Redde Northgate

Interim Results | Audio Webcast

6th December 2023

Transcript

Martin Ward: Good morning, everyone. Thanks for making the effort to come this morning. Just for the purposes of the webcast, I'm **Martin Ward, CEO of Redde Northgate**, and joining me on the presentation is **Philip Vincent, CFO of Redde Northgate.**

[Slide 5]. So, we're introducing our H1 results this morning. As you can see from the headlines today, this has been a very strong performance. Trading momentum has continued from the last reporting period and is delivering robust double-digit growth across the P&L metrics.

Our strategic position of offering an integrated mobility solution is delivering results and continues to attract a strong pipeline of opportunities, some of which have converted in the period and others which are in process.

The capital investments we are making in the business, whether that be in fleet, onboarding, new partners, or developing our IT capabilities are generating a good level of return and we are particularly pleased to see that ROCE now stands at nearly 15% and leverage has been kept stable at 1.6x. This is after investments in fleet, new leases, share buybacks and a further £38 million of dividend.

Since we last reported, we have seen good levels of cash collection, continuing support for our capital allocation model, and with a strong balance sheet we are well positioned to leverage growth. Given the continued positive momentum in the business, the Board is pleased to declare a 10% increase in the interim dividend. It's also worth noting that the net book value of the fleet assets now stands at £1.2 billion, which provides a lot of substantial value.

[Slide 6]. Our claims and repair services continue to grow from existing accounts including previously announced account wins which are reaching run rate, as well as new account wins in the period which are yet to mature and will continue to support further growth.

Spain has performed exceptionally well with the business model driving double digit organic growth. It's a business that is well positioned in this market and strong demand for services continues to drive momentum. Our rental margins have slightly improved through careful management of costs and through price and actions taken to reflect inflationary pressures.

We continue to win more work from existing customers, with mutual benefits being delivered from our integrated services with one existing large motor insurer customer, we secured a new multi-year repair contract for motability repairs in the period which has already gone live.

Our claims and services business is truly operating with scale, market expertise and integrated capabilities and is well positioned to capture more market share in a number of sectors. This is a development from historical revenue mix and over time this will change the mix of revenues and profits. The key point here is that we have the opportunity to build market share in verticals that have the potential to broaden out over time across the platform.

Disposal of our fleet is a key strength of our Van Monster brand in the UK and Ocasión in Spain, and this supports getting the best value for our used fleet. Van Monster in the UK is the market leader for used vans and has a strong customer base and we've also developed the capability to sell our UK car fleet through this brand. And, as we refresh the fleet, disposal profits have been strong, representing 35% of our overall PBT up from 30% in the prior year.

The strategy that we set out in 2020 to present an integrated mobility service combining the scale of our assets and resources is delivering and our capabilities through selective acquisitions has grown our addressable markets and reach. We are seeing a growing interest in EV transition which follows a number of open days. We have held around our branch network to demonstrate products and in Spain we secured a 1.4 million euro funding support to help our customers with their EV transition.

Growth is driving further investment in opening new branch and body shop premises. We have nine locations planned, opened or underway, which will create new capacity and broaden our reach. Double shift patterns are being trialled across a number of sites to generate more workshop and body shop capacity and this will be rolled out at larger sites if proved successful. And supporting our expansion plans, we now have 303 apprenticeships currently in progress across the businesses with a majority of our trainees in repair and workshop technical roles.

So overall, I would sum up the position as a period of strong trading with continuing momentum supported by a diverse customer base and multi-year service contracts. We have a strong balance sheet with sufficient capital headroom to continue to support growth and generate good levels of return. Okay, I'm going to hand you to Philip.

Philip Vincent: **[Slide 8].** Thank you, Martin and good morning, everyone. So, if we turn to page eight, we have a strong set of results for H1 to share with you as we continue to see the benefits and growth of our business model. We saw good growth across our KPIs including profit before tax, which increased 18.3%. EPS grew 18.9% to 33.4p line with increased PBT and EBITDA has increased 10.7%.

