

Redde Northgate - Interim Results Analyst Briefing

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Transcript

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Martin Ward, CEO:

Okay, thank you. So welcome all and thank you for coming this morning to the Redde Northgate half year results. I am Martin Ward, Chief Executive of Redde Northgate, and with me today is Philip Vincent, our CFO. Our agenda covers an overview of the half year results, a more detailed financial review by Philip, and a business update followed by questions and answers at the end.

[Slide 5]: Turning to performance overview on slide five, this has been a really excellent first half with a strong period of growth. If we look at this on a comparable basis to the same period last year, our underlying revenues, which exclude vehicle sales, have grown 20% with a strong recovery contribution from claims and services.

Our EBIT is up 7% at £93.4 million with stepped up contributions from Redde and Spain. And our PBT grew 6.1% to £83.7 million. We have also improved our return on capital employed, which is one of our key operating measures, by one percentage point to 13.5%. So including the share buyback purchases of £50 million to the end of October and the recent Blakedale acquisition, we have kept leverage well within our target range at 1.6 times.

With this excellent progress, I am pleased to announce that the Board will be making an interim dividend payment of 7.5p, which is a 25% increase. And coupled with our previously announced £60 million share buyback, this provides good capital returns to our investors.

[Slide 6]: What has been supporting our growth and strong operational performance is an increased fleet size, which despite the constraints we highlighted, grew 8% to over 130,000 vehicles. The main use for this fleet was delivered in the claims and service business following two large insurance contracts, which went live in the year and also in Spain where we have seen continued growth of rental services. We have broadly maintained margins across the business with management taking careful pricing actions to mitigate inflationary cost pressures. The cost and pricing measures implemented have been effective, and managing inflation continues to be an active agenda item.

It's also been encouraging to see that we have had further take up and cross-sell of our value added services, supporting our position as a leading integrated mobility provider. And building on the merger plans from 2020, we have not stood still and continue to broaden our market proposition to deliver on our strategic goals.

The acquisitions we have made post the merger have integrated well and will deliver long-term incremental value. FMGRS, which we acquired in September, 2020 out of administration, which undertakes body shop accident repairs, has very significant demand from the market. The drivers to grow this lies in recruiting more technicians to support volumes and maximize capacity, and we are very excited about building this further.

And our more recent acquisition of Blakedale this year, which was a well run family business, adds specialist traffic management vehicles as a further capability into the UK business. Since acquiring this business, we have grown both the fleet and customer base through cross-sell opportunities. We've also seen progress being made in developing new propositions.

For example, building on our clean energy transitional plans where we are combining our capabilities by offering fully funded electric vehicles and charging point subscription services for customers supported by our in-house charged EV business, which we acquired last year.

And whilst the majority of the merger integration acquisitions have been UK focused, we were delighted to see a cross-referral from within the existing UK customer base to secure an insurance contract win in Spain for repair services as well as an outright win for repairs from another customer. This adds yet another new revenue line for the business and builds on our capabilities. So overall, the Board is pleased with these results, which has delivered good value to investors and shows that more opportunities exist to grow and develop the proposition. And on that note, I'll hand you over to Philip.

Philip Vincent: CFO

Thank you, Martin. Good morning everyone.

[Slide 8]: As Martin has said, this has been a really strong first half and we're very pleased with how our team's performed to deliver what is a really good set of results. So, first of all, for an overview, with strong revenue growth of 20%, with revenue excluding vehicle sales of £627.6 million, and rental revenues grew 9% with growth in vehicles hire and rental rates, and claims and service revenue grew 32% with new contracts going live and normalised traffic volumes.

Vehicle sales revenue of £68.7 million was 24% lower than the prior year as the continued restrictions in new vehicle supply and strong rental demand have reduced vehicles available for sale. And whilst residual values have started to decrease this year, they are still very high.

We sold 7,700 vehicles in the first half, which is 24% lower than last year's as vehicles were retained to meet demand. And as a result, disposal profits of £24.7 million were 9% lower than last year. Underlying profit before tax increased to £83.7 million, increasing 6%, but excluding disposal profits increased 13.7% demonstrating the underlying growth of the business. And statutory EPS of 34.4p includes a benefit of £28 million being the reduction in depreciation rates, which does not impact underlying results or cash as I explained at the year end.

Steady state cash generation before growth CapEx continues to be strong, growing at 29.6%, and free cash flow of £2.1 million includes £69 million of investment growth in CapEx and £10 million of acquisitions. And net debt of £661.3 million increased 12.6%, and I will talk you through that increase in a moment.

