

ZIGUP plc
Full Year Results Analyst Briefing
Audio Webcast

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Transcript



Martin Ward: CEO

Philip Vincent: CFO

Ross Hawley: Head of Investor Relations

Claire Owens: MD, FMG

Martin Ward:

Good morning, everyone. Thanks for joining us today. I'm Martin Ward, Chief Executive of ZIGUP plc. Joining me today is Philip Vincent, our CFO, and we've also got Claire Owens, our MD of the FMG businesses here.

The presentation follows the usual format in terms of the agenda. I'll give us an overview, first of all, in terms of the business performance. It will go into Philip then for a summary of the financial performance before coming back to do a strategic review with myself and Q&A at the end.

This is not only a great set of results, but a record set of results with continued delivery of the strategy set out in 2020. The maturing claims and services contract wins previously announced led to good levels of growth in the UK, and Spain has enjoyed the benefits of a strong economy and normalised vehicle supply.

This has supported underlying revenue and EBIT growth. PBT reached a record high which benefited from higher disposal profits as we rotated the fleet into a strong used market for LCVs.

Cash generation was very good and from an EBITDA of £446 million, we have been able to progress further investments in the fleet assets, increasing replacement CapEx spend this year, which reduced the age of the fleet. We have also made further returns to shareholders with the completion of the £30 million share buyback programme, taking the share buyback to £90 million since we commenced the exercise.

We continue to support a progressive dividend policy, which has returned £56 million this year and increased the balance sheet value with fleet assets alone accounting for £1.3 billion. These returns and investments have been achieved whilst maintaining an unchallenging leverage of 1.5x. And of course, this has improved EPS and supported an increase in dividend returns.

Looking at the operational highlights, just from an overview perspective. Operationally it's been very busy, and the business has cemented a leading differentiated proposition in the market with the platform of services appealing to a wide number of customers. It has been an exceptional year for operational progress. We have added to our rental capability with a broad range of new products and value-added services in both the UK&I, and Spain.

One good example is Blakedale, which has been a stand-out performer in the traffic management space and we have supported growth with investment in their fleet, which is up to 35% and new customers, which are up 18%, and operating profits, which are up over 100%. We also support the customers with additional services, including the specialist fit out of key customers owned vehicles who trust in our expertise and specialism in this area.

Similarly, Claims and Services, which was formerly known as Redde, has grown its specialist capabilities and broadened its offering, including a new set of out-of-hours, first notification of loss, and accident vehicle recovery services for insurers which are seeing growing demand.

Our scale has allowed us to do more for our existing partners, including contract expansion and new outsourcing customers such as Lex and Abaca Insurance, which went live in the year. We also won a new contract to support a long-standing group customer, Royal Mail, with repair capacity and have more opportunities in the pipeline. Investment in automating and digitalising our systems and processes is a long-term programme that brings immediate benefits.

For example, we launched a self-service portal for direct insurance rental customers where around 75% of monthly activity is now going through online with no manual intervention. We plan to roll out this initiative more widely this year to other partners. Investment in our integrated repair facilities, an independent network, which is now over 600, is increasing our repair capacity, which remains a scarce commodity.

Broader initiatives include our customer first programme, which has re-energised the team after what has been a difficult period where supply constraint in the UK&I, and parts delay is of course the real challenges for those on the front line.

Looking at the structural trends towards EV take up in the LCV market, there is positive momentum in the UK&I, with a fleet up over 140%. In Spain, the pace is a little bit slower, albeit with an increase. We've also responded to a changing EV infrastructure market by developing new partnerships with energy providers. These are increasingly the best route to looking to install home and workplace chargers.

So overall the progress in FY24 was significant and position us well for the opportunities ahead. So that's the brief overview for the business and I will be back to talk about the strategic developments, but now I'll hand over to Philip for the financial overview.

Philip Vincent:

Thank you, Martin, and good morning, everyone. It's great to be here this morning talking about another really good set of results.

So we'll go straight in. If we turn to page seven, we'll take a look at the headlines to start with. So underlying revenues excluding our vehicle sales are £1.5 billion. That's 13.7% higher than the prior year with growth across all of the businesses. Earnings before interest in tax increased 13% to £213.7 million and underlying profit before tax grew just under 9% to another record high of £180.7 million.

Underlying earnings per share increased 10.4% to 61.4 pence in line with the increase in PBT and benefiting from the share buyback programme and return on capital employed increased 40 basis points to 14.5%, benefiting from underlying profitability and disposal profits.

So if we just turn on to page eight, we can look at revenue. Our platform continues to attract and benefit our customers and we've seen revenues grow across each of the businesses. Group rental revenue grew 6.4% and in the UK&I, average VOH reduced 7.7% year-on-year due to limited access to new vehicles, but supply has improved significantly through the year with a good supply of vehicles now available. Product extension and carefully managed pricing enabled rental revenue to grow 4.6%.

In Spain, access to vehicles has returned to normal and average vehicles on hire grew 4.1% and pricing continued to be carefully managed, resulting in rental revenue growing 8.4%. Claims and services revenue grew 19.4% with the full year impact of the new contract wins as well as growth from existing contracts and vehicle sales revenue of £312 million which was £159.6 million higher than the prior year as new vehicle supply improved in the UK&Ireland, and it continued to be strong in Spain.