Strong cashflow was used to support investment in fleet, working capital acquisitions and shareholder returns while maintaining leverage line with H1 last year and return on capital employed continued to improve at 14.8% from growing underlying profitability and disposal profits. The dividend per share is 8.3 pence in line with our policy of paying 50% of the prior year full dividend. And I'll just mention statutory PBT, which is lower year on year due to the depreciation rate change unwind I talked about last year.

The impact on the statutory profit in the half year is a reduction of £7.6 million. Remember, this does not impact cash, only statutory profit and all the underlying numbers exclude this adjustment and are like for like. I can run through this afterwards if anyone would like to.

So, if we turn to page nine, we'll look at revenue.

[Slide 9]. The business continues to demonstrate its benefits to customers with growing revenues driven by both our existing and new contract wins. In the UK&I, we have seen positive investment in vehicle supply in H1 and have continued to actively manage customers and reduce credit exposure.

New vehicles have been used to replace rather than grow the fleet and we grew rental revenues 4.4% without growing VOH through careful pricing actions. We have successfully grown revenues of our most recent acquisitions of Blakedale and FridgeXpress and grown ancillary revenues such as telematics.

Better access to vehicles in Spain helped grow average vehicles on hire which, alongside careful pricing, grew rental revenues by 10.2% or £12.5m.

We saw very strong growth in Claims and Services revenue which increased 25.7% or £86m. This came from both increased volumes of existing business as well as the contribution of contract wins in the past 18 months which account for £66m of the increase. The platform is attracting more customers, and a good pipeline of new opportunities exists.

Turning to vehicle disposals, total vehicle sales have increased £108.8m, with UK&I vehicle sales up £82m. Spain vehicle sales increased £26m to £44.6m with 7,200 vehicles sold, more than double the PY as more fleet has been acquired.

We have extended the capability of Van Monster, the largest seller of used LCV's in the UK, to sell cars and Redde fleet is now passed to Van Monster to sell through our own retail sites, our E auction platform and third party auction houses, reducing disposal costs. Of the UK&I £82m increase, cars and other non-fleet vehicles account for £72.1m and 4,900 out of 11,600 vehicles.

As we anticipated, the 6,700 fleet sold had an average PPU of £3,500, a softening from the historic highs we have seen. Spanish PPUs increased £200 to £2,300 reflecting both mix and a strong market.

Our supply has started to improve and car disposal volumes in H1 reflect Redde's normal seasonal deflating of vehicles after the winter months as the number of incidents and accidents decreases and we do not normally expect to make a profit or a loss on car sales as they're held for shorter periods than LCVs and are depreciated to market value month on month. We use our disposal channels to maximise the cash we receive as we dispose of our fleet and they continue to perform strongly across both auction platforms and physical retail sites.

[Slide 10]. Operating profits, both including and excluding disposals, have continued to increase demonstrating the continued growth in the underlying business. Strong demand supported the growth in vehicles on hire, which increased profits by £3.9 million. Careful management of pricing in both UK&I and Spain along with extension of ancillary products and services and cost management in areas such as workshop spend resulted in UK&I's rental margin of 16.3% increasing 0.7 percentage points year on year and Spain's margin increased 0.4 percentage points to 20.8%.

Rental margins should be slightly lower in the second half. In H2 we expect to see higher repair costs as more fleet passes through the workshop. UK&I's full year margin is expected to be in line with 15% guidance and Spain is expected to be slightly above the 15% for longer.

Disposal profits increased £10 million. In UK&I they decreased £0.6 million with softening residual values but still strong and above pre covid levels and in Spain, disposal profits increased £10.6 million with increased vehicle supply and higher PPUs due to mix of vehicles sold.

Redde's volumes continued to grow, and the business delivered an additional £5.9 million of profit an increase of 28.7%.

Interest costs increased £6.5m due to a higher interest rate and higher level of debt used to support growth across the Group. Taking the whole period from the merger, our underlying rental and accident & incident management services are delivering year on year sustainable growth.

[Slide 11]. The business continues to produce a good level of cash and we choose to spend that cash and utilise borrowings in line with our capital allocation model. We apply this allocation model whilst managing our leverage within a stated range. The investment we have made in replacing our fleet, principally through borrowings, has nearly doubled this year as supply continues to improve and we have started to reduce the average fleet age in Spain and UK&I has peaked. We've also continued to invest in acquisitions, such as FridgeXpress, and share buybacks and we've done all this whilst maintaining our leverage year on year.

