

Redde Northgate PLC
FY2022 - Preliminary Results Presentation – 930am, 6 July 2022

Transcript

Presenters: **Martin Ward, CEO**
 Philip Vincent, CFO

MW

Welcome to the Redde Northgate results FY2022, I'm Martin Ward, Chief Executive and joining me today is Phillip Vincent, our CFO. I'll run through agenda, first of all I will give a general overview of the results, Philip is then going to cover the financial review in detail, it will come back to me then for a business update before we have Q&A, after the Q&A we intent to have a 10 minute break and then Philip is going to run a depreciation workshop for those who want to stay behind.

Starting with slide 5 please, this is an overview of our achievements.

Overview Achievements

This has been a year of strong operational performance, against a backdrop of ongoing constraints in supply chains and recovery in activity from covid-related lows.

Our actions have seen rental margins improve in Spain and the UK&I, driven by a combination of cost and efficiency gains, targeting preferred growth sectors and tightly managing inflationary pressures.

And it's been a year in which we have seen more take up of our broad integrated mobility platform services by new and existing customers with a number of contracts won with major insurance brands and other new Partners.

To meet these new business wins and grow capacity, we have been forward investing in people, growing our car fleet and developing our technology which embeds our service delivery.

And there has been a lot of good work within the business functions to maximise the benefits from our central services such as HR, IT and Finance. And as an example, we have just commenced our 'Connect' Project in the Group which is the foundation of our digitalisation plans, with Phase 1 aiming to join up all the businesses on one common communication platform.

And we are taking a disciplined investment approach to our work locations in terms of improving our energy efficiency, waste management, and work environment and at the same time finding ways to reduce our carbon footprint.

And the ongoing efforts from our colleagues are impressive in terms of the recognition and awards achieved this year, such as The Fleet News Rental Company of the Year winner, which is the first time any of our businesses has won this Award, and two 2022 awards from Business Vans: Winner for Fleet Management and Best Long Term Rental provider. And although we don't always get it right, we are consistently rated excellent by our customers through Trustpilot.

We have also made good progress with our strategic mobility platform, across the vehicle lifecycle, that appeals to both existing and new customers, and the substantial multi-year revenue synergy wins secured so far, mark this strategy out as a clear success.

We have been selective and disciplined in our M&A activities, either taking bolt on growth opportunities to broaden our reach in existing markets, OR to extend our overall capabilities. We have focused on maximising these opportunities and, since the merger in February 2020, we have now added 5 business or asset purchases to the group.

And my last point on this slide is the launch of our Group Purpose and Values which were formed post the merger was significant in our goal to ensure we are working as one team. We have sought to communicate

our Purpose and Values clearly together with our strategic narrative, and connecting with this was one of the highest scoring ratings in our recent employee survey feedback.

Overview financial performance

The result of these efforts was a very strong financial performance for the year.

As you can see, key underlying metrics have seen strong progress across the board.

And the early visibility we had on trading allowed us to raise market expectations to over £150m PBT for the period.

Underlying revenues were up 24% to over a billion pounds and PBT was up 62% to over £151m, which starts to reflect some of the success from our integrated platform, combined with our focus on cost control and managing inflation.

ROCE has continued to improve with a 4.4 percentage point increase at 13.9% as we make better returns from the assets we own.

Based on this performance the Board has recommended a final dividend of 15p making a total dividend for the year of 21p, up 36% on the previous year.

We have also made good progress on our share buy-back announced in March this year, with c.£20m delivered to shareholders through this route as at the end of June.

We view both dividends and buybacks as appropriate routes to deliver shareholder returns, taking into account our capital allocation priorities.

Merger benefits

Before handing over to Philip, I will touch on some of our achievements since the merger just over two years ago.

The delivery and execution of the merger has been successful, and this should be the last reporting period we specifically reference merger related benefits; going forward we see the benefits of the merger being measured in the form of group operational efficiencies and customer wins on the integrated platform.

But it is worthy to note that the business has delivered on all the elements set out in late 2019 when discussing the strategic rationale for the merger.

