

ZIGUP

Interim Results HY2025

Webcast

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Transcript



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Martin Ward:

Good morning everyone and welcome to ZIGUP's Interim Results.

I'm Martin Ward, CEO, and joining me today is Philip Vincent, our CFO.

In terms of agenda, I'm going to give a very brief overview of the results for the period. Going to then hand over then to Philip to do a deep dive into the financial review, before coming back to me for a business update and then closing off with questions and answers.

If we go to slide four, I want to set the scene for the half year results. It's been a good interim period as we continue to invest in the delivery of our mobility strategy, and profit performance for the Group is in line with market expectations.

Vehicle supply normalised and the direction of travel for the rental fleet since the year-end is tracking upwards, so we expect to see growth in the VOH through to the full year.

Disposal profits continue to trend downwards, as expected, albeit these are still elevated in Spain, but we expect them to reduce over time. Our current investments in the fleet, as seen in increase in assets on the balance sheet, will generate steady state cash flows of over £200 million in FY27, supporting both future growth and a sustainable dividend policy.

Normalisation of the supply chains in the Claims and Services area is driving down repair cycle times and hire lengths, but we saw revenue growth from additional mix of work, mainly repair volumes.

Some really good work being undertaken around customers, which is driving performance and we are pleased to see our Trustpilot scores continue to be rated as "excellent" and "supports great customer outcomes." So based on the momentum we have to date, we are confident on the full year market expectations.

If I look at slide five, a stand-out for me is that cash has been strong, enabling us to make investment in growing the fleet, now with a book value of £1.4 billion. And this investment in fleet assets continues to add balance sheet value whilst maintaining leverage well within our target range of 1-2x, and through a disciplined capital allocation policy. The forward visibility we have on cash is also supporting a growing and sustainable dividend, in line with our policy.

And if we look at rental, as I said, the direction of travel in the rental fleet is up both in renewing customer contracts and securing new orders. Spain continues to power ahead, adding over 4,000 to the average VOH on a comp basis. And we have seen further traction from cross-selling across the business verticals, which is a continually developing position, and I'll go into that in the second half.

Installation agreements have been entered into with British Gas and Scottish Power for EV charging installation, both for domestic and commercial customers. And overall, we are looking at a strong pipeline going forward. In Claims and Services, we continue to grow repair volumes across our market sectors, which is an enabler to build out more crossover services.

More digital connections are being made to support self-service and enhance efficiency, and we've seen good uptake of cash protocols by insurers which reduces costs and adds to our cash collection efficiencies.

If you look at customer delivery as of March this year, the UK&I business is represented through one management team, you remember me saying that at the full year, which simplifies our customer engagement across the brands and delivers more market opportunity with strong positioning.

Our Trustpilot and survey feedback from our laser focus on customers makes us a standout provider of services and, as I say, rated as excellent. And when you visit our branches across all our territories, you can feel a palpable energy and purpose as a direct result of bringing customer feedback to the top of the KPI sheet, with every branch team having visibility over how they are performing.

And our ongoing investment, investing in new sites that are designed for efficient workflow and equipped with the latest tooling as well as rolling out ADAS, advanced driver assistance systems, and repair maintenance tech throughout our own sites to demonstrate a best-in-class operating model. This in turn is driving efficiencies and will improve margins over time. And ensuring we have next generation technicians through our expanding apprenticeship scheme, which now numbers over 400, providing talent succession.

We'll come back to have a further update on the business, but overall, we are pleased that with near normalisation of residual values and supply chains, we are seeing some good outcomes which underpin our performance.

On that note, I'm going to hand you over to Philip to cover the financial results in more detail.

Philip Vincent:

Thank you, Martin. Good morning, everyone.

I'm going to start off by looking at the headlines. If we turn to page eight, first of all. The first thing to note is our overall group results are in line with what we expected for the half year. Now importantly, underlying revenues excluding vehicle sales was £775 million. That's 5.6% higher than the prior year with growth across the business. Earnings before interest and tax decreased £15.9 million, or 13.8% to £99.1 million. £8.9 million of this decrease is due to the expected normalisation of our disposal profits, and the balance is due to claims and services profits, which I will talk to in a moment.