Now turn to page nine. This chart bridges prior year underlying profit before tax of £165.9 million to £180.7 this year. So group rental volumes across UK&I and Spain contributed £6.7 million of additional profit before tax.

Our procurement activity continues to develop and alongside careful management of pricing meant that we have managed cost inflation across the businesses alongside extending our product services and a focus on customer profitability. This has resulted in Spain's rental margin of 18.2%, which was higher than expected and will be higher than our medium term expectations of 15% for longer.

Rental margin in UK&Ireland increased 40 basis points to 15.5% in line with our expectations and disposal profits decreased £3.8 million in the UK&Ireland as older vehicles were sold with lower residual values.

In total we sold 36,800 vehicles in the year versus 18,200 last year and that also includes 7,000 Auxillis cars and non-fleet vehicles this year. Residual values have fallen in the UK&I and Spain partly reflecting older vehicles being sold, but overall they remain high compared to historic levels. The increase in claims and services volumes from existing and new contracts contributed an additional £8.8 million of profit.

Claims and services EBIT at 6% reflects the mix effect of business, all of which contribute to the profits of the business with high ROCE. Interest costs increased £9.7 million due to a higher average level of debt and the full year of higher interest rates, which is offset by a reduction in corporate costs of just over £1 million.

If we exclude all the disposal profits from both periods, underlying EBIT increased 10%, continuing to demonstrate the underlying growth of the business.

Let's turn to page 10, we can have a look at the cash flow. It's the same format as last year, showing our priorities for cash. EBITDA of £446 million was £34.1 million higher than the prior year driven by the underlying performance of the business.

Steady-state cash generation was strong at £101 million, albeit £90 million lower than the prior year as spend on net replacement vehicles increased to £125 million as supply has improved in both the UK&Ireland and Spain.

The average fleet age in UK&Ireland has now decreased 1.7 months to 34 months and in Spain has reduced a further 2.6 months to 30.1 months and the investment in new replacement vehicles will generate significant cash over the next three to four years. We pay dividends of £56.2 million and have chosen to invest a net £345 million in new vehicles, resulting in a net outflow of £20 million.

The growth CapEx of just under £2 million reflects the fact that most of our CapEx spend this year was used to replace older with new rather than grow the fleet in the UK&Ireland. So our total CapEx spend on replacement and growth CapEx was broadly flat year-on-year and this in part reflected the lack of new vehicle supply for the early part of the year. As with the leverage in the middle of our range, we have plenty of capacity to acquire more and with significant demand for those vehicles.

We spent £4 million on acquisitions and £24.9 million on share buyback, completing the remainder of the buyback in the last couple of months of the current financial year. Now on the basis of ongoing improved vehicle supply in both the UK&Ireland and Spain, we plan to continue replacing the oldest vehicles in our fleet. This means that I expect our total net CapEx spend to increase by just over a third in FY25. In part that's a catch-up from FY24 and that's all well within a prudent leverage range.

The plan also reflects the fact that we have a good position in terms of access to new fleet at scale. We are seeing a return of discounts from OEMs to rental fleets, and simply put, we should be able to get more for our money with higher levels of discounts as volumes return.

As the age of the fleet reduces, we'll see two benefits. First, maintenance cost will reduce, and secondly, the time vehicles spend in our workshops also reduces. Both of these benefit utilisation and enhance cash flow and returns.

If I do some modeling on the basis of what we would like to achieve within the business, given our expectations of vehicle supply over the coming 24 months, it will suggest that the average age of the fleet would reduce to around 28 months in both UK&I, and Spain. This is on the basis that replacements go as planned and RVs trend as we expect them to.

And then thinking longer term, I expect our total net CapEx spend to reduce substantially in the years beyond with a corresponding momentum to cash generation. Now the speed of this is principally driven by our appetite for fleet growth and how we want to grow the business, but of course, continue to have the ability to control the CapEx spend as we see fit to manage our overall spend and capitalise on opportunities we have for other forms of growth.

We would expect cash flow to benefit from this investment in fleet over the next few years through rates, utilisation, and lower maintenance. So although falling in FY25, with the additional CapEx, this would quickly turn into strong cash generation and significantly increase thereafter.

I can see this moving to say between mid £100 million to £200 million steady state cash flow and significantly higher thereafter, accelerating to well above £200 million, everything else being equal.

Whilst leverage would track higher with CapEx, it is expected to stay comfortably within our target of 1-2x range and on the basis of a balance sheet with significantly higher new fleet assets, which is also beneficial for refinancing.

This cash generation quickly normalises at a significantly higher level. It will provide us with enhanced options as to how we choose to invest future growth and fund returns to our shareholders. This will be on the basis of a substantial asset-backed balance sheet, large and growing cash generation, and leverage remaining at the bottom end of our rental peers.

Now we can look at where we are on our balance sheet. So the business continues to operate with a strong balance sheet. Our net debt has increased £48 million, whilst the value of our fleet assets on the balance sheet has increased £140 million to £1.3 billion.

And we've maintained our leverage at 1.5x, unmoved from the prior year. 65% of our debt at the year-end was fixed and we have an average borrowing cost of 3.5%. That's 40 basis points higher than last year, reflecting the full year impact of the higher rates, but still very well protected from the high rate environment.

The chart at the bottom bridges our net debt from April last year to April 24. Our net debt closed at £742.2 million with ample headroom and our committed facilities of over £244 million. And we generated a steady state cash of £166.2 million excluding our lease payments, and this included a net £345 million invested in CapEx, replacing the fleet and growing in Spain to meet demand. £4 million was spent on acquisitions and returned £81.1 million to shareholders in the form of dividends and the share buyback.