When we look at the right-hand side of the slide, we can see that the business generated EBITDA of £220 million. We invested £138.6 million in replacement fleet, which was principally funded by our bank private placement facilities and leasing arrangements. This investment has increased £61 million year on year.

We then fund working capital movements which have increased year on year due to growth and timing of payments in Redde and we fund taxation and interests which reflects higher corporation tax rates this year in the UK and rising interest rates and slightly higher levels of debt, we pay dividends of £37.3 million. And finally, we invested £1.3 million in what we view as growth capex. This is £67.4 million lower than the prior year with improved vehicle supply in Spain, primarily being used to replace fleet rather than grow and the UK&I Redde fleet sites reducing since the year end.

So overall £122 million of cash generated was used to fund working capital tax and interest in dividends and an additional £152 million was invested in fleet M&A and share buyback with these part funded with debt which increased £94 million. To explain these dynamics in a little bit more detail, in H1 about £25 million was spent on reducing the fleet age and we will continue to invest in fleet as the average age reduces.

The market is now operating with an older fleet age than pre covid and we will maintain our fleet age in line with market demand replacing our oldest vehicles. As supply improves, there will not be a sudden outflow of cash to fund this and reducing the age will be gradual and entirely under our control. We'll manage our spend and net debt within our leverage guidance of 1-2x and our net debt, currently at £755 million, is backed by our fleet of vehicles which have a net book value in excess of £1.2 billion pounds.

This is all part of our disciplined model where we purchase vehicles to meet our forecast demand direct from OEMs. We then service and maintain them and dispose of them through our own disposal channels.

The returns we generate from these assets are delivered over a number of years and managed within our control. The returns are strong as demonstrated by our margins and return on capital employed and are above our WACC.

And both within the rental business and Redde, a significant proportion of our revenues arise from long-term and multi-year contracts providing visibility of demand, cash flows and returns.

[Slide 12]. The chart here bridges our debt from April to October 23.

We continue to have a significant portion of our debt sheltered from high interest rates with 56% fixed and most of that is at 1.3% and our average borrowing cost is 3.5%.

We manage the business through our leverage and to reiterate, we operate within a very prudent range. Our leverage of 1.6x at the half year is on move from H1 last year. We have £236 million of headroom on our committed facilities and the business is very well financed for future growth with a strong balance sheet supported by vehicle assets.

So, what are my key takeaways from H1?

Well firstly, we've delivered very good growth in revenues and profits. Second, the business has delivered good cash generation and that has been both returned to shareholders and invested for future growth. And thirdly, good double digit return on capital employed and growth in EPS.

So, thank you and I'll now hand you back over to Martin for the business update.

Martin Ward: Thank you, Phillip. I think that was very, very clear. So, if we turn to the next slide and just ask what have we seen in the current environment?

[Slide 14]. We've got strong demand for vehicle rental in all our geographies, high utilization rates allowing for headroom in the fleet for service maintenance and repair and standby vehicles. In claims and services, this is where we have seen a lot of growth through supply chain interest and where consolidation of services into a single supplier is proving attractive.

This very much leans into our integrated service platform which reduces handoffs and leakage, generates additional commercial value and delivers a better customer experience to the end user.

Repair capacity, which is a key enabler to many of the services has improved more generally in the market over the last few months and with a market of

4.2 million repairs per annum, the demand has been strong. The biggest procurers of repairs in the market are insurance companies, many of whom are consolidating their supply chains into larger regional or national players for quality and sustainability reasons. Other contract services like mobility and vehicle recovery generally follow repair work in an integrated approach. It is a key capability to own to unlock other services.

Fleet supply overall has been improving in recent months with visibility of supply volumes in the UK&I for 2024 showing good upside. Acquisition costs of vehicles has gone up and rental rates have followed. Residual values for cars have fallen more rapidly in recent months with the used van values, in comparison, reducing on a more gradual basis from market highs. The mix of used stock van stock in the market will produce different residual value results so it depends on what is offered into the market and through which channels.