And the rental business has continued to perform very well. We have continued replacing our oldest vehicles and have been investing to grow the fleet to 132,500 vehicles, and we've done this whilst keeping our leverage flat at 1.6x, year-on-year. And it's this investment that's going to generate significant cash in the future periods.

If we turn to slide nine, let's have a look at the revenue. We have seen the continued benefit of our integrated platform with revenue growth across the business. UK&I, Average VOH was 4.6% lower as it is cycling through a tougher H1 comparator, given our VOH evolution, which I will explain on the next page.

Supply has been good and CapEx has been invested in replacing older vehicles as well as growing the fleet. Product extension and carefully managed pricing enabled rental revenue to grow 1.7% in the UK&I.

Spain continues to operate very well with strong demand and with good access to vehicles enabling average vehicles on hire to grow 7.4%, which combined with pricing resulted in rental revenue growing 8.6%.

Now Claims & Services revenue grew 6.1%, with good growth in direct repair revenue, partially offset by a reduction in credit hire revenue. And vehicle sales revenue of £128.7 million was, as expected, £48.8 million lower than the prior year, with fewer vehicles sold at lower residual values.

If we turn to page 10, I'll explain the VOH trends in a little bit more detail. These graphs are showing the VOH progression for the current half year as well as last year. If you look on the left-hand side first of all, at the UK&I graph, you can see that H1 this year is comparing to a tough comparative last year. And you may recall at the year-end, I explained that VOH in UK&Ireland had fallen during the year as vehicle supply was improving, but not at a rate required to replace a disposed fleet.

We started this year 3,000 below May last year. And as a result, average VOH declined 4.6% in H1. Now I'm pleased to say that both supply and pricing available from OEMs has moved in our favor since April. And by November, VOH has surpassed the prior year, and we expect VOH in H2 to continue to increase, which is positive for the outlook.

The picture for Spain is different. The better access to vehicles last year meant that VOH grew through the year, and this growth has continued into the current year with average VOH growing 7.4% year-on-year with continued strong demand.

If we turn to page 11, we'll look at our group profits. This chart bridges the prior year's underlying PBT of £99.1 to £82 million this half year. And as expected, this year sees us working through the previously flagged normalisation impacts on vehicle and parts supply chains, and the headline figures in these results reflect this.

Disposal profits, which you can see in the middle of the chart are £8.9 million lower, as expected. With a reduction of £4.3m in UK&I, and £4.6m in Spain.

Residual values are normalising in UK&I, with a 14% reduction in H1, but with values flattening now in recent weeks. And total volume sold decreased 7.4% year-on-year with average LCV PPUs reducing from 3,500 last year to 1,600, reflecting the lower residual values but also the fact we're selling older fleet and a different mix with a lower PPU.

In Spain, residual values saw 11% reduction in H1 and average PPUs at £1,900. Slightly lower than the prior years £2,300. Average VOH fell 4.6% in UK&I, and increased 7.4% in Spain, as I said, with overall volumes increasing profits £2.7 million.

Rental margins remain strong in both the UK&I and Spain, with slight reductions all in line with our expectations. UK&I margin of 15.7% is ahead of our 15% medium term guidance, and Spain is even higher at 19.3%.

Now, both businesses continue to deliver operational efficiency alongside improving procurement and sensible annual pricing increases. And Spain's translated results have also faced a currency headwind in H1, which has reduced their profits by £1 million sterling. Now the increase in Claims and Services volumes in FMG and FMGRS were somewhat offset by lower credit hire volumes, delivering an additional £1 million of profit.

Claims & Services EBIT margin at 4% is 230 basis points lower than the prior year. In May the business was the victim of a cyber incident. The incident resulted in a loss of around one week of referrals in May for Auxillis, and systems were offline in NewLaw for much of May and June while we carried a full burden of overhead costs but no corresponding revenue.

Now this one-off incident in the first half reduced claims and services profits by £4.2 million and reduced the margin by around 70 basis points. And in addition to that, we have treated £2.8 million of third party advisor and IT costs in relation to this incident as exceptional and outside of underlying PBT.