Now we'll have a look at each of the segments.

[Slide 9]: Let's start with UK and Ireland. A higher revenue of £184.1 million grew 7.8% year-on-year. Average vehicles on hire reduced to 1.8% due to the restriction of vehicle supply which held back growth. And revenue per vehicle increased 8% helped in part by price increases, which were managed across our products. The rental margin for the half year was 15.6%.

This is above our sustainable margin of 15% and 30 basis points higher than the full year last year. Although it's two percentage points lower than H1 last year, this is mainly due to the investment in expanding our charged EV business, readying it for growth as EV supply improves.

A restriction in vehicle supply combined with the investment in charge EV resulted in a 4.2% reduction in rental profit to £28.8 million. Vehicle sales volume of 4,900 was 13.8% lower than the prior year due to restricted vehicle supply. And whilst the average profit per unit on disposal reduced 5.5%, residual values for vehicles have continued to be high with an average profit per unit of £3,800.

In H2, we expect access to vehicles in the UK and Ireland to continue to be limited, we would expect H2 rental margins to stay around 15% and residual values are likely to remain high for some time.

[Slide 10]: In Spain, vehicle hire revenue of £122.7 million grew 13.9% year-on-year, and rental profit grew 35.7% to £25.1 million. Whilst there has been continued restriction on the supply of LCVs in Europe, Spain has been successful in securing supply to grow their fleet with average vehicles on hire, increasing 7.7%. And rental margins increased 3.3 percentage points to 20.4% with a full period of price increases that were carefully implemented in January, as well as good cost control.

20% margin is likely to be a peak, as margins are expected to move towards the sustainable level of around 15% in the medium to longer term as the fleet is replaced and price inflation fully impacts the cost base.

And whilst the volume of vehicles sold was 36.2% lower than prior year, residual values in Spain have continued to be high with a profit per unit increasing to £2,100. And as a result, disposal profits increase to £5.9 million. In the second half, while we expect access to new vehicles to improve, we believe that residual values will remain strong.

[Slide 11]: Claims and services revenue was £331.4 million, that's 31.5% higher than the prior half, reflecting the increase in traffic volumes seen in H2 last year. The business is now also providing fault and non-fault claims solutions and repair management to previously mentioned new insurance contracts. Hire length also remains extended due to the continuing impact of macro challenges in the supply chain for parts.

An EBIT margin of 6.2% was 20 basis points lower than prior year due to a higher mix of direct hires and direct repairs, alongside the costs incurred bringing on the new contracts. And as we extend services to insurance partners and grow the business, we may take on direct services that are lower margin, but grow absolute profitability and help secure multi-year multi-service contracts.

You can see EBIT for the half year was £20.4 million at 27.1% increase on the prior half. In the second half, we expect volumes to continue to grow as we enter the winter months and hire length is not expected to reduce significantly. And whilst margin should improve as volumes grow in the second half, this will be gradual to the impact of product mix.

[Slide 12]: This chart shows the growth of underlying PBT from £78.1 million in H1 last year to £83.7 million this year. Total disposal profits reduced from £27 million to £24.7 million, representing 30% of profit in H1. As expected, you can see that the underlying performance is driven by volumes and margins across the business and continues to outgrow the £2.3 million gap created by the year-on-year reduction in disposal profits.

[Slide 13]: We'll now take a look at cash flow. Steady state cash generation of £121.2 million was £27.7 million higher than the prior half year, driven by growth in the underlying performance of the business

and lower replacement CapEx in Spain. Working capital was at £19.6 million outflow, including supporting the commencement of new insurance contracts.

And growth CapEx of £68.7 million reflects the growth in the Redde fleet to meet the increasing volumes and in Spain to meet rental demand. £9.9 million was spent on acquisitions in H1 and free cash was £2.1 million.

[Slide 14]: We'll now have a look at our borrowing facilities and financial position. The business remains well financed with a strong balance sheet to fund growth. And you recall, that we completed a successful refinancing in November last year. We placed €375 million in private placement with terms up to 10 years at an average fixed rate of 1.3%.

And we have now executed an option to extend our £475 million revolving credit facility by a further year to November 2026. And it's worth noting that in the current interest rate environment, 66% of our drawn debt is fixed, and this provides the business with significant protection against rising interest rates. And our average borrowing cost at the end of October was 2.7%.