In the top right-hand chart, it shows since FY21, we've now returned £177 million in dividends. We've invested £45 and a half million in acquisitions, extending the products and services of our platform, and we've returned a further £85 million to shareholders through the share buyback.

So the business continues to generate good cash, which is being invested to generate sustainable returns as well as funding returns to shareholders. And we expect to see significant cash from the returns on the current investments.

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

Martin Ward: Thanks, Philip. So overall you would say that's a pretty good performance in terms of from a financial perspective for the business?

Philip Vincent: Yeah, we're very pleased with the underlying financial performance of the business, but also the way we've managed the balance sheet and the leverage through the period as well.

Martin Ward: Okay, thank you, Philip. There's a lot more detail in here and granularity around the business. So there's a little bit more to talk to than I normally would.

But before I turn to the strategy, just let me touch on the demand and supply environment. The current market is positive. We're seeing rental demand in all geographies as strong as ever. What we are seeing now is a number of requests for pricing from larger fleets, typically between 200 and 400 vehicle fleet operators. These are operators that own their fleet currently, so they obviously owned that fleet post the pandemic for longer than they'd wanted to. Now the time has come for them to replenish that fleet. That's a big capital spend for those operators.

So we've seen what is a record number of requests where they're looking to move into a rental model, gives them a different proposition from an owned fleet and it supports that view that we've said about outsourcing rather than owning a fleet. This is a great time to be in the market for that demand.

In Spain, the demand has remained robust. There's a strong economic backdrop there. The economy is doing very, very well and we continue to grow market share. We've seen what we can do with unconstrained vehicle supply and you can see the numbers that Phillip's touched on already in terms of that growth.

In claims and services, the insurers have made up some ground with pricing inflation. I wouldn't say that they've covered all of that ground, but they certainly have made up some ground and there is pressure that still exists in terms of parts and repair inflation.

There is continued focus on that repair market. Leading players are playing a pivotal role in supporting insurers with high volume work and there is a lot to go for. It's still a fairly highly fragmented market. I've said to you before there are 4.2 million repairs in the market, over two million of those are insurance repairs.

There's a lot more for us to go for there, and owning that repair capacity and having that integrated is a great asset. It creates further integration opportunities, which as I've said before, it minimises the number of handoffs and it's a great customer service proposition.

We're in continuous discussions in terms of how we expand our services as well with our key partners. We've said this has been the building blocks for organic growth where they can take more services across the platform and also looking at are there any spaces that we need to cover where we think we are well-placed.

We are supporting a number of new entrants, startup entrants in the InsurTech space as well. One example of this is Admiral Pioneer, which is part of the Admiral group. It's their new fleet product where they've partnered with a company called Flock that's brought the InsurTech, if you like, to the table, corporate fleet specialists. And we will be supporting them on a fully integrated service proposition over a multiple-year contract. So again, it is showing how the space is moving and how we play into that space.

I said earlier about EV interest is steadily growing and that is reflected in our growth in our EV fleet. There's still not enough product out there that meets the demand of customers in terms of how you want to use that product, but there is greater engagement with fleet managers about that transition. And as I said, we've seen some demonstrable growth, particularly in the UK&I.

All these dynamics are aligned with our long-term view and what the drivers are for this space. The structural trends to outsourcing, both from fleet managers and from leasing companies and insurers, all plays to the capabilities that we have.

If I look at supply, as I said in Spain, it's pretty much back to normal across LCVs and cars. UK, I've talked about it before, I've said supply is coming back. 2023, it was constrained across the whole of the year, but we have seen that coming back. It's up to 340,000 registrations rather than the 328,000 that they forecast previously. So it's obviously been slightly better, and that is reflected in what we say is an improving UK market, which has been notably stronger in the second half of the year.

On the supply time, what we're also seeing is that lead times have greatly improved from a year ago as well. So having discussions with manufacturers across the supply in terms of when we can see that product landing, there's much more confidence.

We're also starting to see the emergence of volume discounts as well. So as you know, post-pandemic, immediately post-pandemic, those discounts weren't available because of the scarcity. I wouldn't say they've come back in the period that we've reported, but they're starting to come back to the table and we expect that to continue, that trend to grow where you see the larger discounts as we cycle through the current year.

And also in the UK we've got the ZEV mandate, the Zero Emission Vehicle mandate. As you know, this is where manufacturers registering vehicles in the UK, if it's an LCV, then 10% have to be alternatively fueled on LCV and 22% on cars. Now what we say is that plays very much to our strengths because we have a mixed fleet of cars and vans so we can mix the product, so we can support manufacturers with a ZEV mandate.

We can support that mandate to try and get down to zero emissions and we can support customers with that supply as well. So I think we're pretty uniquely positioned in that front to take advantage of that.

We've talked about the used market, we've said we've seen some softening in residual values. You've seen that more so in cars than LCVs, but they are still elevated against historical levels. We have a good quality product that's on our books. Philip's talked about the £1.3 billion of asset values. Well, we see that being elevated for a longer period than the short term.

And also if you look at LCV pricing in the market today, it does reflect the type of mix of vehicle that's being sold. Older vehicles that are now coming to the market with higher mileage, poorer condition, they're not going to command the best prices. We've got a mix of vehicles, we have a lot of younger vehicles with lower mileage that can come to market. We have a retail platform as well as a trade and auction platform as well. So the market dynamics are playing out very, very well for us both in the UK&I and Spain.