The remaining £5.5 million reduction in margin is mixed, with more income from FMG and FMGRS, and less from Auxillis due to, as expected, improved supply chains which have benefited our rental business by reducing the amount of time vehicles have to spend in our rental workshops. And at the same time, reducing the time to repair vehicles in our body shops, and so reducing the length of our credit hires.

And second, the quieter summer with fewer incidents being managed with insurers reporting a 10% reduction in insurance incidents over the summer. And interest cost increased £1.2 million due to a higher average level of debt.

If we turn to slide 12, we'll look at cash flow. I'll start off by saying that our CapEx and cash flow is playing out as we expected and in line with what I explained at the year-end. EBITDA of £228.6 million was £8.6 million higher than the prior year, driven by the underlying performance of the business. And spend on Net Replacement CapEx increased £75.4 million to £178.9 million, as both the UK&I and Spain continue to replace their oldest vehicles.

We had £38.5 million inflow from working capital, reflecting the normal ebbs and flows of payments and receipts and the fact that around 70% of our claims and services insurers are now within protocol. A reminder that protocol agreements with insurers lay out agreed settlement terms, mechanisms and timing of payments, improving the efficiency and speed with which we collect our cash.

In the prior period, there was a working capital outflow as the business was investing in working capital for new contract wins. And we paid dividends of £39.3 million and chose to invest a further £53.5 million in new vehicles to grow the fleet in response to the customer demand that we saw.

Total net CapEx spend in H1 was £232 million. That's £128 million higher than the prior year, which is reflecting the good vehicle supply that we now see in both Spain and the UK&I, with the fleet now reaching 132,500 vehicles and no increase in leverage year-on-year at 1.6x. £5.3 million was spent on completing the share buyback programme.

I want to cover a few points on CapEx. I explained at the year-end in July, we'll continue to replace the oldest vehicles in our fleet, and I said that I expect our total net CapEx to increase just over a third this year. But, that could change dependent on access to vehicles and demand.

Vehicle supply is good in both the UK&I and Spain, along with very strong demand for our services. We therefore will spend more CapEx this year, to both replace the older fleet and grow with existing and new customers. And total net CapEx will increase more than 30%, but we will remain within our prudent leverage range of one to two times.

And I also explained that modeling on the basis of what we would like to achieve within the business and given our expectations of vehicle supply over the coming 24 months, it would suggest that the average age of the fleet would reduce to around 28 months in both Spain and the UK. And that was on the basis that replacement goes as planned and RV's residual values trend as expected.

The slide shows the reduction in average fleet year-on-year. And also since the year-end, the average fleet in the UK&I has increased two months to 32, and in Spain it's reduced one month to around 29. And this investment and new replacement vehicles will generate significant cash over the next few years/ and we can decide whether to invest that cash for more growth, or to reduce our debt as we go forward.

Remember that in the long term, we expect our net CapEx to reduce substantially with a corresponding momentum to cash generation, principally driven by our appetite for fleet growth and where else we choose to invest. We carefully control that rate of spend on CapEx, managing our debt position and taking opportunities for growth. And both our cash flow and our operational KPIs benefit from this investment in new fleet through better hire rates, utilisation and lower maintenance.

Whilst the additional CapEx initially reduces overall net cash flow generation, this will quickly turn around to strong steady cash flow. And I said in July that this could move from, say, mid £100 million to £200 million steady state cash flow from FY27, and then significantly higher thereafter, accelerating to well above £200 million, everything else being equal, and that view is unchanged.

We're executing our CapEx plan and our overall capital allocation, in line with that which we laid out earlier this year, taking the opportunity to invest slightly more, given good supply, strong demand, and plenty of facility headroom.

Now if we turn to page 13, let's have a look at the balance sheet. Our balance sheet continues to strengthen, with over 132,000 vehicles now, a net book value of £1.4 billion. That's up £200 million compared to the prior half year, and net debt only up £27.5 million, and leverage flat year-on-year at 1.6x.

Our strong balance sheet has enabled us to raise a further 190 million euros of loan notes across 7 and 10-year tenors at an average rate of 4.4%, which provides additional headroom to invest in our business. But, it's also reduced our overall cost of borrowing for the cost forwarding year-on-year 30 basis points to 3.2%.