At the end of October, we have £308 million of headroom available against our total facilities and this financing places in a strong position to invest in the business for growth. And we continue to operate very comfortably within our headroom in all our covenance and year-end leverage of 1.6 times, well within our policy of one to two. The chart at the bottom of this slide bridges our net debt as of April at the year end to net debt at the end of October of £661 million.

In the first half, we generated steady state cash of £145.8 million, excluding the lease payments, working capital increased £19.6 million as Redde took on new business, and £68.6 million was invested to grow the fleets in Spain and Redde to meet demand, and £9.9 million was spent on acquisitions. And we returned £74.2 million to shareholders in the form of dividends and share buybacks.

Our objective remains to employ a disciplined approach to investment to deliver sustainable compounding growth. You can see in the chart on the top right of this slide that since the merger, we've invested £41.5 million in acquisitions extending the products and services of our mobility solutions platform. We've returned £104 million in dividends and returned a further £56 million to shareholders through the buyback.

With the buyback nearing completion, we are focusing our efforts on supporting business growth and want to ensure that we have flexibility to grasp opportunities as they do arise. We do continue to view buybacks as a useful element within our capital allocation model and the board will keep them under careful review.

Thank you and I'll hand you back over to Martin for the business update.

Martin Ward: CEO

[Slide 16]: Thank you, Philip. Ok, we'll cover the business updates.

We thought it'd be useful to give some high level context to the markets in their present state. In the UK&I, there is a continued strong demand for rental typically from well-established large users, as well as high areas of growth like communications and telecoms.

More recently, there has been some slacking in parts of the market, such as retail and logistics as they adjust for a downturn. Overall, what we can see is that if product is available, the demand is there either for rollover replacement contracts or to support growth.

Rental and subscription is still trending well over ownership and a van is generally used as a workhorse to be operated and not owned. And the structural trends continue to favor rental with flexible terms.

Supporting this trend for Redde Northgate is the ease of rental and the value added services such as the dropping convenience of our extensive workshop network, more vans repaired in our own accident body shop network, and the use of standby replacement vehicles for emergency purposes.

New supply of LCVs will be an enabler for growth as well as the future development of fit for purpose electric LCVs, which are yet to materialize for mainstream usage.

If we look at Spain, the economy is holding up well compared to most European countries with GDP performing above the European average and public investment support in build projects supporting activity.

Core sectors, such as infrastructure, IT and telecoms are doing well. The country has also benefited from a COVID rebound as a go to tourism hotspot, which feeds into business activity. Though economic headwinds prevail, employment rates are good and trade remains buoyant post the half one period.

Van availability, as Phillip said, has been less constrained in Spain over the last few months, supported by the fact that left hand vehicles are a mainstream product for European manufacturers, unlike the UK's bespoke right hand vehicles.

This good supply of LCVs has helped the business grow. And even with this supply of new vehicles, residual values continue to outperform. Spain has also been extending its product and service offering with B2C digital only car rental and open workshops, which services, maintains, and repairs non-customer vehicles. And more recently, we've extended into insurance accident repairs.

Now, looking at Redde there's been a strong rebound of traffic volumes post COVID, which has supported accident and incident frequency. The rush hour appears to be making a comeback as more UK workers return to their desks. Market demand for high volume repair capacity is very hot, and having the ability to self source this from our own body shops is a clear market advantage. Technicians are in demand, which is a growth driver to undertaking more repair work.

In addition, we can see an increase in outsourced opportunities being offered up specifically in insurance services, fleet management, and leasing support services, which is independent of our strong pipeline over the next 24 months. This outsourced demand feels structural with the primary aim being to reduce the in-house cost.

We have also seen demand from existing customers looking to do more with us, and this is all encouraging for our future prospects. In addition to winning new contracts, our growth will be linked to growing our skilled workforce and building capacity into the repair body shops, which is also an enabler to growing other mobility services.

[Slide 17]: We signaled the constraints in vehicle supply in the previous reporting period. So the feeling is if we could have grown further, we could have grown further with more vehicle supply despite the economic challenges. However, we were delighted to have secured an 8% or a 10,000 vehicle growth in our fleet to over 130,000 vehicles.

Our depth of relationships with OEMs plays a pivotal role in securing new stock. To grow the fleet at a time when supply has been constrained is a credit to our fleet team and we have a very strong balance sheet and access to contract higher funding to support new fleet opportunities as they arise, either to secure growth or to feed replacement stock.