Okay, just moving on and talk about our strategy. So to be clear, our core strategy hasn't changed since 2020. It remains focused on delivering differentiated mobility solutions across the vehicle life cycle through our integrated platform. And I guess we've achieved much more over that timeframe in terms of growth in products, services, locations, multi-year contracts, which to us actually just shows that there's a quality and sustainable look and feel to our earnings and we emphasise that.

Looking at the capabilities that we have today, we have the breadth of capability. We have a good platform which operates across scale both in the UK&I and Spain, multiple touch points across the vehicle lifecycle and we're trusted by our customers and partners to have the expertise in each of these areas. So one of our core differentiations is the value added services we offer alongside the provision of the vehicle. This provides us with good opportunities for incremental revenue and away from the simple metric of VOH.

Value-added services deepens the relationship with the customer and it increases their stickiness and likelihood to renew. It's all the things that we put together in those components that make it a very valuable proposition. It also leans into our strengths as a trusted partner with expertise in what we do, with an ability to provide and interpret data and analytics which support the strategic decisions customers are making, especially around fleet replacement and energy transition.

The platform that we have is also central to our ability to engage with customers in a broad range of channels. This is increasingly digital, as you know, and increasingly direct to the end user. That universal trend of more interactions digitally is what we are supporting as we're migrating more of our services into that platform. We're doing that as we go along. So we're expensing a lot of the things that we do. It's not one big programme that delivers everything, it's incremental.

And if I turn to slide 15 and discuss the refreshed brand name and the change in our strategic pillars. It was always our intention to rename the group from the merger in 2020. Redde Northgate brought together, at the time, the identity of two businesses and we didn't want to lose that identity. And then obviously had a pandemic to deal with shortly after, so it went down the agenda a little bit. But as I said, it's always been our intention to change.

This has been in the oven for some time and we completed an extensive valuation to test the name on branding and we were really excited about the feedback that we got when we introduced this. We took this out to focus groups, over 3,000 people in total. They didn't know who we were, they didn't know the services we provided, but they gave opinions on what emotions and what feeling the name gave. And as I said, it was very, very good feedback.

We think it is refreshingly vibrant and clean. It does depict movement, energy and trust. People have their own views, but this was the overwhelming feedback that we got from the market testing. Our intention over time is to build brand values to the names that users of our products and services begin to learn what being part of ZIGUP stands for. We have retained our operating brands, they have value, they're market leaders in their verticals and we want people to identify with that.

However, we will be introducing the operational brands as being part of ZIGUP, and as I said, as we build the brand values over time, then customers use as partners will understand what that value means as being part of ZIGUP. And keeping the brand names keeps continuity with customers as well in terms of services across the platform so they can identify with that.

And this rebranding coincided also with the restructure that we did in the UK and our leadership teams, which brought together all the businesses under a single management structure. We still have focus in the business around the day-to-day for the brands, but there's one unified management team in the UK focused on delivering the services through the platform.

And at the same time as the rebrand, we did refresh our purpose to just make things simple. Keeping you moving smarter, we want to keep it simple.

We've introduced the new strategic pillars of enable, deliver and grow, which does resonate well with our strategic journey and how we set out our future plans. So our core strategy is not changing. Our position in the market with a differentiated business model continues to serve us well.

Okay, if we turn to slide 16, just looking in more detail at the three strategic pillars starting with enable. This just reflects our role in the supply chain for our partners and customers and within the business itself. It covers how we can leverage the key trends of new technology and connectedness, whether for engagement with partners and customers within vehicles or across our operations.

So we look at three key areas. It's a continuous programme of improving our digital engagement with customers and consumers. And this ranges from updating our e-auction platforms in Spain to driver-focused apps and direct hire bookings, which I mentioned earlier, which can be done entirely online.

Within the business, there are many areas where we can increase operational efficiencies through automation and robotics, particularly within the claims process, but also other areas such as invoicing of routine charges. It does require the deployment of colleagues with deep local business knowledge to supplement robotics and development expertise. And at its simplest level, robotics have improved accuracy to close to 100% in a number of claims processes.

As an example, we've got about 20 claims-based processes, which have been automated to date by robotics, which has saved hundreds of hours per month of manual effort. And it enables the team within the businesses to be deployed more effectively on value-adding tasks. And there's plenty more to go for as well. But these are critical processes and then we are ensuring that we learn from our early experiences with AI and robotics and that we can take those experiences forward.

Looking at other actions in more detail, if we turn the slide, so on the left-hand side, you can see there we've launched or are piloting a number of outward-facing portals with greater analytics and insight is now being provided to customers both for drivers and fleet managers.

With the increase in telematics installations, where over 20% of the Spanish fleet and over 30% of the UK fleet have installed it, there is significant data available on driver behaviour and the ability to optimise fleet performance. Some of these portals are being piloted in the UK&I with customers over the coming months and the similar solution is expected in second half in Spain.

And for fleets considering their EV transition, we have a dedicated drive-to-zero hub where we launched a programme, which allows fleet managers the ability to access, on a regular basis, the hub with the potential to migrate vehicles and routes to EV alternatives. So it identifies what their options are in terms of that transition.