And the chart at the bottom at the slide bridges our net debt as of April 2024 to October 2024. And our net debt closed at £782.5 million with £347 million of headroom. We generated just under £50 million of steady state cash, excluding lease payments. That included a net £178.9 million investing to replace our oldest vehicles, and we invested further £53.5 million, mainly growing the fleet in Spain. And then we returned £44.6 million to shareholders in the form of dividends and share buyback.

At the top right, I've got our chart we've included for the last few presentations, which shows our return since FY21, which is now £240.5 million in dividends. We've invested £45.5 million in acquisitions, extending the products and services of our platform, and we've returned a further £90.2 million to shareholders through the share buyback.

The business continues to generate good cash. It's being invested as planned in replacing and growing the fleet to generate sustainable returns. And as I said, our expectation of generating significant cash from these investments is unchanged.

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

Martin Ward:

Thanks, Philip. My takeaway from the financials is if we look at competitors in our market operating with a large fleet, they normally leverage between 3- 3.5x and we're leveraged at 1.6x. So, it's very undemanding in terms of what we're doing.

If the rental side of the business grows, you're investing in the fleet but don't forget, that's a corresponding asset on the balance sheet in terms of value, quite a liquid asset as well. And you've got all the future cash flows from that.

I think Philip said it quite a few times, but I'll nail the colours to the mast on this. When you're recycling the fleet and you're investing, you're going to be growing the fleet, you're going to be putting the cash into that but, it's all the future cash flows that come off the back of that.

So we expect the business to be able to generate a lot of cash from the investment cycles that we are in now. Anyway, that was your last public presentation to analysts in the market in the PLC world.

Philip Vincent:

It was.

Martin Ward:

How'd you feel?

Philip Vincent:

I feel good. I'm not going to be here in July doing it again. No. I jest. I was reflecting on the presentation at the weekend and a lot's changed since we brought the two businesses together. They're fundamentally different.

The business are different in terms of the products and services, much broader than they were when we went through the merger.

We operate them in a completely different way as well. They operate in a much more efficient way than they did pre-merger, I think, and that continues to get more efficient as we go forward.

I was looking at the numbers from our first reporting period, which was April '20. Our net book value of our fleet has gone up by half a billion, and if you look at the consensus for profits for this year, that would've gone up £100million underlying PBT. And our leverage hasn't moved from 1.6x, April 2020, to 1.6x now.

So that's not a bad set of results overall over that period. And when you look at the balance sheet now, we just raised some more funding. We've got a really strong balance sheet. As Martin said, our absolute debt level has gone up a little bit, but our net book value of our fleet has gone up more. Our leverage is very prudent.

I believe I'm leaving the balance sheet in a really strong position to fund future growth as well. Sad to be leaving. Sad not to have all the conversations with you guys twice a year, but excited for me, personally, for a new opportunity.

Martin Ward: Okay. Well, before I move on, just to say thank you for your efforts. It's been a pleasure working with you over the last five years, Philip, and I wish you well in your new pastures.

Philip Vincent: Thank you.

Martin Ward: We're not quite done yet. We're going to move on to the business update. If we look at slide 15, our platform of integrated mobility services is a differentiated proposition. We're combining products that were once commoditized and adding a layer of service wraps, that in combination of creating value and efficiencies for our customers and our partners.

Those structural trends that we talk about of usership over ownership and outsourcing remain favourable, and that's the theme of the discussions we're having in the market today. And the scale of our business supports longer-term thinking about the depth and the capacity of what we can do.

Philip mentioned that our markets are reaching normalisation, which is supply chain functioning as expected, which does create a clear view of those market opportunities. We have a strong business model that is stable and it's good to be operating in the mobility space, which is an essential enabler to the overall market economy of a strong financial position as we've just been discussing and we can invest in growth through the up cycles, with good levels of lending support, which generate sustainable returns, well above the cost of our capital.

We're in up cycle, we're investing. In down cycles the business will throw off excess cash as we did during the pandemic when we're not purchasing vehicles.