We're also on a journey of broadening into more OEM relationships than in the past, particularly with growing quality brands. This is opening up opportunity to work more closely with all aspects of the vehicle lifecycle for OEMs as they seek to establish a bigger foothold with us in our markets. Residual values have been well signed posted from public data points and values have been softening slowly. We can see that with continued limited new supply, values remain relatively strong compared to historic data.

Our current position is that we are managing stock as in we are deliberately selling less so we can support rental demand and we will monitor this to maximize potential returns. If you look at the chart on the right from the Society of Motor Manufacturers and traders, it shows LCV registrations in the UK and forecast registrations through to 2024.

A gradual return to near normal levels is expected, so there is unlikely to be any sudden changes in the market. The four year shortfall of circa 200,000 LCV registrations in the UK alone supports our view that normalisation will be gradual.

[Slide 18]: What these tables and charts do is provide a breakdown of the customer profile by sectors and the penetration in each by country. The takeaway here is that with a very broad spread of sectors with blue chip government and mid-size businesses making up more than half of the volume of the hires, what we see is the overall diversity of sectors and customers with no one sector or no one customer dominating the mix which forms a resilient position for the rental business.

And as I mentioned earlier, retail and logistics are the sectors where we are seeing some slacking in, but we got ahead of the game on this by proactively rotating fleet to higher growth areas.

[Slide 19]: The diagram here amply depicts the services and products on our platform and how these combinations support the requirement for joined up integrated services. As an example, we have

leveraged the relationships with the businesses and seen a 75% increase this period from Northgate customers alone taking up our full suite of accident management products, as well as building a strong pipeline of customers looking to take up the management services. These crossover opportunities from a standing start are already supporting several thousand additional customer vehicles under our management.

Our data and telematics and auxiliary sales have also increased in numbers supported by the fleet and accident management services, which is another example of how one service feeds another. We have also seen more services on the platform being taken out by existing customers. For example, the provision of fault accident repair work and direct vehicle replacement together with roadside accident recovery.

It's the combination of these services which is unique in the market and puts us into more new conversations than any standalone proposition. And whilst we have a broad product and service offering across the mobility life cycle with no major gaps, we believe there is also opportunity to explore markets where these services could add value. Those are adjacent markets.

[Slide 20]: At our last presentation in July, we highlighted why Redde Northgate was a resilient business with many factors and drivers supporting our position in the market. We are very pleased to see that as we anticipated these have stood up well in these results. This resilience continues to be relevant with more outsourced opportunities across the platform of services coming to the table and supporting a strong pipeline over the next 24 months.

We are delivering more services to existing customers and gaining market share. We don't win all the time, but conversion levels are high. We have broadly maintained margin and effectively managed cost inflation through the period. We know there will be more to come on that front, but we are well placed to manage this.

Another good example is the energy levy, which we have been able to share with our customers through the repair body shops. We cover the customer profile for the rental business and the broad base of sectors which are well diversified. And to add to that, the Redde business base is primarily large insurance companies, blue chip corporates, dealerships and leasing and automotive companies of scale, which adds to the diverse nature of Redde Northgate.

To add to this, we are seeing a high number of potential bolt-on acquisitions being offered up and we will be carefully evaluating these against our model for those that present attractive long-term quality returns.

As Philip mentioned earlier, we continue to have a strong balance sheet with 66% of our funding secured during the period at a very attractive rate of 1.3% over six, eight, and 10 years. In addition to that, we'd recently extended our RCF facility out to 2026. With over £300 million of headroom at the end of the period, we are very excited about developing opportunities and strengthening our position.

[Slide 21]: Before we get to the outlook, I wanted to just touch on what we have described as our investment proposition, setting out what we see as our key attributes which make Redde Northgate an attractive equity story. And these attributes have been shown throughout this morning's presentation.

Much of the success of the past six months has been through leveraging our market leading platform and the competitive advantage we have from our operational scale. And the structural shift from ownership to rental is supported by an increasing desire by our customers for a trusted supplier who can deliver a broad set of product and services. We know that EVs will play an increasingly important part of many customers net zero journey. And we are positioning ourselves to be a key enabler of this energy transition.

We are helping our customers navigate their early steps in this through advice and innovative products, such as the bundled charging product I talked about earlier. And we are also helping our colleagues navigate what is a difficult cost of living crisis. This week, we took the decision to make a special payment reflecting this crisis which would benefit over 60% of our colleagues across the UK, Ireland and Spain.

We recognize how valuable an asset our colleagues are, the experience and efforts they put into the customer service and into managing fleet acquisition and cost management in these most challenging times.