On the right-hand side of this page, there's some statistics there on our training programme because it's important that whilst we're doing all of these things with our customers, that we're actually investing in our people as well. And we're committed to providing skills and training essential to our colleagues to perform their jobs well. And especially to keep up with the technical demands is what's becoming an ever more complex environment, particularly around repairs.

Just for your information, we had 3000 people that have undertaken EV awareness training alone. We're doing both online and in-person training. It's offered across the organisation at all levels to help support career pathway. And one of the things that we're most proud of, we have more than 400 apprenticeships now in the businesses and around 90% of those apprenticeships stay with the business after they've completed.

So that's a really good retention rate, and over 30% of vacancies within the business were filled from within. Within the ZIGUP brand and organisational simplification, helping us to unify what is group culture and increasingly able to offer good development and career opportunities for our people.

If I turn to page 18, talking about delivering for our customers because that's at the heart of our business and our corporate purpose. We've ensured that customer service is firmly at the centre of the branch KPIs. And also that customers can have the simplest route to accessing our full product offering, particularly by the unification of the UK&Ireland management team.

This is already delivering results ranging from more leads being shared across the businesses and it's been enhancing the interest in auxiliary products and specialist services that we provide. And to support this, we've been investing in our branches with improved tooling and technology and also productivity to get customers back on the road faster and smarter.

If we look at page 19, looking at that customer first in just a little bit more detail, we do have a programme that's called Customer First. It's been a great success in terms of reigniting passion for customer service, bringing accountability down to branch and transaction level. Customer feedback is key to everything that we do, both in benchmarking our performance and also in celebrating success. When we look at Trustpilot scores, for example, we're rated as an excellent business. Northgate, I think it was 4.7 on Trustpilot. I think if you look at it today, it's 4.8, but significantly above the mid-threes for other rental sector operators.

This is a clear reflection on what differentiates us from others. Look at the wider businesses and claims and services. NPS scores for our replacement services and vehicle repair services also perform very, very strongly. It's a standout success in the market for what is a key area. Our insurance partners are very focused on service delivery and it's important that we get that right and we have been getting that right.

Another example is we've rolled out QR codes in all of our branches that allow customers to give immediate and direct feedback in real time. We can see that now, on an individual basis and an aggregated basis, we can respond to any hot spots.

As I said earlier, we have been investing in our property footprint, particularly within the branches. If we look at the slide, it highlights four elements of recent branch investment, plastic welding tools. Sounds simple, rolling out plastic welding tools and training, but it's allowing us far more opportunities for repair rather than disposing of damaged bumpers, for example. If you can repair it, it improves turnaround time, it lowers waste and lowers repair costs. It's important that as a business we are using all the latest techniques to do repairs.

Both in Spain and the UK, we've installed new paint systems in most of our repair centres. What does that mean? Well, we have faster bake times. As we're applying the paint, we can cure that paint quicker, which improves our energy efficiency, using less and it has greater productivity because we can put more vehicles through the pipe.

At our branches and our premises, we've rolled out more EV charging, so it's rolled out to most of our UK branches now where we think they are viable, as they are places where we would renew the leases.

In Spain, the infrastructure, charging infrastructure is now in the vast majority of all our urban branches and green parts, we look at recycling. A good example in Spain is we've developed a database there to track high-demand parts within our branch network and on our vehicles. Then we manage the dismantling of vehicles assigned for scrappage or low-value disposal to extract better value from recycling those parts, which we can use on our own vehicles. It improves turnaround times, improves productivity, and it helps towards utilisation.

Okay, slide 20. Looking at the broadening customers and the strategic pillar of grow, we're constantly active in assessing opportunities for growth, whether that's in terms of our locations at increased capacity or whether that's products on new markets. And there has been significant progress over the past year as we position ourselves for the years ahead as well.

As part of the management restructure I've talked about, we have also put in place a strategic M&A team that's helping to evaluate opportunities and define the targets for the future. When we're looking at the megatrends and the structural trends in the market, we want to make sure that we are well positioned with our acquisition strategy to make sure we got the right targets.

Please turn to slide 21. Since the start of May 24, on top of the nine locations I've talked about, we've opened three more branches: two in Spain and one in the UK. You can see there in the pictures, Barcelona where we've opened up a third site and also in Cadiz and in the UK, Chadderton in the northwest.

All of these, as I say, have substantial footprints because we're planning on increasing that capacity. When we look at our property state, we have three drivers to this. One, we want to improve the workplace environment. Taking on new modern purpose-built premises, particularly around the body shop and rental facilities or two, refurbishing our existing sites to make sure that that working environment is good.

I've talked about the second point, increasing future capacity; larger premises that can take that additional capacity that we know we're growing into and leveraging that workflow efficiency, which increases productivity.

Thirdly, introducing new technology which enables our site to conduct best-in-class techniques for repair and maintenance, a digital environment in a body shop and a workshop. Just think about it for a moment, some of the older sites, not all the sites, when they're vast, they don't have Wi-Fi coverage for example. When you're working on vehicles and you're relying on personal devices that pick-up Wi-Fi to show you the latest techniques, give you talking points on vehicles, wheels and things like that, all these little things add up.

So put in that technology to all our sites - you get full Wi-Fi, digital coverage, all the access points there ready for the technicians to use. It speeds up and makes everything more efficient. Again, adding to productivity. It's about making those investments that support it.