If we turn to slide 16 and look at the rental market overview. Outsourcing to rental is the preferred option for our business users, as it provides flexibility without all the holding costs and without having to commit to large capital outlays to acquire our fleet.

The Autumn Budget delivered a lot of news for businesses, but on the upside, it announced an additional £500 million of road maintenance spend, alongside some larger transport infrastructure bills, which is a positive for a number of our customers. Van rental new business wins following better supply is at the highest level we have seen since 2019. And this is feeding the upward trend, supporting H2 and beyond with high quality, selective customers.

We are continuing to grow out our auxiliary sales like telematics, fleet and accident management and EV packages, which supports our differentiated model. For example, there's been a 65% increase in active customers with fleet under management. And we have seen over 750 vehicles go out on rent through crossover opportunities between our different brands.

Whilst there has been a lot of recent public noise around EVs, the ZEV mandates, and the scale of charging infrastructure yet to be delivered, we continue to see a reasonable level of demand for eLCVs from an increasingly broad customer base, with our biggest single order of over 600 eLCVs received to date to be rolled out over the coming year.

And Spain has been a standout performer, with a record fleet size, and our rental proposition is gaining further market share. The economy in Spain is strong, and demand is coming from a wide number of sources, which builds on the spread of market sectors that we operate in. We've got new sites and service points adding to the scale of the operation in Spain, which supports future growth. For example, we've got two new service points coming online and one additional used vehicle sales outlet scheduled for the second half.

The turn to slide 17 and look at the UK. As we've covered, no current issues with securing new fleet, and we expect good pricing support for volume orders as manufacturers vie for market share. Residual values in the UK should become less of a talking point. Our car fleet residual values have been stable throughout 2024 post H2 2023 decline, and eLCV residual values have trended downwards, as anticipated, and we expect these are now close to normal.

And then if we think about Spain, normal supply for new vehicles has been there for a while. We've got a broadening relationship with a number of manufacturers, which spreads the concentration of risk when you've got a product, a wide offering product to a selection of customers.

As I said, residual values in Spain are still elevated, but they are moderating, and they are expected to continue to trend down as per the UK over time. Don't know what time, but over time.

I mentioned the ZEV mandate, just to talk about that briefly. The government led consultation has been expedited to review what measures are needed to support the OEMs and the market with an EV transition. And just to be absolutely clear, there are no market participants seeking to change the 2030 date for alternatively fueled cars, but we are seeking, as a lot of the trade bodies are, the government to support a generation of demand. So, whether that's subsidies or some way to create that demand to support that transition.

Vans are still under review as to the date for transition, but it's clear that product viability and infrastructure to support e-vans falls way short of the mark in present terms.

The outcomes of the ZEV consultation are important for establishing what supply manufacturers will provide into the UK. Ultimately, manufacturers will determine how supply comes into the UK, which in turn has implications for availability, pricing, and residual values. ZIGUP has an advantage, along with other large-scale operators, of being able to support EV supply with demand for both e-cars and e-vans.

Having the current fleet in excess of 132,000 is therefore a good upside risk to protect availability should supply become restricted. I'm just saying it's one to watch out on the ZEV mandates in terms of what comes in. Not asking to change the dates, as we said, but what is that demand going to look like? What is that supply going to look like?

If I turn to slide 18 and look at Claims and Services. As Philip mentioned, we had a quieter summer period than expected. Traffic volumes were recorded as being normal, but we saw 10% less incidents reported in those summer months. There's no hard evidence as to what caused this, but post-summer, there's been a return to a normal correlation to traffic and incidents. So it has normalised.

One thing to point out is that part of the consumer duty outcomes, insurers have been implementing changes, and they're trying to dial in the right approach across their business lines. There has been some disruption in that process, which is now finding better direction. And as I said earlier, repair cycle times are improving following normalisation of the supply chain, which in turn is reducing hire lengths. But what we're seeing is that it's returning to historic norms.

Net-net, whilst this impacts our overall profitability, a faster journey through a claims process supports a good customer satisfaction outcome and faster cash collection, as we've seen in the cash collection during the first half, because there's less to contend with on a claim.