We now have a platform which delivers a broad suite of mobility solutions, which is attracting strong interest from a wide range of blue chip and other customers. Our integrated platform offers a compelling proposition with £300m of lifetime contract value already signed with 5 major insurance brands and we have seen a significant uptake in customers taking up accident management services.

We have delivered cost synergies of over £20m which was twice the original target;

And we have seen the benefit of the integrated platform deliver incremental revenues from existing customers who have deep and long standing trusted relationships with Redde Northgate.

This year's results highlight some of the significant achievements both within the business operations and with our customers, which is testament to the hard work of all our colleagues, in Spain, Ireland and the UK over the past year and I express my and the boards thanks for their tremendous efforts which have delivered these results.

These results also show that the combined business has built stronger resilience through a broad market offer – very different to the past - and with a substantially diverse customer base.

Thank you - I will now hand over to Philip to cover the Financial Review.

PV

FY 2022 results

Thank you Martin, and good morning everyone.

FY results

Turning to page 9, I will start with an overview of the FY results.

The second half of the year followed the strength we had seen in the first half and revenue, excluding vehicle sales, grew to just under 1.1 billion pounds, 24% higher than prior year driven by the recovery of Redde post COVID.

Total revenue including vehicle sales was 1.24 billion pounds growing 12% year on year.

And vehicle sales revenue of £149.9m was 35% lower as the continued restrictions in new vehicle supply and strong rental demand have reduced the used vehicles available for sale. The total volume of vehicles sold was 16,600 a 40% reduction on the prior year which has been offset by high sales prices.

Claims and services revenue was £530.3m a 46% increase with volumes exiting the year at approximately 90% of pre-COVID levels.

Disposal profits were £50.1m, an increase of 25%, with PPUs increasing 106% as result of the increasing sales price of used vehicles.

Underlying profit before tax of £151m increased £58m or 62%. Whilst we continue to benefit from the very strong used vehicle market, if we exclude all disposal profits from both periods, underlying profit before tax increased 91% demonstrating the improvement in the underlying business.

Underlying Earnings Per Share was 50.8 pence, a 64% increase over the prior year in line with the increase in PBT.

Return on capital employed increased 4.4 percentage points to 13.9% as a result of the strong growth in profits. The increase in disposal profits accounted for 0.8% of this increase.

Steady state cash generation before growth capex, was £216.4m, increasing 54% benefitting from the tight control over cash spend and the underlying performance of the business.

Investment in the owned Northgate and Redde fleets to meet demand increased £128m and resulted in free cash flow reducing to £12.3m.

Net debt excluding IFRS 16 of £452.1m increased 3.2%.

If we turn to page 10

PBT Bridge

This year I have included a waterfall chart showing the growth of underlying PBT from £93.2m in FY21 to £151.3m this year.

Last year's underlying profit included £40.2m of disposals profit and FY22 includes £50.1m.

You can see the £9.9m increase in disposal profits in the centre with lower volumes at higher sales prices.

Importantly you can see that the rental volume and the rental margin combined, contribute £21.5m increase in profits in the year.

And Redde volume and margin contribute £27.9m increase in profits in the year.

So the improved underlying performance of the business in Northgate and Redde, not including disposals, is driving 85% of the increase in profits.

Now I will talk through the headlines for our three operating segments.

So let's start with Northgate UK and Ireland.

Turning to page 11.

Northgate UK&I

Northgate UK and Ireland had a good year with vehicle hire revenue of £346.6m growing 11.2% year on year. Closing VOH was flat year on year at 49,200 and average VOH was 6.1% higher than prior year.

The average hire rate was 3.7% higher than prior year with price increases applied carefully across the year.

Minimum term contracts accounted for around 36% of VOH compared to 33% last year.

The rental margin for the year was 15.3%. This represents a 2.6 percentage points increase compared to the prior year.

The higher rental revenue and margin, increased rental profit by 34% to £53.1m.

Vehicle sales volumes of 10,400 were 34% lower than the prior year. This reflects the fact that the prior year period benefited from additional used vehicle stock due to the impact of the COVID-19 lockdown at the end of FY 20 and the restricted market supply of new vehicles in the current period.

60% of sales were sold through our eAuction platform.