I talked about plastic welding; aluminium welding is also a relatively new thing. We're investing in the tools to enable our team to do that as well. Again, it increases more of the work that we can do that is specialist. We've grown our product set and we've grown our vehicle segments. Motability, another good example. We provide 20 000 repairs to Motability per year, that's quite a unique solution; because every stage of that process is configured with a specific set of measures and functionality to meet Motability vehicles and vulnerable customers.

We've got 30 specialist sites that do those repairs or colleagues have completed disability awareness training and vulnerable customer training. Plus, all the adapted repair process and communication tools are in place on those sites. I mentioned vehicle recovery earlier as well, we've rolled out this out of hours first notification, loss recovery services. Where we can provide that to our partners, and we've done that with a volume partner.

This is a core service for us. It's not core to some of our partners, and we're seeing that demand for how you can provide that total package of services across the piece. Why is it important? If you look at out of hours recovery, a lot of cost is hidden in picking vehicles out of hours and taking them to storage yards. Those vehicles can sit in storage yards for a long time when they're taken out of hours because the processes hadn't caught up in terms of what they need to do.

What we offer our partners and customers is the ability to streamline that service, make sure that things get fast tracked quickly in hours or out of hours. That brings about cost benefits, which feeds into pricing for insurance products for example. It's a fundamental service and as I say, we've been rolling that out during the year, expect that to grow further.

FridgeXpress was an acquisition we talked about last year, it's our first full year in ownership and the team there have been developing innovation within the product. One of our newest vehicles is a multi-temperature vehicle, which plays particularly into farmer's space and has proven successful with customers. We gave an example earlier with the work from traffic management and I want to demonstrate that when we take something on, we can enhance it and make things more appealing to the markets that we serve.

Finishing up here on slide 22, talking about pipeline and outlook. I think you can see in the announcement this morning; we've said we've got several sizeable opportunities in tender, and this does support our optimism for the future. The environment is very strong, we've seen good progression, got good prospects in the pipeline, and we expect to see further progress this year.

We continue with the BAU type wins. Not everything is always a big win, but we do have a number of big new wins and a tender at the minute that we're hoping to succeed on. All the products and services have resonated well in the markets we've served. Hopefully, I've given you some good examples there of our right to win. Continuing to invest in that EV capability, we will see fleet managers and the fleet evolve over time.

It'll take a little bit longer with the LCV fleet for sure, but we can see that we're ahead of the car park in terms of where we are with our total car and LCV fleet. With all that investment in our people, in our assets, in the environment, in everything that we can see, we see good progress in the underlying performance of the business. We see that driving future revenue growth, profitability and cash flow generation.

The way we look at the investments in the fleet is that it produces significant cash flow benefits in the future years. That's the model. Mixing that with claims and services gives us a bit of mix in terms of how we invest in the business, but the combination brings about strong benefits to the business.

So that's hopefully given you a little bit more flavour about what's going on in the business day-to-day and given you a little bit more of a feel for the business. As I say, it is a very good environment, a very strong environment that we're working into and it feels like the markets are responding well now, both in Spain and the UK.

Okay, that's us done with the talking piece. I think it's a good opportunity now to ask you for some questions.

Andrew Nussey:

Andrew Nussey from Peel Hunt. A couple of questions if I may.

Firstly, if we look at Northgate, UK&Ireland and the 7.7% average VOH reduction, if we strip out acquisitions, what would that look like? And with that figure, do you feel you've been able to maintain market share, or do you think you've been able to gain market share? You obviously specifically reference Spain but not the UK in terms of share. Also, within that figure, what I would imagine there's probably a higher level of customer churn in there. Has that impacted the underlying mix of the business and your ability to develop it moving forward?

Secondly, on the Spain margin, obviously you expect it to normalise perhaps more slowly now, what do you think are the reasons behind that normalisation? Is it capturing inflation, is it competition or any other impact?

Martin Ward:

Okay, Andrew. Dealing with your question on customer churn, impact on mix on the VOH in the UK&I, I mentioned previously at the last presentations or the ones before, where we've been managing certain sectors, particularly last mile.

There is an example in the business where there was a customer with over a thousand vehicles that we took back over a period of time, we took them back because of potential exposure to that sector, potential exposure to any potential credit risk. We've managed that in terms of that decline in VOH. I think we've said it before, it's worth repeating, VOH previously, prior to merger, was seen as a key driver for the business. I think we've inverted that a little bit and said it's a metric for the business. It's not a driver for the business. Getting the right returns, the margin returns, you see we increased the margin.

From a lower VOH in the UK&I, we've increased revenue, increased EBIT, increased margin. That feels like it's a better managed position, a more sustainable period where capacity has been constrained, you can't grow the fleet when you can't get that mix.

Now you would've had, in that time you would've had some customers or potential customers that might've bought vehicles directly from retailers because if you remember what we said when supply started to come back in the UK&I, manufacturers pointed most of their stock at retailers because that was the highest margin.

Retailers would have stock that they need to pass on. Customers that were having their vehicles come to an end and couldn't retain them or couldn't allow them to retain them because the condition of mileage or whatever else would have to have an alternative. They might have bought vehicles during that time, which now they might want to churn again. I talked about that, why we're seeing the 200 to 400 fleets coming back and asking the question.

I think we've maintained that market share; we've managed the mix to suit what we think is a more sustainable position in terms of margin returns and so forth. Hopefully that answers those two first questions.