And as the insurance market cycles through hard and soft periods a lot quicker these days, which shapes the cost of motor insurance premiums, so claim settlements from a big part of this, and gaining efficiency. That claims process is a fundamental driver that supports that front-end pricing for insurers, and our platform offers a best-in-class operating model and provides an advantage of a single source product. Structurally, this should continue to support our momentum.

And demand for services remains high, especially on repair capacity. We inked a number of renewals during the period, and we feel positive around business development conversion from the pipeline. And as Philip mentioned earlier, we had a cyber incident in early summer, which meant we had to briefly pause some of our business operations on a precautionary basis whilst we sought assurance.

Turning to slide 19. I want to focus on our people very briefly. I am immensely proud of the team we have working in the business, who deliver these great customer experiences and outcomes and strive to make ZIGUP a great place to work.

We do invest substantially in our talent pool and our apprenticeships to ensure we have the best-in-class future leaders, technicians, and experts in our business. And we have been recognised across a number of industry events, both here and in Spain, for innovation, best rental company, new service, and environmental initiatives, which is testimony and recognition from outside agencies to the great work our people do. There were more awards, too many to mention, and I want to say thank you to all of our team for their efforts.

And then turning to slide 20, touching on technology. Technology is a growing part of what we do. We've said before we use robotics, and we've got the early introduction of AI tools to support data analysis. We have a number of programmes live and pending in the business that will continue to support an incremental drive for efficiencies and enhance our customer experience.

We are using that tech stack to win business and to enhance our overall efficiencies. We are disciplined in our technology investments, but like many businesses operating at scale, there is significant potential to drive a greater capacity and operational leverage through these tech developments, and we are on a journey to unlock these benefits.

I'm going to go to slide 21 and touch on the outlook. These are strong foundations that we are operating in the business. There's a good pipeline of orders and prospects, and there's that opportunity, as I say, to drive those new efficiencies. So based on the visibility we have, including the normalisation of disposal profits and the positive trends for the group, our outlook for the balance this year remains unchanged and in line with market expectations.

That concludes this part of the presentation and we're now going to take questions. Okay. David's got his hand up.

David Brockton: Good morning. It's David Brockton from Deutsche Numis. Can I ask a couple around the Claims and Services business, please? Firstly, can you just comment on whether you think credit hire lengths are now back to a normal level as suppliers improved, or is there further moderation that we should expect on the business there? Obviously there's two underlying impacts there in terms of both volume of claims, but also that normalisation impact.

And secondly, you might be able to correct me, but it doesn't feel like there were many new contract wins, or you haven't talked about them as much as you have in previous results in respect of new claims customers. I wondered if you can just comment on the pipeline there and what that looks like. Thanks.

Martin Ward: Okay, David. Do we think credit hire lengths are back to normal? I think what we're seeing in the business is they are close to normal with what we expect to see for this time of the year. As we cycle through winter, we believe they're back to normal. We're not expecting further moderation, but as I say, we've got to get through that winter period as well to prove that out.

On the second part, we've got to a strong prospect pipeline. Does take some time to convert new clients to new wins. I said before, we've had very strong conversion in the business, and we do expect to be able to convert from that strong prospect pipeline that we talk about.

We have mentioned some in there, not necessarily in Claims and Services, but the Scottish Power contract, the British Gas contract. And as I said, there is a strong pipeline from which we are converting from. So we're confident on the visibility that we've got that supports not only this year, but future growth as well.

Afonso Osorio: Hi, good morning. It's Afonso from Barclays here. I have three questions, if I may. The first one is on the supply dynamics you are seeing. Would you say that supply has fully normalised by now? And how should we think about fleet growth in the UK versus Spain as we head into the second half and fiscal '26.

The second one is on your commentary around the UK budget and expected investment in infrastructure. How creative do you think this will be in the second half? As I'm assuming this was mostly an impact for your fiscal '26.

And then one last one for Philip. As we wrap up your tenure at ZIGUP, I've seen a lot of transformation in the business over the last five years. Can you tell us what has surprised you positively over this period? And if you could go back, would you have done anything differently? Thank you.

Martin Ward: I'm going to give Philip time to think about that one, and deal with the first question, Afonso. Supply dynamics, are they fully normalised on the fleet? Yes, is the answer.