Residual values for vehicles have continued to be high with the average profit per unit of £4,300 increasing over 80% in the year. The increase in the sales value more than offset the reduction in the number of vehicles disposed with disposal profits of £44.8m increasing 20.3% over the prior year.

The higher rental and disposals profit resulted in underlying EBIT of £98m, a 28% increase over the prior year.

As we enter FY23 we have continued so see strong rental margin and utilisation has remained high as have disposal PPUs.

Now let's move to Northgate Spain on page 12.

Northgate Spain

In Spain underlying EBIT of £43.9m increased 30%.

Hire revenues increased 7.3% to £220.6m and on constant exchange rates increased 12.8%.

The average hire rate has increased 2.4% in local currency compared to last year, with price increases on new contracts applied in the period.

The percentage of minimum term contracts at the end of the period was 36% in line with the prior year.

Rental margins increased 2.5 percentage points to 17.5% with the prior year reflecting costs of customer support during COVID.

The higher rental revenue and margin, resulted in rental profit of £38.6m, an increase of 25.5%.

A total of 6,100 vehicles were sold in the period, 47.4% lower than prior year due to the restricted market supply of new vehicles.

Sales through our digital eAuction platform were 39% compared to 24% in the prior year.

The disposal market in Spain has also continued at strength with the profit per unit increasing over 200% since last year and disposal profits of £5.3m increasing from £2.9m.

EBIT of £43.9m was 30.2% higher than the prior year.

As we enter FY23 we have continued so see strong rental margin and utilisation and disposal PPU's remain high.

Now let's look at Redde on page 13.

PV

Redde

Volumes have steadily increased reaching around 90% of pre-COVID levels and we will stop making the comparison to pre-COVID volumes from FY23 as other factors such as new contract wins become more significant.

Revenue was £543.7m which was a 46% increase on the prior year due to the volumes of traffic increasing. Hire length also extended during the year due to the impact of macro challenges in the supply chain for parts.

EBIT for the year was £35.6m a substantial increase on the prior year reflecting the higher traffic volumes and as expected, FMG RS now profit enhancing.

Redde also made investment into processes and systems for the new contract wins that will benefit future profits from FY23.

Debtor days were 159 at the end of the period, 20 days lower than at the prior year end.

We expect Redde's contribution to continue to grow in FY23 due to a full year of normalised run rate of traffic volumes as well as new business wins.

Now let's turn to cashflow and capex on page 14.

CASHFLOW AND CAPEX

Steady state cash generation of £216.4m was strong and £76.3m higher than prior year driven by the growth in the underlying performance of the business.

EBITDA of £366.7m was £64.4m higher than the prior year with good growth in each business.

Net replacement capex of £106.7m was in line with the prior year and continues to benefit from tight controls over the acquisition of new vehicles and high residual values.

Working capital including non-cash items was a £33.5m outflow due to the reversal of COVID payment deferrals and the impact of increasing Redde volumes.

Growth capex of £108.6m reflects the growth in the fleet to meet rental demand predominantly in Spain and growing the Redde fleet to meet the increasing volumes and was £127.7m higher than the prior year.

Free cash flow was £12.3 million, an £85.5m reduction on the prior year reflecting investment for growth as well £7.5m of shares purchased as part of our buy back programme.

Now, let's look at our borrowing facilities and financial position on page 15.

Financial Strength

As we enter FY23 the business has a strong financial platform on which to grow.

We continue to operate with very comfortable headroom on all of our covenants and year end leverage was 1.4 times compared to 1.5 last year with our policy remaining to manage our leverage within the 1 to 2 times range.

I updated you about our very successful refinancing of our borrowing facilities at the half year.

As a reminder, we raised £792m of facilities that increased our headroom by £104m. This included new private placement loan notes of €375m with 6, 8 and 10 year terms at a weighted average fixed coupon of 1.32%, a 106 basis points reduction compared to the previous coupon of 2.38%.

In addition, we renewed our RCF facility for 4 years at £475m.

Not only did the refinancing increase the overall facilities and reduce overall cost of drawn debt by 50 basis points it also

- significantly lengthened maturities
- and provided greater diversification of our sources of debt and lenders.