Andrew Nussey: Can I just jump in on that mix point, and therefore utilisation, should the 91% in the UK currently be seen as a better level, or more expected level, moving forward? Or as the capacity begins to freeze up in the workshop, is it going to be back to 92 or 93?

Martin Ward: I personally would like to see it move up a little bit further. I think the management team absolutely say, "Look, you've got to support customers with replacement vehicles. You've got to have vehicles available." So if somebody drives in, one of the unique points that we have is you can drive into one of our branches if a warning lights come on. If we cannot sort it out, we sort you out with a replacement vehicle. You've got to have some of that capacity available.

As you rightly say, Andrew, if you've got stuff in the workshop waiting for parts or repair, it puts pressure on that utilisation. We say, replenishing the fleet, also getting newer vehicles should support the trend to a slightly stronger utilisation; 92, it's a strong position, 91 is where the market might operate or slightly lower, but we say this does support the trend towards it.

Andrew Nussey: Okay, thanks.

Martin Ward: Dealing with your last question.

Philip Vincent: Martin, can I insert? You asked about FridgeXpress as well. I mean it's not a huge number, it's about 600. It's fully on FridgeXpress, so it's not on massive impact, it'll be 1%-ish probably on that 7.7%.

Martin Ward: Philip, you can talk about Spain margin.

Philip Vincent: Yeah, it was better than we expected. The business is performing at very strong demand. The business has shown over the last couple years it really has been able to price the vehicles through, which historically it was struggling to do pre-merger. It's been successfully doing that year-on-year now. They're continuing to look for efficiencies in the way they run their sites, not only by moving to locations that are more efficient, but by changing the design of how they move the vehicles in and out sites for example so they can help with their utilisation.

We would expect it to be higher for longer. Now it is going to come down because we have the higher cost of vehicles coming through, which are priced through, but that will increase depreciation going through. What would it look like next year? It's probably 17-ish range. It's not going to be 15%. It's going to be higher for longer, they surprise us all the time when they give us a new forecast.

Andrew Nussey: Thanks.

David Brockton: Morning, it's David Brockton from Deutsche Numis. Can I ask two questions areas as well? The first one is in relation to CapEx and the guidance you set out. Do you have a sense as to the split between growth and replacement within that? I guess you accelerate the rotation of the fleet, anything we should be aware of in terms of the age of that cohort that you're exiting and what that could do for PPUs? Sorry, that's the first question with several in there.

The second one, just in respect of capacity for your claims and services business, you touched on the physical capacity you've built. Can you just give an update on people and parts and how you see that progressing over the year ahead? Thanks.

Martin Ward: Okay, thanks David. Are you ready to answer the CapEx question?

Philip Vincent:

Yeah, I can take the first one, Martin. So look, so in terms of the mix between growth and net replacement, always a hard one David because it depends what's happened to the fleet at the end of the year and we can estimate that, but we never know.

If I look at my model, I'd probably say growth CapEx might be half of what we spent the year before last. I think we spent 120 odd million the year before last. I don't know, mid 50-ish around there would probably be growth CapEx would be the best guess. But it does depend on what's available and it clearly depends on what's happening in Spain and the UK.

For example, in the last year the Spanish fleet grew, spare growth CapEx, but the UK fleet shrunk, so we had negative CapEx and net-net we had around 2 million, virtually nothing. There's a lot of moving parts within there.

In terms of the aging, I said if we increased by a third, we think we'll bring the aging down to around 28 months. Now look, we're not aiming for 28 months. That's just what the model says we'll come down to. We will reflect the aging of the fleet as to what the market requires at any point in time and that's our best guess alongside what it costs us to service and maintain those vehicles.

As vehicles get older, they spend more time in the workshop as I mentioned, costs more service to maintain and that impacts utilisation as well because they're not on the road being rented or we're having to give them a replacement vehicle.

We do want to bring it down. 28 months is where we're going to operate at the moment and then we'll see. We'll see how the fleet's reacting. We'll see what the customer's doing as well. In terms of what does that mean for residual values? Well, we are selling older vehicles, so four to five years old. You see that in the top line sales revenue number coming down, and PPUs will probably come down a little bit as well because they're generally more damaged when they get to that age, the profit per unit is often a bit lower.

Martin Ward:

That deals with the first two. In terms of capacity, as you say on the physical side, you've covered that. People side of things, I mean we are a business, 7,500 people in the business.

What we're looking to achieve here is that it's a blend because a lot of the services on claims and services are people in some form of distress. Something has happened and you need that contact. What we want to offer is multi-channel. There might be some instances which are not distressful and where for multi-channel you can come on digitally, you can make your bookings, you can self-administer, deploy services and that's brilliant. You don't have to come into a contact centre, you can do it at a time of your choice.

The other side of things is you do want to speak to somebody. Something traumatic has happened and you actually want to make that contact. It's important and we have quite extensive contact centres throughout the business and we've been supporting those in terms of having the right capacity to make sure we can meet it. The out-of-hours service is another good example of providing that contact when somebody needs to speak to you after an accident.

It's a bit of both. It's investing in the people and we will grow our footprint for people as we win new contracts to support that, it's also introducing the efficiencies for the digitisation, which will absolutely bring about those gains for us as we move forward. Also, making sure the processes are right in terms of which channels you go down.

David Brockton: Parts as well, I was interested in replacement parts.