Overall new van registrations are still lagging what is 'normal'. The trend to normal will possibly take another 12 to 18 months based on likely new registrations and of course continued demand. Our customer mix across the Group remains diverse with a large multi-year service contracts, such as the Lex Auto lease win going live in the period and more recently a large contract win with the motor insurer to manage specialist repairs under the motor mobility brand. We have proactively managed some sectors where there is potential credit risk exposure, such as last-mile delivery, reducing over 1000 rentals from this sector in the last 12 months alone.

Despite the recent government change in the date for the purchase of when you can buy combustion engines now set for 2035. Our focus on EV transitioning has seen interest levels increasing. We have held open days through our network to allow commercial customers to evaluate different EV van products and to undertake demonstration drives.

We secured our first large 100 plus EV van order from Octopus Energy and have a number of others in the pipeline. With newer van products with extended capabilities forming part of the new product lineup. We should expect to see more take up of EV vans over time. If we turn to the next slide please.

[Slide 15]. Drilling down a bit further on the fleet supply dynamics. 2023 registrations of vans in Spain are estimated to be 140,000, which is up 20,000 units or 18% on the prior year. But on a wider basis in Spain, when looking at all registrations across the car and van, the normalised run rate is closer to 1.5 million and in 2023 that is estimated to be 1.1 million. So 400,000 units shy. This supports a view that new pricing and RV levels could remain higher for longer subjected to demand due to this shortfall.

In the past, our Spanish business typically concentrated on 3 brands of van in the fleet, but has broadened this to a larger number of OEM's which has helped drive growth and overall availability as well as creating some competition for volumes.

Given the level of rotation, fleet ageing in Spain has reversed on the PY and we expect that to continue to improve with planned new purchases through 2024. In the UK&I visibility on supply continues to improve and new terms with OEMs for 2024 have been agreed.

The previous disruption factors to supply are easing, leading to a more confident outlook for van registrations. The Society for Motor Manufacturers and Traders forecast the 2023 is expected to be 16% higher than the prior year. It's worth pointing out that in a constrained supply market, OEMs mainly focused available van stock into retail distribution, which produces a higher gross margin on sales.

With more supply anticipated, distribution to the rental market will increase as we anticipate in 2024 deals. However, there is still a shortfall to the long-term registrations average. So normal, as in Spain, might take another 12 to 18 months from here depending on demand.

Cars have been a lot easier to secure as production has ramped up. And then if we look at the new zero emission vehicle sales mandate, which will come into force in 2024, which means 22% of all new car registrations and 10% of vans will need to be alternatively fuelled vehicles, the fines for missing these targets for OEMs are not insignificant. Therefore, the interplay between new and used stock will be determined by demand.

[Slide 16]. And if you turn to the next slide, so looking at the quality of our earnings. Redde Northgate has an underpin to its trade. The claims and services business is generally contracted on a mid to long-term basis. Renewals of these contracts tend to happen in term meaning a greater proportion of the revenues are reoccurring. In current terms, 80% of revenues are contracted beyond 12 months, which provides confidence when looking ahead.

Our rental revenues have proven to be robust. We saw that in 2020 during covid when only 6-7% of our vehicles were returned by our customers despite having the flexibility to do so and that proves the attachment to retain and hold onto mobility, especially as a business tool.

Notwithstanding that, the underpin for 12 month plus contracts on revenues are 40% in the UK&I and 30% in Spain, which reflects the flexibility of the rental model mixed with long and short-term contracts.

[Slide 17]. We go to the next slide. I mentioned earlier the nine new operational sites we have planned or opened or are underway. There are seven in the presentation, but as I say, we've got nine in total. So, here's just some pictures just to provide a flavour of what they look like. The strategic aim on the property estate is to create a mix of larger sites that can generate more capacity for our growing services with a work environment that is appealing and provides the right experience for our customers.

And also, as we are doing in Spain, we're creating some smaller service point sites that allow us to service customers that have a regional requirement outside the larger cities. This scale present wins and secures business and is a standout differential in the market.