Our drawn borrowing facilities at the year end were £426m with £382m of headroom available against our total facilities at a borrowing cost of 1.9%.

The increase in the amount of fixed rate loan notes means that the total proportion of Group borrowings at the year end that was in fixed rate instruments was 76%, up from 28% at the prior year end. This is obviously helpful when we are operating in an environment of rising interest rates.

The refinancing and the resulting lower costs of borrowing makes it harder for contract hire funding to compete on interest cost but it has continued to develop as a source of additional funding in the UK with 10,800 vehicles on contract hire across the whole fleet, almost double that of last year, utilising £155m of credit lines.

Our objective is to employ a disciplined approach to investment to deliver sustainable compounding growth.

We have continued to invest in organic growth with investment in growth capex, charging infrastructure and investment in our branches.

We continue to pay a sustainable growing dividend in line with our policy and we have made 3 acquisitions during the year and another after year end.

Having completed the above and with adequate headroom on our facilities the Board launched a £30m share buyback programme in February of this year as we believe it represents a good use of funds and generates a strong return for our stakeholders. As at the end of June we had purchased 5.4m shares for a total consideration of £20.6m.

At the end of this programme the Board will keep buy backs under review.

The Board is proposing a final dividend of 15.0p which will result in a full year dividend of 21.0p, 36% growth on the prior year's dividend.

PV

Depreciation

Now if you turn to page 16 I will update you on our fleet depreciation rates.

We have been operating in unprecedented times since the merger. We have witnessed a global pandemic that disrupted supply chains and production around the world, alongside a global chip shortage and most recently the war in the Ukraine.

All of these factors combined have resulted in a significant impact on the supply of new vehicles across Europe. As a consequence, residual values of vehicles increased substantially through the year.

Whilst residual values have now stopped increasing, they are not expected to revert to normal levels for the next couple of years.

The consequences of this are that the vehicles in our fleet today that were purchased earliest are now over depreciated. They have depreciated book values that are close to, or below the expected sale value at disposal.

Accounting standards require that depreciation rates are reviewed at least annually and are set so that neither a profit or loss is made on disposal of an asset.

After discussions with our auditors, we have concluded that, in line with accounting standards, we will reduce depreciation rates from May 22. This will only effect vehicles on the fleet purchased in FY20 or earlier.

This depreciation rate change does not impact cash, it only impacts the timing of statutory profits in relation to these vehicles over their remaining holding period and does not impact the total profit of these vehicles over this period.

To ensure the performance of the business is transparent to all stakeholders we will be reporting the impact of the rate change outside of our underlying results and it will only impact statutory results.

So, there will no impact on underlying PBT and no impact on cash.

The reduced depreciation cost resulting from lowering depreciation rates on FY20 and earlier vehicles, delivers an increase to the statutory PBT. The estimated impact in FY23 is £46.8m. There is no impact on FY22 as the adjustment is only being made from May 22.

As a result of the change in the depreciation rate the statutory depreciation charge in the next 4 years is going to be lower by a cumulative total of £94m. And consequently the disposal profits of these vehicles over the next 5 years will be lower by £94m.

These calculations are based on the estimated fleet plan and will vary based on when vehicles are sold which is partly dependent on when we receive new vehicles.

For those of you wanting to understand this depreciation rate change in more detail, after a 10 -15 minute break at the end of this presentation, I will talk through a worked example and explain how we have arrived at our depreciation rates and how we will disclose the impact in FY23 and beyond.

Thank you, and I will now hand you back over to Martin for the business update.

MW

Market view

Market commentators are forecasting a tougher economic environment over the coming period which will undoubtedly bring potential challenges to many businesses.

Fundamentally, our market proposition is the mobility of people and goods which is the oldest principle of trade, no matter what the economic climate; this principle holds true, and our role in the market is to make sure our Partners and Customers can do this with the flexibility they need in their mobility solutions. The shift from ownership to rental provides this flexibility and in tough times – even more so.

I believe we have put ourselves in the best position to support customers during any probable economic downturn, delivering mobility products and services in a flexible and efficient way.

I am confident that the depth and experience in the management team that also navigated through a tough Covid period, and produced significant cash growth, will be very relevant in any period of economic stress.