Martin Ward: On replacement parts, it's improving. There are still issues, there are hotspots in certain areas, but it is improving. Supply is getting better; it seems to be going back to a normalised piece. There are, as I've said earlier, parts and inflation, you're still seeing price increases on that, but the position in supply is getting better however it is not yet normalised.

Andy Smith: Good morning, Andy Smith from Panmure Liberum. I just want to clarify the definition of net CapEx. When you say the net CapEx will increase by one third, that means net replacement CapEx plus the growth CapEx?

Philip Vincent: Yes, and I would include leases within that as well because essentially, it's just another way of paying for CapEx, Net replacement and the lease and growth. It's everything we're spending on CapEx.

Andy Smith: All right, and then net replacement is including the disposal process?

Philip Vincent: That's right. You've got purchases and then you've got income from a disposal, so it's the net net.

Andy Smith: Right, okay. So there's elements then. In terms of a share buyback, is there anything to include in the cashflow this year or the programme that you had approval for last year? I think it was £30 million. That's come to an end and now there's nothing in terms of what's been approved.

Philip Vincent: There's two months just winding down that £30 million which will impact this year obviously. The share buyback is in our capital allocation model. It's sitting there as another way of returning cash to shareholders and the board will keep it under review.

Andy Smith: As it stands, once those £30 million programmes are finished, there's nothing?

Philip Vincent: We haven't announced anything further at this point in time.

James Zaremba: Good morning, James Zaremba from Barclays. Two questions please. Firstly, on the customer experience, I think that Trustpilot is really very impressive. I don't I've seen anything close from other businesses. What are the benefits you're seeing from this? Is it mainly lower customer churn, greater cross sale or other things?

Philip, on the appendix you've got this cashflow reconciliation. It says it's been reordered to reflect priorities. Is the main point there that growth CapEx is less of a priority than dividends or is anything else to read into that slide? Thank you.

Martin Ward: Thanks James. Regarding the customer experience, it's important across the piece. It's advocacy. We want people to advocate that when we provide good services that we are very good. It's a window for our partners as well, because don't forget, a lot of the services we provide go to an end user through a partner channel and it's important you get that feedback.

But we want that feedback as well because we don't always get it right. When you get it wrong, you've got to understand why something's gone wrong. It's important that if you're servicing the customer, the drivers, the end users, you're getting that right throughout your whole process. It just works well for a business. A happy business is a good business, and if you've got happy customers it continues.

For us that feedback is very, very important. We never want any of our people to lose touch with the fact that we're servicing customers and that you've got to get this right.

It's a big focus because we think that drives the positive things that you get out of the business and you're right, it is impressive, it doesn't come easy. We work hard to make sure that's right. The example I gave about the QR codes in branches, that is where you see a lot of interactions where people are going into the branches one way or another.

We want that feedback. If somebody isn't getting good service or if somebody feels they've been, they can do that. If somebody feels they've got fantastic service and absolutely wants to make sure they feed that back, we see a lot of that too, it's not just the negatives, it's all the positives you get from it as well. It also allows us then to recognise the individuals involved, call out good behaviour, deal with anything that we don't see as being part of our values and people know that is there and it's something that we all can see.

Philip Vincent: James, on cashflow, we introduced that last year and it's just a helpful way to explain how we look through our capital allocation model and therefore it prioritises the cash spend in that way. So, net replacement, CapEx, sustainable return to shareholders, growth, M&A, accessing opportunities and share buyback, all it's doing is just reordering. That's the easiest way for us to talk through it.

Jane Sparrow: Morning, Jane Sparrow from HSBC. Two questions please. Martin, on the customers where you are talking about the 200 to 400 [vehicle] range who are coming for conversations with you, are you seeing any significant change in how they're thinking about what the right mix of rental is in their fleet? I know you're talking about how they've probably always been coming to you, but how much they might rent of that fleet.

Then one for you Phillip on the CapEx, how conservative are you being on the return of discounts in your CapEx assumptions? Thank you.

Martin Ward: Okay, Jane I think it's a bit of a mix in the 200 or 400 range. Some customers want to replace everything that they've aged post-pandemic, they're going to go. It's across the board, we're going to change the fleet. We're going to go into a new model. For some of them it's incremental, we'll dip our toe in the water and 20% of our fleet will possibly go into a rental model, and then we'll see how that goes and we'll make some comparisons to the cost of ownership through that model.

Now the good thing is that because we're in a good place for supply, we can lean into both demands. That mix and match helps us very nicely in terms of planning, and for fleet managers that are a bit more cautious, they might've been in a rental model years and years ago. It's a different proposition today. It's a bit of mix of both, but it's good to see that some will just say, "Yeah, we want to place all the fleet, can you support that?" That high volume plays into our strengths.

Philip Vincent: Jane, discounts, difficult one to answer. Obviously, we don't discuss the level of discounts commercially sensitive to us, but prudent I would say. There's an opportunity for them to outperform what we've got in our model, as volumes come back. Obviously, it's hard to predict what that will look like. But it was getting virtually no discounts if you were to roll back 12 months. We negotiate on a calendar year and we're seeing quite a different position now from what we were seeing in discussions with OEMs some 12 months ago. I'd like to think there would be more opportunity there.

Martin Ward: Okay, I think we are done with questions in the room.

Again, thanks for coming this morning and everybody for tuning in. Hopefully, we've brought things to life a little bit more around the business and people understand what we do. As I say, the environment is very, very positive and may that continue. Thank you.