Finally, we are very mindful of the support we get from our stakeholders and investors and ensure we make disciplined capital allocation decisions. We have a strong track record of delivering both organic and inorganic growth and using both dividends and buybacks to enhance shareholder returns.

[Slide 22]: And finally, to look at the outlook. You've seen this in our release this morning demand for our products and services continues to be robust, supported by strong levels of residual values. Many of our services are contracted over multiple years, which gives good visibility on revenues and income.

Given the excellent performance to date, we now expect the balance of the year to be modestly above market expectations. And the Board is mindful of the ongoing macroeconomic environment and the LCV supply constraints in the UK, but we remain confident that our integrated mobility platform will continue to create sustainable shareholder value.

Thank you for listening and I hope the progress you can see that we have made and the resilience in the business is very evident. We'll now move to questions and answers, taking questions from the floor first, followed by any questions that come in on the online platform that we've got set up.

Analyst Q&A

Andrew Nussey (Peel Hunt): Good morning. A few questions if I may. If we start off in Northgate UK, if we adjust for the investment in ChargedEV, would the margins have looked pretty similar to the first half of last year and how long will that investment phase last?

And secondly, in terms of new LCVs in Northgate UK, how much visibility do you have on those landing through the second half and maybe into the first half of next year? And you mentioned that you were looking at new or challenger OEM relationships.

Does that have any impact on your buying power with existing OEMs and effectively the workshop efficiencies that you would then get as a knowledge has to be built up on the newer OEMs? Thank you.

Philip Vincent: Andrew, on the margin I said it was mainly ChargedEV. To be clear, that's investment that's gone into ChargedEV, a lot of that's in back office support to support new customers that come online. We don't see more investment having to go in currently. What we're waiting for really now is EV supply to pick back up again, and therefore there'd be more demand for people to install charging points.

People generally don't want to put a charging point on their drive until they know the vehicle's coming the next week or something. So there has been a delay in that. As that supply eases up, we'd expect to see that coming back up. If you'd have excluded that, it would've been probably just fractionally below prior. So that is the majority of it.

Martin Ward: And on the sort of new LCVs, particularly in the UK, I would just point at the charts from the Society of Motor Manufacturers and Traders, which show how that sort of gradual return to 2024 normalisation occurs. There isn't a lot of visibility from manufacturers in terms of what will be landing in the UK. We get anecdotal information, but there isn't a huge amount of visibility. But the view is that product is being made, product will be shipped to the UK, and we'll see more of that sort of probably coming through in the early parts of next year.

On the challenger sort of OEM, and therefore relationships with existing, I think particularly Northgate has had a very sort of narrow relationship with a number of OEMs in terms of the products, and probably for good reason as well, around quality and sort of durability. What we're seeing is that some of the newer manufacturers, I say newer, they've probably been around 20 plus years, build a quality product that is very durable.

There's good knowledge in the workshops around the components and the reliability. We're building on that because I think there is appetite for manufacturers that want to spread their product base to get into the rental sector. And we see that as a good opportunity.

And probably what I said in my commentary as well is that does give us a good opportunity to do more work with that OEM around the life cycle of the vehicle in terms of supporting the accident management repair, the service maintenance and aspects of it and the daily touchpoints that may occur when customers are using the vehicles. And of course, we've got the capability and the network to support that.

I don't think there's any issues there with challenges with existing relationships. Some manufacturers chosen to say that they would prefer low volume, high margin products, as in supporting sort of prestige car and all the rest of it as opposed to high volume on fan. But I think over the lifetime of experience to this market, you tend to find the most manufacturers favour market share over... If you're a manufacturer, you produce more goods and they tend to favour gaining market share over that sort of high margin position.

Ok, and I think I covered the workshop piece, Andrew.

David Brockton (Numis): Can I ask two questions please? Firstly, I'm intrigued by the two new insurer repair contracts in Spain. Is this the beginning of a Redde business in Spain? Just wondered if you could touch on if it is, how that could expand.

And then the second question is a bit more sort medium term. You've clearly put a very strong case as to why normalisation in residual values will be modest and you're making very strong progress in the, well, I guess what you could call a core business in terms of rental and accident management. Is it now, I guess, your expectation, appreciate you can't be definitive about this, but that the business can continue to grow, notwithstanding that moderation as it occurs? Thanks.