And as Philip highlighted, we completed our refinancing and have extended our maturities and lowered our financing costs with c.76% of our borrowings on fixed terms.

And we have carefully managed inflationary pricing improvements over the past year and would expect to continue to manage these responsibly as we go forward. Our customers recognise the inflationary challenges the markets pose, and whilst no one welcomes high inflation and what that means, we have strong relationships with our customers which have supported price movements as the costs of goods and services have increased.

And as we look at traffic on the roads, we anticipated last year that overall traffic levels in the period were likely to be lower than in 2019, mainly due to homeworking and changing work patterns and this has been the case.

However, in absolute terms, our new customer contracts, present and yet to commence, will deliver volume growth through the financial year - and we have now added more than £300m in lifetime contract revenues in the past 12 months alone, with a good pipeline of new opportunities ahead.

The UK vehicle supply outlook has continued to present challenges which means demand for vehicles is high. If you look at the chart on the top right, the SMMT forecast a shortfall of 1.7m vehicles through to Dec22, which in turn creates increased demand for used vehicles. We should anticipate there will be a softening in the wider economy through consumer cutbacks on large ticket items like car purchases (taking into account pre-existing orders yet to be fulfilled) which might bring some relief to supply in 2023, but this will still be dependent on semi-conductor and car parts supply chains recovering.

If we look at the chart on the bottom right from BCA, we can see used vehicle pricing has been strong through the period but has come off from the peaks seen during the early part of the calendar year, and from the peak Autumn period for cars.

And although we have seen some softening in vehicle values, current used pricing remains relatively strong compared to historic values. We have anticipated values will gradually fall as the year progresses, but this is likely to be moderated by reduced used vehicle availability. And, as we have said before, we anticipate a lower volume of de-fleets in this current period due to strong rental demand.

Across the UK, Ireland and Spain we are currently securing new supply at around 40-50% of what we would typically see, which makes retaining fleet, to service demand, a priority to support our customer base.

Finally, on this slide, within the business we are very focused on managing and mitigating our own inflation pressures, whilst also recognising the cost of living increases and the higher impact this has for our lower paid colleagues. This year we structured our pay awards so that our lowest paid colleagues received the highest %

increases across the workforce which materially stepped up their incomes, and to attract new recruits we increased the minimum starting salaries at the entry level. This has had a very positive impact on those within the business as well as increasing new application rates.

Vehicle lifecycle

This should be a familiar slide to you all, and it's a useful reminder of how many services and customer touch points we have across the vehicle lifecycle.

Each of them can work independently of the others as the services are vertically provided by our business units, but an increasing number of customers and Partners are seeing the benefit of taking a fuller suite of services for cost and operational efficiency which supports the customer journey.

So let me be very clear on this point, this platform is unique in its product and services combination. There is no other provider offering all of the solutions in one place or with the ability to integrate these services along the vehicle lifecycle. It's this platform which is driving customer wins and upselling services to existing customers, and it's this platform which is transformative in addressing our markets.

We are planning to digitise all elements of this platform over time, albeit we have already developed and embedded some of the new platform technology into our customers systems. This represents a strong and resilient position that should lead to long term relationships and supporting this is the strong level of win conversions we are seeing which is very exciting.

Our customers

We have a broad range of customers and Partners, many with longstanding relationships built on trust and delivering valued services.

These customers and Partners are drawn from a variety of organisations which amplifies the diverse nature of our revenues. This includes government and local authorities, leading motor insurers and brokers, dealerships, large fleet operators, lease co's and SME's.

And this growing customer base brings with it demand for services and rental supply. As I mentioned earlier, we are seeing a reasonable proportion of new supply coming through and we can continue to grow that as fleet becomes available. Currently, anything coming off rent in the fleet, for whatever reason, is quickly snapped up by customers or sold.

Given this dynamic we are encouraged that our depth and breadth of market cover gives us significant flexibility and good potential to thrive in difficult times.

Our platform

Why do customers choose our platform? Well there is a multitude of reasons but mainly they find benefit in joining up the services they need from one provider who handles all the mobility for them. This reduces cost, improves efficiency and more importantly it is joined up.