New larger sites in Bristol and Hoddesdon have also been taken on for our bodyshop business FMG RS, which will create more internal capacity for accident repairs.

Our expanding property network and investment in modern equipment, which have been planned to take a growing number of EV repairs, also delivers workflow efficiencies and enables us to be more productive.

This growing estate supports our growing capacity needs as we take on more work volume, attract new talent to join our technical workforce and provide expertise, scale and a quality experience to our customers and Partners.

[Slide 18]. And finally, to sum up and cover our outlook. This has been an excellent trading period with underlying returns continuing to grow. The strategy we set out is delivering and the scale of the business is set to grow. Our platform of services is appealing, and we receive positive feedback from stakeholders on our service delivery.

We are well positioned to leverage further growth and with a strong pipeline of opportunities we are confident in the strategy continuing to deliver.

Looking at the current momentum, we believe that the full year results will be modestly ahead of current market expectations as the run rates on our services and overall returns have been strong. Our underlying revenues, which excludes disposal proceeds, and underlying profitability is growing, and there is yet further run rate maturity for the balance of the year which supports earnings growth.

Based on this the board is confident on delivering a strong finish to this financial year. Okay, so that's the end of the set piece and hopefully that was very clear. We're happy to take questions now on the presentation. David?

David Brockton: **Hi, it's David Brockton from Deutsche Numis.** Can I ask two questions please? First, in respect of the de-aging of the fleet process that you're going through now. Clearly you said out there there's only £25 million outlaid to start that de-aging process. Thinking more broadly over the long term, is it your view that this market trends back towards sort of the average age of fleet that you were pre-covid or do you think there's been any sort of underlying change in the market during this period? That's the first question.

And the second question, just in terms of the consolidation of activity within claims services, it's clearly been a material driver to growth. I just wondering if as you look through your contract book that you have within the business, how many existing contracts do you have where there could be further consolidation of services aside from new wins? Thanks.

Martin Ward: Okay, thanks David. So look on the de-aging of the fleet. I think we've sort of made the point in the presentation that the market is not likely to move anytime soon back to a pre-covid position. And that's two factors. One, the supply is not there to get there.

And two, I think the market has learned that it doesn't need a sort of 2-year-old vehicle or an 18 month old vehicle. It can work with what it's got. So, we believe, and that's based on feedback from our customers as well, that they will hold vehicles for longer and that supports that sort of gradual de-aging of the fleet as we have set out. And that's why we believe where we are is a supportable position in terms of de-aging the fleet. That's point one.

On two, on the consolidation of services. I make this point around in the claims and services business, previously procurers of these services would look for best in class verticals across that supply chain. The issue with that is that is you have a lot of handoffs in that process. If you think of a customer journey, the end user, if you're dealing with multiple organisations, there's a chance for leakage, there's data leakage, there's loss of value when you don't convert, and it could be a very confusing picture. Procurement teams now are looking for a best in class, more joined up integrated supply.

Now we have seen very strong conversion from our existing book. I talked about the motability contract coming through from a large insurer's existing customer. We won that because of our market position and our ability technical experience to deal with that account. The pipeline is a mix of new work and also some of the existing customers with other things that they're looking at in terms of what they can do. I made the point in the presentation around repairs being quite pivotal in this, when you tend to win a repair contract, other services tend to follow because of that joined upness that you get from providing that service. And that's why the mix as we scale up, the mix of our revenues will change. It will change the margin as a result, but in absolute terms we will get market share and the ability to sell in the cross services on the platform and that's where we're looking to position ourselves.

Andrew Nussey: **Andrew Nussey from Peel Hunt**. Again, a couple of questions. First of all, we look at the Spanish margin obviously remaining above 20%. I picked up a comment that you're being very careful with pricing. I'm just conscious obviously we will expect some form of reducing back to norm, but just kind of the timeline that you think that that might occur. And secondly, one for Philip, can you just remind us how the fixed debt unwinds over the next two to three years please?