Martin Ward: Ok, David. So in Spain, the cross referral from an existing UK for repair, we've got that resource. Those are our assets and resource in Spain, so we've got that capability, it was a natural fit to do the repair element. I wouldn't say all aspects of Redde translate to Spain. Many, many, many moons ago when the business was called Helphire, we went to Spain and undertook several thousand vehicle replacements and the sort created tire, the law doesn't quite stack up the same it as in the UK. So we've got no ambitions to develop a full suite of products.

However, the fleet management piece and the repair side with insurers definitely works really, really well. And there's an opportunity to develop that. The start of the two contracts is a start. It's another revenue line which diversifies our potential there in Spain.

On the second piece, that sort of medium term normalisation residual values, and will it hamper our sort of ability to grow with supply, I stood back from the fleet and sort of said, we made the comments about constraint last period and then we grew 10,000. I look at it as a sort of portfolio of a business. We don't get siloed just on the UK aspect in the business. If there's opportunity to grow with good margins in the business and put new fleet to use, getting hold of cars is easier than getting hold of vans. So you've seen that in the numbers that we've reported.

The Redde fleet is predominantly cars, and remember as well, in Spain is a different mix. You've got more sort of passenger car type vehicles in Spain as well, so it's a different mix to the UK. I don't think it completely contains our ability to grow. I think we'll have that opportunity to grow as fleet more generally becomes available to us.

David Farrell (Jefferies): One of the benefits of the last few years of high residual values have been that net replacement CapEx has been pretty low relative to history. Can you just maybe talk about your outlook for that over the next kind of few years? Are we expecting a step-up, and if so, is that kind of playing into your view around not extending the buyback?

And then on Redde, I was just wondering if we could get a split of the revenue growth by how much of that was a new contract, how much of that was underlying and how much of that was perhaps price increases? Thanks.

Philip Vincent: So net replacement, it's very hard to forecast at the moment obviously because it's quite hard to have visibility over vehicles. I think what we say, David, is we wouldn't see it as a step-up. We see it was a gradual move back up to more normalized level as fleet becomes available. We don't suddenly believe that fleet is going to come gushing through our doors. Be nice if it could, but it's not going to, it's going to be increasing slowly.

As it increases slowly we'll take those vehicles on. Some of them will replace the fleet where necessary. Other will be used to grow the fleet, as we've been able to do in Spain this year. So it'll be a mix of net replacement growth and CapEx, but we will expect it to start to move back up over the next two to three years, yes, but not a big step-up.

And I think is that impacting our view on share buy-back? No, not that by itself. It's the overall wish of how we're spending our money and how we are allocating our capital through our capital allocation model. And it's the fact we do want to grow the business, and we've got lots of opportunities that are passing across our desk, which we're viewing on a regular basis, and we want to have the firepower to be able to execute on some of those.

Martin Ward: And on your second question, David, we haven't split out the revenues and haven't got numbers to talk to today. We'd have to ask the question, is it commercially sensitive to provide that type of level of detail? So we'll take that one away and we'll follow up.

James Zaremba (Barclays): Morning, three questions please. The UK margin's above your target margin but hasn't benefited from a growing fleet for a few periods. Is there some buffer here for when supply constraints ease and you can grow the fleet again? Or are there certain cost wins you might want to flag, such as higher depreciation in newer vehicles?

And then I think last year you mentioned you were putting Redde and Northgate into the same IT systems, so I was wondering if there's any comments there about operational synergies you might be seeing this year. And then lastly, just surrounded the EV transition. The Spanish fleet seems better positioned than the UK due to that waiting to smaller vehicles, so do you have any kind of plans in that market? Thanks.

Philip Vincent: On the margin, James, I think you are asking could it potentially be higher again? We'll always target management to over-deliver on that sustainable margin, yes. Our aspirations - can we go higher, Yes. If we're just being realistic, I think that we know we will have cost inflation coming through and whilst we manage pricing increase costs, all the products and services carefully, that we've got to

look at what the market's doing as well and how much customer's prepared to take. And they may come a point where we have got slightly more cost inflation coming and we can't push it all through.

That's what we've just been cautious about it, but it's what we're saying around 15%. And we do believe in the longer term, leading into long term, that should be a sustainable number. If you think where Northgate UK has come from, it's come from a 7% margin not more than about four years ago. So it's more than doubled in that period, so we're doing well to maintain it around that 15% level.

Martin Ward: And on the IT systems, so we are putting the Spanish system in English into the Northgate UK business. It's already in Ireland. So we're having a common platform across the rental side of the business. And then part of our project, what we call Project Connect, is that we're joining up all the data streams from across all the business so that we have sort of one version of the data. The view being here is that over time we can put all the data into the middleware, once we've got customer consents to use the data across the various businesses, so that we can build that integrated platform on a digital basis.