We added a further service to our platform this year with EV consulting expertise and advice. Our 'drive2zero' service offers help and practical support on owning and running a EV/hybrid fleet, and where required we are providing EV charging point installations through our own Charged EV business which can offer a broad range of options – not tied to any manufacturer.

And, as I highlighted earlier, we are increasingly bringing our newest product suite to the market digitally.

Our FMG Connect portal and Northgate Fleet Management App are examples of how we connect with customers with real time reporting for governance, risk and audit checks, to live claims and incident handling, record keeping, data capture, fleet reporting and training. All of which reduces the operational cost and

friction which comes with having multiple service providers across all the touch points, offering the benefits normally reserved for a large fleet to all fleets.

Case studies

The market drivers for our mobility platform are best expressed through understanding two recent customer wins.

On the left is a leading insurance brand who historically had a single product service with Redde many years ago before going to a rival.

They returned to us after the merger as the benefits of working on the mobility platform were very clear. This Partner has taken a wider suite of products across the platform delivered through a newly built technology system which is embedded into their own systems. This integrates the customer journey as they move across the platform with limited touch points and hand off's ensuring a seamless effort on service delivery.

This is a significant customer development, which has not been system integrated to this level previously and which has the scope to develop even further. The launch is going live shortly with revenue benefits commencing in the coming months.

And on the right, a new Northgate fleet customer, which is becoming a typical story, currently with a fleet of 30 vehicles provided by 10+ different suppliers looking to expand to 70 vehicles. The attraction of consolidation bringing, lower cost, support across all vehicle marques with full service, maintenance, repair and replacement together with accident management was a compelling choice. We also added consulting support for their EV transition plan with new EV vehicle supply options, EV Charging installation, delivered through our Charged EV business and green energy sourcing options. This package of support and service provision is unique and is compelling. We are not a one touch renter of vehicles.

This shows how we can help businesses easily manage their fleet – end to end with flexibility and choice and support their transition to EV.

It's this one stop service which makes this a strong proposition. And our account teams are buoyed by the strength and depth of these services which is supporting increased conversions.

Acquisitions

Acquisitions have and will continue to play an important role in our growth strategy, under our Broaden pillar.

We are a consolidator in our markets, and our balance sheet strength means we are one of the first calls people make when looking to dispose of a business in our sector.

We have a disciplined approach to reviewing M&A, and look for the right opportunities that either have strategic benefits, extend our capabilities or consolidate for growth.

Given our wide platform and increasing appeal to grow services in addressable markets, there are a number of motivations for judging M&A opportunities, and the three actions we took in 2022 are good examples of the differing rationale.

Early in the financial year we acquired a parcel of 2,000 vehicles and related customer contracts, which at the time of severe supply constraint was a useful addition to our fleet.

And although of a different scale to the Nationwide acquisition of the previous year, the purchase of ChargedEV was also strategically significant as it helped accelerate our position and capabilities in the supply and installation of EV charging points, a growing marketplace which supports not only our own transition but the wider EV market.

And in March of this year we acquired a very interesting specialist business, GRG which provides call handling and vehicle recovery services to a number of police authorities. This acquisition was highly complementary to our FMG business, with several long term contracts with local police authorities in place.

And in the last few days, too late to make the cut for the slides, we completed the acquisition of Blakedale which is a leader in the supply of specialist traffic management vehicles to highway contractors, which added c. 320 traffic management vehicles to the fleet and we welcomed c.65 new colleagues to the group. This acquisition extends our reach and capabilities with highways infrastructure build and maintenance operators who are set to benefit from long term government spending commitments

EV transition

The transition to electric vehicles or other non-ICE solutions is set to be a fundamental structural shift for many customers with their fleet over the next decade. In some instances, we are working with newer OEM's to suitably scope EV vehicles which would be more widely accepted by customers.

We are also working with our trade body to ensure that Government clearly understand the requirements of supporting EV fleets, particularly vans and the different usage requirements they have.

We have also invested and continue to invest in rolling out EV charging stations across our entire branch network which will support the growing take up of EV's that we handle through the business.