There are no issues in securing new fleet, both in the UK and Spain. Some of the manufacturers want volume in the market now as well. So that brings about different conversations in terms of where your negotiation leverages as well. So that's a positive in terms of being able to place orders, large orders.

My watch out was just that ZEV mandate. Because, as you know, there are targets set around cars. Manufacturers are paying close attention to what the government will do. So if there is not enough incentive that creates that demand that enables them to place EV or alternatively fueled vehicles into the UK. You could argue that they're going to cut back on ICE supply as well. Now different manufacturers have got different positions, but if they fold their arms and limit supply to the UK, that creates that dynamic again of limited supply, etc, etc.

We're watching very carefully. As I said, it's not about the date change, this is about what support will be there for EVs, and that's why we think having our fleet over 130,000 is a strong position because that protects availability for your customers and that gives you a good position in the market.

On question two, the UK budget infrastructure, do we expect that to feed in? It's hard to say when exactly that would feed in, but we have a lot of customers working in those sectors. We've got the traffic management business through Blakedale, got Northgate on rental, the business has got exposure to those sectors: infrastructure, construction and maintenance.

We are seeing good demand coming from those sectors. They're normally quite big businesses. Some of them are publicly listed, so they've got good visibility on the projects that they're doing. That feels quite buoyant at the moment to us. I'm not saying that we're penciling anything for H2, I think we just see how that shows itself through the numbers. Hopefully that's given Philip enough time to think.

Philip Vincent:

So first one, what surprised me, I think it's cash flow. We do generate a lot of cash as a business. We haven't always been able to demonstrate that, because we're always investing for future growth, we make a good return on that. And ironically, what came out of COVID, was no one knew what was happening across the whole economy. We switched off those growth taps, we switched off CapEx spend and we threw off a load of cash even though there were no incident or accidents happening on the road.

We had no cash contribution from Redde at that point, and the rental side was just starting to throw off cash and it threw off cash really quickly. Our lenders have got very comfortable very quickly. We throw off something like £90 million of cash in six months. So, it shows we do generate a lot of cash.

We choose to then invest that in future growth, and I think that even surprises how much cash does come off when you just switch off those taps. That and the fact that the rental product is so sticky as well. Remember we only ever source 6% of the fleet return. That was a surprise to everyone when 70% of the fleet is what we describe as a flexi product, broadly.

Would I do anything differently? That's a tricky one to answer and that does feel like an interview question. I think that when you look back, you always say, actually, could you have done things slightly quicker? But look, we've done a lot, as I mentioned earlier, since the merger. You can only move so quickly when you're trying to bring two companies together. I'd rather we didn't change depreciation rates, to be frank, because that's painful but I think we disclosed that as clearly as we could.

Andrew Nussey:

Good morning, Andrew Nussey from Peel Hunt. A couple of questions as well.

First of all, just exploring the UK vehicles on hire and if I read the chart correctly, you're probably about 45,000 now on a very steep trajectory through the period. What will that look like through the second half?

And secondly, it sounds like you're a little bit nervous about what supply might look like over the next 12 months, given the regulations. Are you running a slightly lower level of utilisation? I know it's a crude measure than perhaps would normally be the case, to protect yourself from that point. And thirdly, on the cyber incident, has that impacted your conversion of new contract opportunities? Customers may be slightly nervous about what that might mean and have you had a clean bill of health now?

Philip Vincent:

The best we can see, and it does depend on the supply, and it also depends on how we choose to distribute our CapEx in between the UK&I and Spain, because we watch our CapEx very carefully and we're looking at that leverage very carefully as well.

But what I would say is, I would expect it to continue to grow into the second half, such that by the time we get to the year-end, average VOH for the year is probably similar to what we were last year, on average, which means actually you're growing point to point slightly ahead of where you started the beginning of last year. That's probably the best way to describe it from what we see today.

Martin Ward: Utilisation is tracking up to exactly where we expect it to be. This time of the year it's around about 92% now in the business. We always want to leave a little bit of room to make sure we've got replacement vehicles for the emergency standbys for customers that are dropping us on a Friday afternoon with a red light on a needed replacement vehicle, for example. So we leave a little bit of room there.