Martin Ward: Okay, thanks Andrew. On the first one on the Spanish margin, we price the book based on the start of the year to take into account inflationary pressures that we see. Now, when we go across to Spain and we sort of see what's going on on the ground there. It's a very industrious place. There's a lot of demand for the services that we deliver in Spain and there isn't that sort of the market for the services.

I wouldn't say that we've cornered it, but it's a very strong proposition that we offer. If the supply isn't there for the more general market, then I would say that the margins may stay higher for longer, but as supply comes back, you'd expect that to move towards our longer term or medium term guidance of that sort of 15% margin. Length of time, I don't know, I don't think it's going to be sudden. I think there's going to be a gradual position and of course the management will undertake actions to make sure they do cover inflationary costs, but equally we have to remain competitive in the market. I think that boils down to supply. Phillip, on the fixed debt?

Philip Vincent: On the fixed debt - just a reminder, we've got £330 million facility which is fully drawn on our private placement that's fixed. Average of 1.3%, that's in three tranches. The first tranche expires in November '27. The next tranche is in November '29 and the next one is in November '31. It's still a reasonable amount of time for that to run.

Andrew Nussey: Nice place to be.

James Zaremba: **Morning. James Zaremba from Barclays**, two questions as well please. The first, just kind of keeping on the topic of supply and how it's impacting your margins. If you could talk about the differences in the UK and Spain on some of those things you were mentioning, such as the ability to reduce credit exposure, sales channel mix, and also pricing. So rent per vehicle was up slightly more in the UK than Spain. What drove that?
And then I guess a related one would be OEM discounts. I think they were slightly lower when you reported the full year than pre-pandemic where those are trending and how that works through the P&L. Are you kind of offsetting that by high pricing or how do we think about it? Thank you.

Martin Ward: Okay, James. I'll deal with the second question first on OEM discounts and trending. As supply comes back into the market, there will be competition within the OEMs for us to take up that supply. And obviously if there's competition it helps with the negotiations. We've settled on terms for 2024 in the UK business, so we have that sort of good visibility of what it would look like. Pricing is higher. So, in effect in our world that means discounts are less and as I said, we do pass that cost on through the rental because of the demand there and the market can absorb that.

In Spain, as I said earlier, there's been a lot more supply. We have broadened the OEMs that we deal with and therefore there's more choice, suppliers come on a lot quicker. So left-hand vehicles come on back very, very quickly and we've seen the business benefit from being able to secure that supply and put that out into the strong demand. So that sort of growth that we're seeing, the same probably would've happened in the UK, had supply been there seeing that demand absorbing because we see that through the turndowns that we can't fulfil. I think the margins, as I was saying earlier, will probably stay higher for longer, but we do expect that as supply comes improves that that will move down.

Philip Vincent: In terms of rates, differential between UK&I and Spain. I mean UK&I has an absolutely higher rate, always has done, it’s kind of market driven. If you roll back a couple of years, Spain didn't use to put annual price increases through. We started doing that after Covid, learning from what we've done in the UK. So both have had a disciplined approach as to how we put pricing into the market to help manage inflation. There's a slight differential still in the UK and Spain though, so in the UK&I we do have more ancillary products which we sell, which absolutely held that rental rate. For example, telematics accident, instant management, et cetera. And that's more mature in the UK market.

But Spain has also started to add additional ancillary services around pure rental as well. So, for example, it now opens up some of its workshops, it's larger workshops to third parties who don't rent our own fleet, and we will provide service maintenance repair to their vehicles. They're on a similar journey, just at a different stage of it at the moment.

James Zaremba: And then, sorry, just to follow up, Phillip, you were mentioning your remarks about things like managing credit exposure, I guess that helps margin and then when we're talking about a higher Spain margin for longer and maybe UK, is that one of those factors which comes back or is that operational?

Martin Ward: Yeah, so on the credit exposure part of your question, James, I mean in the UK it was very evident to us. So, we were proactive in terms of looking at the sectors, where the growth sectors were coming from and we mentioned that at the full year results and where we saw some potential weakness. We've been proactive in managing credit exposure and as I said, we took over a thousand rentals out of the last mile delivery. In Spain, less so. I think given the customer base and the sort of exposure; we didn't have to proactively do anything there. It's a slightly more robust position, but just that one sector in the UK where we took a step back from providing supply and either rotated or sold off the fleet that came out of that sector.