EV and hybrid cars have been a part of the fleet for many years and have continued to reflect the car parc, our EV and hybrid stock now represent 11% of our car fleet and this is expected to grow in line with demand.

And, we have also ensured our workshops and trained technicians are well positioned to cope with a growth in EV related work as the training programme to accredited standards continues to be rolled out across the technician workforce.

For RN, it is a great opportunity to work with our customers and support them in this transition. It's not just about supplying the vehicle itself. There are many considerations, and our account teams and service professionals are well placed to support our customers with in house skills and expertise.

Presently, product technology and lack of national charging infrastructure investment are major impediments to being able to make meaningful progress on the mainstream take up of EV vehicles for van fleets and this is likely to take time to change over the medium term. However, we are supporting change now with those customers that want to move forward and we are well positioned to continue to support this change over time.

Our charged EV business has now installed over 6,000 charging stations for our customers and will continue to support demand in line with customer take up.

Meanwhile, interest from our fleet customers on using our consulting advice and guidance as to how to best position their approach to EV's over the coming 3-5 years is growing. And as I highlighted in the case study our 'drive2zero' support and advice for customers looking to reduce their carbon emissions yet another example of value-added services from our platform.

Our sustainability journey

The move to non-ICE vehicles is also part of our own net zero journey, as scope 3 emissions (those from our customers) are estimated to make up over 95% of our total carbon footprint.

But we think of this transition as a strategic imperative, and one which will define our own net zero trajectory and interim targets. Technology and regulatory developments will shape the timetable of much of our own progress, and the roadmap for vans shows there needs to be a significant shift in battery technology to

support commercial use age to become mainstream. However, we know that \$ billions is being spent in battery technology and over time this will improve the capabilities and range suitable for commercial use. The question for the UK is will it be in time to make a difference before 2030?

We have therefore been very focused on what we can directly affect now, within our business and with our people and communities.

Over the past year we have been growing a deeper understanding of our material ESG issues to address; combining this with a clearer view of our carbon footprint.

We are now in a position to set realistic targets that can be measured and reported upon, encouraging behaviours and investment to help reduce the resources we consume. It's carved in all our management objectives and we seek to show good progress on this.

And equally important, focusing on how we support our people through our ESG strategy and attract and retain the skills and talent we need for the future.

Alongside this, we are very focused on ensuring our benefits and career development is well aligned with our Purpose and Values. And we have ensured that these are made part of the colleague discussion from day one.

We are building a business which is centred on being trusted by its customers and Partners to manage their everyday mobility services and to make this easy.

We are also building a business and culture which is trusted by all its colleagues to behave responsibly and to be a great place to work.

Resilience of our Business model

I said it earlier, the combination that Redde Northgate provides is unique and transformative and our mobility platform is supporting a new level of resilience.

Our position is strong – but we are realistic enough to know we are not going to win everything we touch. However, the structural drivers supporting our position are favourable – rental over ownership and a newer wave of outsourcing is a positive.

We have a unique position which is winning blue chip customers on long term contracts.

Our customer base is diverse and resilient. Not just the large customers but those who rely on their vehicles everyday to support making a living – they are resilient.

Our pipeline of future organic opportunities is good and with strong conversion rates we should expect more progress on customer wins, and our view on inorganic growth with a strong balance sheet and financial strength drives further ambition.

So there is confidence in the team that our resilience for our business model on this platform is stronger than either business standalone.

Finally, before Q&A's, our view on the Outlook:

The new financial year has started well with good levels of volumes and activity across the group.

Some of the new pipeline is coming from businesses that have not outsourced previously now looking to move out of house – which is encouraging us that there is more opportunity to pursue in this economic climate.

The integrated mobility platform is winning deals and with embedded technology being part of this it offers longer term integration benefits and resilience with customers and Partners

The challenges of supply constraints are being managed well – our fleet team have strong relationships in the market and are securing deals when these become available. And inflation costs are being managed with customers as we are proactive on this.

We are mindful that economic uncertainty is at the forefront of people's minds and the uncertainty that brings. I am sure that will bring challenges but I am also confident that RN can deliver long term sustainable value.

Thank you for listening and hope the points were clear. We will now take questions.