When we deliver our services in the future and we talk about integrated, integrated will also mean digitally integrated so that from roadside accident recovery, back to one of our body shops for repairs to authorisation of a replacement vehicle, whatever type it is, through to recovery of expenses. All of that would sort be joined up across the various businesses on a digital platform. And we're making good progress against that. We haven't done a big show on all of that side of things. We're slowly going on with it, but that's progressing very well.

And your last point, James, around the EV transition of smaller vehicles. And you mentioned Spain. In Spain the legislation has just been moved forward to 2035 for that sort of transition, whereas in the UK it's 2030. All our plans are building on how we work with customers to help them with their transition plan in terms of what product would be available.

And yes, there may be better product at the smaller end of the market than the work horse side of the vans, but we're working with customers, engaging with them to help them build those transition plans in terms of what it looks like and when their fleet would actually transition, and that's well underway. It's early stages, because as I said in my presentation, you haven't got fit for purpose mainstream vans yet that can do the workload that customers require. But where there is product that matches, we can see customers taking up those type of products at the early stages.

James Pardon (Berenberg): Just two follow-up questions. On the cost inflation piece, what areas of the business do you expect to see more cost inflation coming through on? And then on the Redde business, obviously very strong growth in the first half. How much runway do you see for growth in the second half of the year and what are the drivers behind that now that these new contracts are coming through and traffic volumes are back to more normalised levels? Thank you.

Martin Ward: On cost inflation, it would probably be more of the same that we see. So whether that be of wage inflation, cost of supply in terms of vehicles, purchases of goods, energy, all of the above, that sort of continues. As I say, I think the management team have done a very good job managing that position to date. We're keeping tabs on that to make sure that we continue to manage that, but that's where we see those sort of pressures coming from.

On your second question, growth drivers in Redde, the pipeline is very strong. It can take sometimes two years plus from a tender through to being successful to win contracts. But in our pipeline we can see quite a bit of new opportunities from outsource services coming through. So we would expect with our high win rate to see some of that coming through feeding the book, as well as the maturity of what we've already taken on.

Dan Thornton (Davy): Just a few questions for me guys, and well done on excellent results. I just wanted to ask about the pricing environments in the UK. Just this quantum of pricing increases and whether you think you can put prices up again and also what competitors are doing. Are they following suit?

Also want to ask on the Irish business, are you seeing any impacts from some signs of macro slow down there? Particularly with job cuts in the ICT and outsourced pharma areas, whether that's feeding into any sort of impact on the ground? And other question I had was on the EV charging capability. Should we expect outsized further investment in your EV capabilities, or is that largely done for now?

Martin Ward: Pricing increases, commercially obviously we haven't sort of published, but we're talking about of single digit increases that have gone into the books, I would say in line with the market. So demand for mobility is very, very strong. I make the point and I make it again, these are workhorses, vans are workhorses, they're a necessity, and also mobility for people in terms of using transport is a necessity. I think the market has absorbed all sort of price increases reasonably well.

The Irish business is, I wouldn't say there's any standout red flags. I think it's seeing what we're seeing in the UK in fact. So there's no major fallout. It's not a huge part of the overall but we're not seeing anything that we would particularly note.

And on the EV charging business, we do expect to see continued investment. I think we've got it to a size now that we're comfortable, that we can meet the near and medium term demands. But if we see the opportunity to develop that further, we would invest in it. It's an area of growth, it's a direction of travel that we are supporting, and we can see that when the take up becomes mainstream, that business is going to be very busy. Thank you.

Annabel Hewson (Stifel): Just two questions, please, if I may. First on the Northgate side, we're sort of supporting customers in this climate. You talked about retail and logistics perhaps being weaker. Is there any sort of benefit in supporting those customers to maintain longer relationships, or is it all about pivoting to telco to comms to higher growth areas?

And the second one just around M&A, and Phil, you talked about a matrix of what you're looking at target wise, and that being a bit fruitful. Can you give us colour around how that sort of matrix looks and perhaps how that fits in with broadening your geographic footprint .

Martin Ward: Thanks Annabel. On the logistics retail front, I think obviously that's a factor of what sort of trading activity is out in the market. They're just downsizing, I would say. They're not going out to business. We've got some big customers in there. I say big customers. They run quite a large fleet with us, so they're just downsizing to match what they've got, and they're long term customers so we've been with them a while.