Andy Smith: **Good morning, Andy Smith from Panmure.** A quick question on the weighting between the first half and second half. In that the first half you've made PBT of a £100 million, consensus is around about £170m, so it looks as if you're going to be making £70m and the second half. So, is it possible just to give us a bit more colour on why there's such a variety in between the first and second half?

Philip Vincent: Yep, Andy, good question. And our results are not symmetrical. H1 to H2 always and normally in H2 there's two main factors. One is uncertainty around vehicle supply and how that may impact our ability to dispose of vehicles and therefore can impact disposal profits. That's still an unknown. We still have limited visibility even six months forward on vehicle supply, although it's improving. It's hard to gauge that precisely. And secondly, as we move into H2, if you look back at history and what we would expect to see in H2 is margins are generally a little bit lower.

For example, in Spain we have a number of vehicles coming back into the workshops at the end of the summer months as we move into H2 before they go back out again. We see the vehicles, touch the vehicles and we'll do maintenance and repair on them when we see them again when we haven't seen them all the summer months. Our repair costs tend to be slightly higher in the second half and we forecast that into our expectations, but that does impact margin and doesn't mean we're not precisely the same H1 to H2.

Joe Spooner: **Joe Spooner, HSBC.** Thank you. Can you talk a little bit about working capital? Obviously, there was a big outflow on that in the first half. How do you see that developing for the second half? And then I guess also on M&A, it's obviously one of the areas of the capital allocation strategy. Can you just talk a little bit about what it is you're looking for in terms of M&A going forward? Thanks.

Philip Vincent: I'll take the first question and let Martin pick up the second. On working capital up, I'd like it to go down in the second half would be the answer, Joe, but why is it higher in the first half? It's predominantly in the Redde business and it's just timing of payments.

When we do take on new contracts, we often do get a working capital build at the beginning until they start to mature and then we start to collect the cash. And it just depends on the mix of what those types of contracts are, but there's nothing in particular that's a standout in the business that's driven that increase at the half year. It would just be comparisons half on half more than anything else, Joe. So I wouldn't read or predict or use that to say what it's going to do in second half.

Martin Ward: And on M&A, what are we looking for? Well, we provide services into the life cycle on mobility. So, I think scale is important in terms of what we do and being able to offer further scale. Areas that we can develop into, where we can provide into other channels and the market channels. Whether that's doing repairs, or that's doing whole life on a wider scale on a business to B2C basis.

Our strategy is broad in providing these sort of integrated mobility services, but we're looking at providing those touch points on a scaled basis and if we can go into other areas as we have done with the acquisitions that we've made, for example Blakedale was traffic management, so where we're supplying in a different type of product into a fleet customer that would take more services across the platform. From big crash protection units, the 18 tonners, down to welfare units to the drop side, 3.5 tonners through to having fleet management, accident management, recovery services.

And then we had FridgeXpress with the temperature control vehicles. So again, reaching out to a broader new market sector there on temperature-controlled pharmaceuticals, food distribution. Again, where there's a wider fleet and further services that we can provide. We look for those areas where we feel that we can extend capability at scale and get a cross-sell across the platform.

Joe Spooner: Thank you. And I guess one of the other things that the business has been doing over time, on the Northgate side, is shifting the customer mix. Can you give us a sense of what that customer mix now looks like having gone through that period of adjustment?

Martin Ward: Yes, Joe, we've got in the appendices to the presentation that sort of split to the customer mix **[Slide 27]**. In the UK, there's obviously a lot of blue chip customers, government bodies, local authorities, large organisations. In the UK, the only change in dynamic that we talk about was the logistics sector in terms of last mile where we've de-accelerated in that area from a risk exposure. But other than that, we have seen continuity and consistency across the customer base.

Larger customers, certainly in the UK, seem to have a very strong demand. Whether that's infrastructure or construction, all follow what the market's doing, the economy's doing more generally, but we're seeing our larger customers still with that strong demand.

Do we have any other questions before we close the presentation?

Thank you. Okay, well thank you all.