rental
Our expertise lies in managing large-scale LCV and car fleets, resulting in lower hire costs for rental and replacement vehicle fleets/customers.

**99%**

### Recycle
We produced 5,703 tonnes of waste in the UK and Spain, with 99% of this waste diverted from landfill in the UK and 90% in Spain.

**£3m**

### Reuse
Our Spanish operations recovered and reused c£3m worth of car parts from vehicles last financial year

**30**

### Repair
We have c30 plastic fusion welding units in place across the UK to repair bumpers rather than replace them.

**168t $CO_2e$**

### Reprocess
Collecting used oil for ZIGUP sites and reprocessing it into a base oil product, a key component in producing brand-new lubricating oil, saved c168 tonnes of $CO_2e$.

## Case study – green parts.

Our team in Spain recovers, restores, and reuses car parts and tyres from vehicles that are considered as scrap. Operating locations in Algete, Seville and Zaragoza work together to support the recovery process and ensure these parts are reused to service and repair our fleet. Read case study.

# Appendices:

# 1. Fleet Reconciliation

The Fleet Reconciliation table is included in each results presentation pack. A summary of the key elements is as follows:

**Section A:** Within this section are the key lines of fleet purchases and disposals of the owned fleet which drive capex in the cashflow. The disposal figure is a combination of defleeting in the period together with movement of sales stock within the period. The key line item of 'Closing fleet' is the total recognised on the balance sheet, comprising those held for rental (both fully owned/leased) & sales stock.

**Section B:** Contains data for owned and leased fleet at the end of the reporting period. The key line for our reporting is the 'Closing total fleet', which is our headline number for 'Total fleet size'. It represents all vehicles available to hire or credit hire, irrespective of funding method - and is the fleet on which utilisation percentage is measured. It excludes vehicle sales stock which are not available to rent, as are in the process of being sold.

**Section C:** This section focuses on growth capex and provides the key data by segment which allows for differing calculations for growth vs contraction to be undertaken. The net of purchase and disposals in section A equals the total growth in owned fleet.

**Section D:** While net replacements will always be zero as it is the purchases made to keep the fleet stable after disposals, they are the reconciling figures between the totals in section A and those in section B for purchase and disposals of owned fleet.

**Section E:** This section provides the reconciliation for disposals from the owned fleet to external vehicle sales, principally due to intercompany sales of C&S defleeted cars through to Van Monster for disposal, and a small number of directly acquired vehicles, such as those taken in part exchange, but are never on the operating fleet.

| | FY2024 Vehicles # | UK&I | Spain | Claims & Services | Group |
|---|---|---|---|---|---|
| | Opening owned fleet (Apr-23) | 53,800 | 63,400 | 18,500 | 135,700 |
| | Acquisitions | 100 | - | - | 100 |
| | Purchases | 10,900 | 17,600 | 2,600 | 31,100 |
| A | Disposals | (15,100) | (14,500) | (3,700) | (33,300) |
| | Transfers | 1,700 | - | (1,700) | - |
| | Movements on direct vehicles | (2,600) | - | - | (2,600) |
| | Movement on leased vehicles | 600 | - | 800 | 1,400 |
| | Closing fleet (Apr-24) | 49,400 | 66,500 | 16,500 | 132,400 |
| | Closing owned fleet | 43,500 | 65,100 | 6,400 | 115,000 |
| B | Closing leased fleet | 3,100 | - | 10,100 | 13,200 |
| | Closing total fleet (ex-sales stock) | 46,600 | 65,100 | 16,500 | 128,200 |
| | Closing sales stock | 2,800 | 1,400 | - | 4,200 |
| | Purchases for growth | - | 3,100 | - | 3,100 |
| C | Sales in contraction | (4,200) | - | (1,100) | (5,300) |
| | Growth in owned fleet for growth capex | (4,200) | 3,100 | (1,100) | (2,200) |
| | Purchases for replacement | 10,900 | 14,500 | 2,600 | 28,000 |
| D | Replacement sales | (10,900) | (14,500) | (2,600) | (28,000) |
| | Net replacements | - | - | - | - |
| | Disposals (H) | 15,100 | 14,500 | 3,700 | 33,300 |
| E | Exclude: intercompany sales | - | - | (3,600) | (3,600) |
| | Sale of ex-leased stock and directly acquired fleet | 7,100 | - | - | 7,100 |

# Appendices:
# 2. Growth and Replacement Capex

A key part of capex modelling is to identify what is growth vs replacement capex, and we know analysts currently use a number of different methods to develop their modelling. We discussed the way in which we approach what is a relatively straight forward modelling concept and used by other businesses such as Ashtead, which all the analysts found very helpful.