I wouldn't describe it as being concerned about supply, because I think the supply is there. It's beyond the next 12 months in terms of the ZEV mandate. So as I say, no concerns there.

On the cyber note, what we did is we engaged all the outside agencies to provide us with the best advice that we could at the time. We were quick to respond to isolate and protect our systems. We wanted assurance, so that's why we paused what we did. We wanted assurance that there were no issues within our systems, and we got that assurance and clean bill of health fairly quickly for the majority of the business.

As Philip said, our legal business was most impacted and that is a smaller part of our business, but it's where the most impact was. And we provided that assurance to the experts very quickly, as well to our partners. So we're very transparent with our partners about where we are.

So no, that hasn't impacted conversion or anything like that. In fact, what happens is what doesn't kill you makes you stronger. Someone's already got the copyright on that, I know, but it makes sure you double back on everything. You gold plate everything. You just make sure that you don't leave yourself vulnerable.

Andy Smith: Hi, good morning. Andy Smith from Panmure Liberum. A couple of questions. One, on rental prices within Spain and the UK for the hire, what's the trend there, as against the vehicle supply? And then, just looking at the debt facilities, you see your net debt's gone up, but your debt headroom's also gone up. Is that because new facilities or what am I missing on there?

Philip Vincent: On the debt, could we have taken more? We did that deal directly with our existing lenders and therefore we took what was sensible from them, so we weren't intending to take more. That's exactly what we asked and exactly what we got. You don't want to take necessarily more than that, because you end up with a high level of un-utilised facilities as well.

Andy, to your question, we did take more debt on board. It was private placement, 7 and 10 year tenure rates, which were lower than what we borrow on the RCF. We were able to reduce the RCF and borrow fully on that private placement, which was in Euros.

Martin Ward: And on the question on pricing, Andy, the margins been around 15% midterm. We are seeing Spain higher than that in terms of what we're getting. So, we've been able to pass pricing on through the inflationary increases over the past periods.

That demand is still strong. We're still seeing that pricing is very rational in the markets that we operate in. So we expect to be able to maintain that guidance. I think when we get to the full year, I think we might review the 15% and ask ourselves whether it needs to be a little bit better than that. But we're confident on that 15% for sure.

David Farrell: Impact of national insurance contributions next year on the business?

Philip Vincent: Yeah, there will be. Estimate about £5.5 million impact on the business, but we've already got plans in place to mitigate that impact for next year.

David Farrell: Okay. Just wanted to dig into the performance of the body shop, I guess goes counterintuitive with credit, hire down, incidents down 10 per cent, how come body shop is going up?

Martin Ward: It's just the capacity. The new sites that we opened that we talked about at the full year, a greater footprint, more capacity through what we can do, and there's plenty of work. We said before that body shop work is an enabler to other mobility services to that cross sell.

So we will take that work on, we know it's lower margin, but it does enable us then when contracts come up for renewal, that we can put mobility solutions into that as well. It's not a loss leader, it makes money, it is growing.

David: And then final one, just in terms of the CapEx and the hike and saying it might be high this year, are you expanding over a three-year view how much CapEx you're planning to put in? Or are we accelerating into year one stuff that would've been done in year two and year three?

Philip Vincent: I knew you were going to ask that question actually.

It's hard to make, because it depends on demand ultimately. I mean from what I could look at today, I'd say a lot of that's probably accelerated. But if demand continues to grow, and depending on what happens on the supply, and we've got the headroom, we will take the growth, because we're making good returns. As long as we're making returns that are above our weighted average cost of capital, we'll continue to grow, because we know that's going to generate good cash.

David: I knew you were going to say that.

Martin Ward:

Yeah. It's our business model. That's what we do.

I think we're going to wrap up now. I just want to close on some summary remarks to say the business continues to perform well, as our markets continue to normalise. The opportunity to build market share is definitely favorable and the breadth of services across what we have with our customers is growing.

I've talked about tech being that next enabler to deliver efficiencies and we're confident, as I say, on delivering for the full year expectations.

Once again, thank you all for your time this morning, and again, thank you Philip for your services to the business and support from all the team.