So yes, we supported them through COVID. I don't think we need to do anything additional other than be flexible with our product, which we are. I think they'll get through this, hopefully, and come out the other end when the market's booming and they want to take more. But in the meantime, that's an opportunity to retain some of the fleet, allow them to sort take a breath for what size footprint they need to service their own demands. But we're with them and supporting them. I think that's where we're at. Philip, on the M&A matrix?

Philip Vincent: We do have a grid we look at, and it depends what it is we're buying. So if you're looking at fleet, we will look at fleet deals but we're very focused on how we're going to value that fleet, relative to residual values today. And also the scale of it. We don't want to spend a lot of time on very small deals, which actually take a lot of due diligence. If you can do things like just buy the assets rather than buying companies that's more efficient.

We have various things we look through. I think we are keen for looking things which extend the products and services that continue to either extend that mobility solutions platform, or extend us into a customer that we haven't worked with before as well. That that can be quite good as well. But it's got to be something of scale and with the right margins for us just because of the work inquiring an M&A deal. There are lots of very small scale opportunities around, but some of them are just too small, and when you look at the work involved it's just not worth it. So we're very particular in where we play.

Joe Spooner (HSBC): Thank you. When you are looking at prices, are you just looking to pass those cost inflations through, or given the environment that you're trading in where your product is in demand, is there a margin opportunity in that pricing as well? And secondly, I think on the Spanish business you talked about the margins normalising over the medium term. What is it within that margin structure, that cause that margin pressure from this point forward, if you are doing things like passing on inflation through pricing? Thanks.

Martin Ward: Ok Joe. On pricing, we're not operating independently. We operate in a market where there's still competition and you have to get your pricing right. And we're mindful as well that we're taking customers on a journey, so we are supporting them through what will be their transition period as well when they move to EVs. We're building up a long term relationship. The pricing will certainly pass on the inflationary side of that, and we bring customers along with us. As I said, we're not operating independently, we are operating in the markets, we have to get that right. So that's where we are on pricing. On the Spanish margin piece, Philip?

Philip Vincent: Spain's obviously just over 20% today. We're saying normalised should be around 15%. So why is that Joe? We put prices through once a year in Spain. They generally go through at the beginning of the calendar year, and that's generally on flexible product. So we are priced premium in the market for flexi, definitely. We're not going to carry on just being able to put prices up and up. As Martin said, we're not pricing independently in the market. We've got a price in line with that market.

Minimum term is always more competitive in Spain, because we're up against the larger leasing companies there. What we tend to do there is we price when we start a contract with the customer based on the cost of the new vehicle, and look at the return we're required, and then it's fixed for that term. So we put price increases through, they drip through a minimum term as it churns, and they go immediately through on the flexi.

What we're seeing is that as we move forward in the medium to long term, we know we've got cost inflation, we're unlikely to push all of that through onto the customer, given what the market's doing. And also we are going to have to replace the fleet over time, which we've spoken about. We know that capital cost of the fleet will be higher than it was three or four years ago. We know that cost is going to be moving up slightly. So when we put all those things together, we are very sustainable at 15%, just over 15%, but we do anticipate we're at peak today.

Martin Ward: Ok, thank you. We've got some online questions?

Greg Poulton (Singer). "Are share buybacks likely to continue, or are these likely to become less of a priority as vehicle supply comes back and CapEx steps up?"

Martin Ward: Ok, thank you Greg. We're keeping share buyback under review. That capital allocation that we've talked about is very important to our investors. I think we've done well with the share buyback to date. It's a risk free return to the business, which has served as well. So as I said, I think we would keep it under review.

Clearly we've got a very strong balance sheet, but we're also looking at how we grow the business as well. I think Philip might have made the comment, you don't grow the business through doing share buybacks in its own right, so there are opportunities for us to grow over the of medium long term with some bolt-ons, and we take that into consideration. But the Board is very mindful, the benefits that the buyback brings.

Martin Ward: Ok, Finally just to thank you all again for coming and taking an interest in the business. As I say, it has been an excellent period of growth. We're not very good at saying that ourselves, by the way. We don't like to mark our own homework, but seeing the early notes that you guys have come out with, I think you're sort of getting your arms around the business.

It's this momentum that we're building on that I think is important. That it is some of the things that we brought together is bigger than the merger itself, and we're seeing that come through in the business and hopefully we'll continue to see that as results progress.

Thank you.