We believe that it is easiest to derive growth capex as the starting point, on the basis of the fleet reconciliation discussed earlier, and calculated separately by segment. Replacement capex then falls naturally out of the calculation, but can also be derived from first principles.

## Growth capex

***If fleet size grows: the calculation is growth in fleet x cost per vehicle***
***If fleet size contracts: you calculate contraction as reduction in fleet x the proceeds per vehicle***

Cost per vehicle and proceeds per vehicle can be derived from the ‘Purchases of Vehicle for hire’ and ‘Proceeds of disposal of vehicles from hire’ lines in the segmental capex table, and we will be providing additional segment-level capex breakdown in future to assist as an appendix to the analyst slides.

Where the group has growth in one geographic or business segment and contraction in another, given the calculation basis of costs vs proceeds, it may produce a group-level growth £ figure which may look counter-intuitive, but will reflect the actual capex profile for each segment.

## Replacement capex

The calculation of replacement capex is also done on a per segment basis and is based on the number of vehicles assumed to be disposed of in the period in question - in order to refresh the older or unrentable fleet.

***Replacement capex: volume of replacements x the NRC (net replacement cost per vehicle).***

In order to calculate the NRC, one makes an assumption on the purchase price per vehicle and then deduct the assumed proceeds per vehicle (the residual value, not the PPU). These again can be calculated from the capex tables and then any assumed change for future years applied, based on a view on new vehicle inflation or change in residual values.

While we use actual fleet numbers and a specific calculation for cost per vehicle, the process is easily managed with a couple of basic assumptions - in FY2024 the variance for these adjustments was less than 0 .8%.

When looking at future years, we first look to make assumptions by business segment on availability of new vehicles; demand capacity potential for VoH growth; and then vehicle pricing trends both for cost of new vehicles (net of discount) and residual values for disposal proceeds.

Using these assumptions and the calculations set out above, it is relatively straightforward to model forward through deriving a growth capex calculation for each segment (mindful of the different calculation if fleet growth vs contraction), with the remainder being replacement capex based on the NRC - net replacement capex calculation.

Overleaf are tables setting out the worked example based on FY2024 figures.

# Appendices:

# 2. Growth and Replacement Capex

## Set out below are the inputs, calculations (both per vehicle and £m capex) on the basis of FY2024 reported figures.

**Inputs:** the inputs are taken from A) the fleet reconciliation table, together with B) the segmental capex analysis, which will be published alongside the fleet reconciliation in the analyst presentation each half year.

| | **A. Fleet reconciliation (number of vehicles)** | | **UK&I** | **Spain** | **Claims & Services** | **Group** |
|---|---|---|---|---|---|---|
| A | Purchases | # | 10,900 | 17,600 | 2,600 | 31,100 |
| B | Disposals | # | (15,100) | (14,500) | (3,700) | (33,300) |
| | | | | | | |
| | Purchases for growth | # | - | 3,100 | - | 3,100 |
| | Sales in contraction | # | (4,200) | - | (1,100) | (5,300) |
| C | Growth / (contraction) in owned fleet for growth capex | # | (4,200) | 3,100 | (1,100) | (2,200) |
| | | | | | | |
| D | Purchases for replacement | # | 10,900 | 14,500 | 2,600 | 28,000 |
| | | | | | | |
| | B. Segmental Capex (£m) | | | | | |
| | Net replacement capex | £m | (157.5) | (145.9) | 23.3 | (280.1) |
| | Growth capex | £m | 30.6 | (48.5) | 16.2 | (1.8) |
| | **Net capex** | **£m** | **(127.0)** | **(194.4)** | **39.5** | **(281.9)** |
| | | | | | | |
| E | Proceeds of disposal of vehicles for hire | £m | 113.4 | 77.4 | 97.2 | 288.0 |
| F | Purchases of vehicles for hire | £m | (233.8) | (267.7) | (52.1) | (553.5) |
| G | Other net capex | £m | (6.6) | (4.1) | (5.7) | (16.3) |
| | **Net capex** | **£m** | **(127.0)** | **(194.4)** | **39.5** | **(281.9)** |