[The Q&A is available on the webcast but not as a transcript.]

The following section is the script used for the Depreciation Workshop which followed the Full Year results webcast; the slides relating to this script are set out on pages 30-33 of the Full Year analyst presentation.

PV

Additional depreciation slides

Welcome back.

I am going to talk you through how we set our depreciation rates
walk you through a worked example
and explain how we will disclose the rate change next year.

Setting depreciation rates

We review our depreciation rates each year and in doing so we look at the estimated sales price at disposal and the likely profit per unit, or PPU.

Accounting standards require that rates are set so that no profit or loss is made at disposal.

If those PPU's become too large we are required to adjust the depreciation rates over the remaining holding period of the vehicle.

We therefore have to model the likely PPU based on forecast sales value estimates and adjust the depreciation rate so that the PPUs are minimal.

The chart shows the recent trajectory of PPUs and why we have had to adjust the depreciation rates to reduce them.

To date no changes have been made to depreciation rates on existing fleet as the extent and longevity of the current buoyancy in residual values has been uncertain. However, the high residual values have now continued for longer than anticipated and uncertainty remains over how long it will take for the supply of new and used vehicles to return to a more normal level.

The disposal profit on a vehicle is the difference between its sales value and its depreciated book value at disposal.

By reducing the depreciation charge the book value of the vehicles at disposal will be higher than they would have been without the reduction which means that the disposal profit on these vehicles will be lower on a statutory basis.

The positive impact on the P&L of the reduced depreciation rate is reduced by a decrease in disposal profits. The depreciation rate change impacts each year the vehicle is held, whereas the disposal profit is only recognised in the year of disposal, the two net off over the life of the vehicle but not every year.

Worked example

To start, I want to talk you through an example of the impact of a rate change on one vehicle.

- Assume the purchase of a vehicle for £10,000 with a depreciation rate set at 10%
- The first box shows a £1,000 depreciation charge flowing through the P&L each year
- The vehicle is disposed after 4 years for £9,000
- The depreciated net book value of the vehicle at disposal is £6,000
- So the profit on disposal is £3,000
- Therefore the net impact on the P&L over the life of the vehicle is the disposal profit of £3,000 less the £4,000 depreciation which is a £1,000 cost

- The second box assumes that the depreciation on the vehicle is stopped at the end of year 1 – a depreciation rate change.
- In year 1 there is a depreciation charge of £1,000
- Assume at the end of the year the predicted sales price of £9,000 is equal to the depreciated net book value
- The vehicle is already depreciated to its estimated residual value of £9,000 and as a result the depreciation is reduced to nil from year 2
- Now at disposal the NBV is £9,000, the same as the sales price
- so there is nil disposal profit
- the P&L impact over the life of the vehicle is still a £1,000 charge

The third box at the bottom shows the movement in the P&L between the 2.

You can see that in years 2 and 3 there is a benefit to the P&L and year 5 a reduction but the cumulative change totals zero – it is only the timing of the statutory profits that change.

When the change in depreciation is applied across the cohort of vehicles impacted you end up with the profile on the next page.

Impact of depreciation rate change

The top table is the Group impact which I shared earlier and the two below are UK&I and then Spain.

The reduction in the depreciation charge is largest in the first year. The number of vehicles with the reduced depreciation rate reduces as the vehicles reach their age of disposal then the total depreciation reduction falls and the reduction in disposal profits grows so you end up with a benefit in year 1 and a deficit in the remaining years until the impacted vehicles are sold.

The impacts in Spain are smaller since the residual values have not moved as much as in the UK so the required depreciation rate change is smaller.

Now if you look at the next slide I will show you how this will be disclosed from FY23.

Reporting and disclosure

The pro-forma here is based on the FY22 numbers but note this will only impact FY23 onwards.

We will present a column approach in our accounts that will show

- First, the statutory numbers with the depreciation rate change,
- second, the adjustment for depreciation along with other underlying adjustments
- third, the underlying results excluding the rate change

You can see the expected adjustment of £46.8m in the second column within cost of sales.

So the underlying PBT and KPI's will not be impacted.

I hope that helps with your understanding of the rate change and I am now happy to take any questions?