**Per vehicle calculations:** Using the vehicle numbers and capex £m values, it is possible to model a per vehicle estimate for each segment.

| | | | | | | |
|---|---|---|---|---|---|---|
| H = F / A | Purchase price pv [for purchases and growth] | £k | (21.4) | (15.2) | (20) | n/a |
| I = E / B | Disposal proceeds pv [for disposals and contraction] | £k | 7.5 | 5.3 | 14.5 | n/a |
| J = H + I | Net replacement cost per vehicle | £k | (13.9) | (9.9) | (5.5) | n/a |

**Modelling capex:** Using these figures, it is possible to both reconcile to FY2024 figures and also to provide the basis for foresting current and outer year capex, as discussed previously.

| | **Worked example for growth capex** | | | | | |
|---|---|---|---|---|---|---|
| K | Growth / (contraction) | # | (4,200) | 3,100 | (1,100) | (2,200) |
| L | Purchase price or disposal proceeds pv | £k | 7.5 | (15.2) | 14.5 | n/a |
| M = K x L | Growth capex | £m | 31.5 | (47.2) | 16.0 | 0.3 |
| | | | | | | |
| | **Worked example for net replacement capex** | | | | | |
| N | Replacement purchases | # | 10,900 | 14,500 | 2,600 | 28,000 |
| O | Net replacement cost pv | £k | (13.9) | (9.9) | (5.5) | n/a |
| P = N x O | Net replacement capex | £m | (151.9) | (143.2) | (14.4) | (309.5) |
| Q | Add: Non-fleet capex | £m | (6.6) | (4.1) | (5.7) | (16.3) |
| R = P + Q | Total net replacement capex | £m | (158.5) | (147.3) | (20.1) | (325.8) |

**Note:** Reconciling to reported figures - the FY24 reported figure for net replacement capex included a £43.6m reduction for two legacy one-off items in C&S that do not need to be considered in future modelling. These provide the bridge from the £325.8m to the £281.9m in our reported figures.

# Appendices:
# 3. Leverage Calculation

Our leverage is calculated in accordance with our lender requirements who have a cap of 3x, and on the basis of ***closing net debt divided by underlying EBITDA***, which is calculated as trailing 12M EBITDA.

The main adjustment is that leverage is calculated on a pre-IFRS 16 basis, to remove distortion through accounting for leases, particularly in periods where we are taking on major new leases or renewals. For the lender requirement there are some minor additional adjustments (derivative fair values, HP leases) which are not material.

While it is not possible to achieve an identical calculation from public data it is possible to get to a very close approximation through using the notes to our accounts, as set out below using FY2024 as the example.

| | £'000 | | Unadjusted post-IFRS 16 | Actual (covenants) | Estimate using disclosed amounts |
|---|---|---|---|---|---|
| | Net debt for covenants | | 742,228 | 592,363 | 577,600 |
| | EBITDA for covenants | | 446,313 | 388,268 | 390,789 |
| | **Leverage** | | 1.7x | 1.5x | 1.5x |
| **Net debt:** | Net debt per ARA | P172 | 742,228 | 742,228 | 742,228 |
| | Add: derivative fair values | P139 | | (104) | (104) |
| | Exclude: IFRS 16 debt | Note 1 | | (153,281) | (164,524) |
| | Other covenant adjustments | | | 3,520 | |
| | **Net debt for covenants** | | | **592,363** | **577,600** |
| **EBITDA:** | EBITDA per ARA | P53 | 446,313 | 446,313 | 446,313 |
| | Exclude: IFRS 16 | Note 2 | | (58,045) | (55,524) |
| | **EBITDA for covenants** | | | **388,268** | **390,789** |
| **Note 1:** | Total lease liabilities | P174 | | 164,524 | |
| | Exclude HP leases | | | (11,243) | |
| | **Post IFRS 16 lease liabilities** | | | **153,281** | |
| **Note 2:** | Total lease depreciation | P166 | | 55,524 | |
| | Exclude HP leases | | | (2,521) | |
| | EBIT difference on removing rentals | | | 5,042 | |
| | **Post IFRS 16 lease liabilities** | | | **58,045** | |

**Note:** the notes and page references relate to the FY2024 Annual Report & Accounts

ZIGUP

We keep customers moving, smarter.