

Northgate plc – interim results for the six months ended 31 October 2016



Introduction

Andrew Page

Financial review

Paddy Gallagher

Strategy and outlook

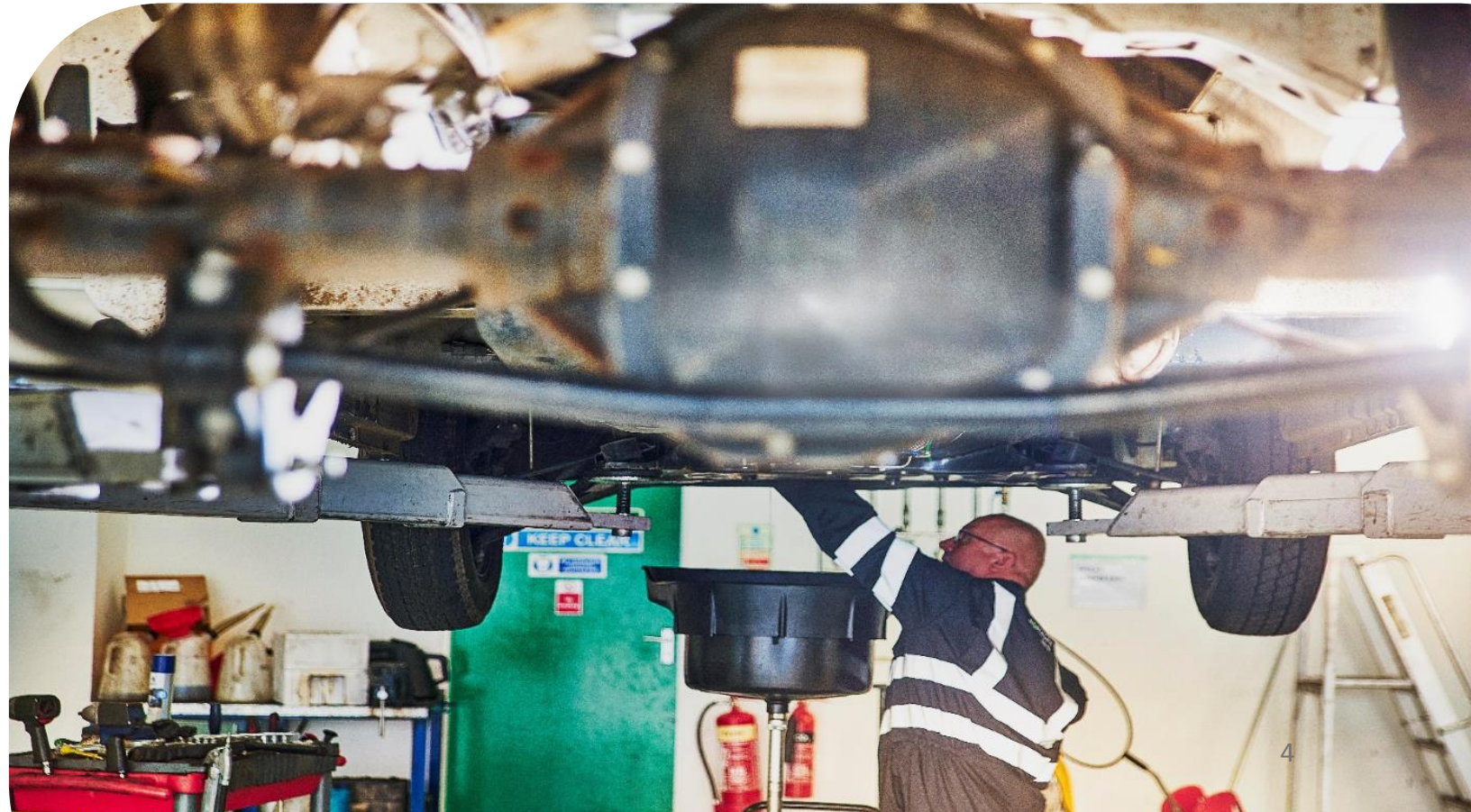
Bob Contreras

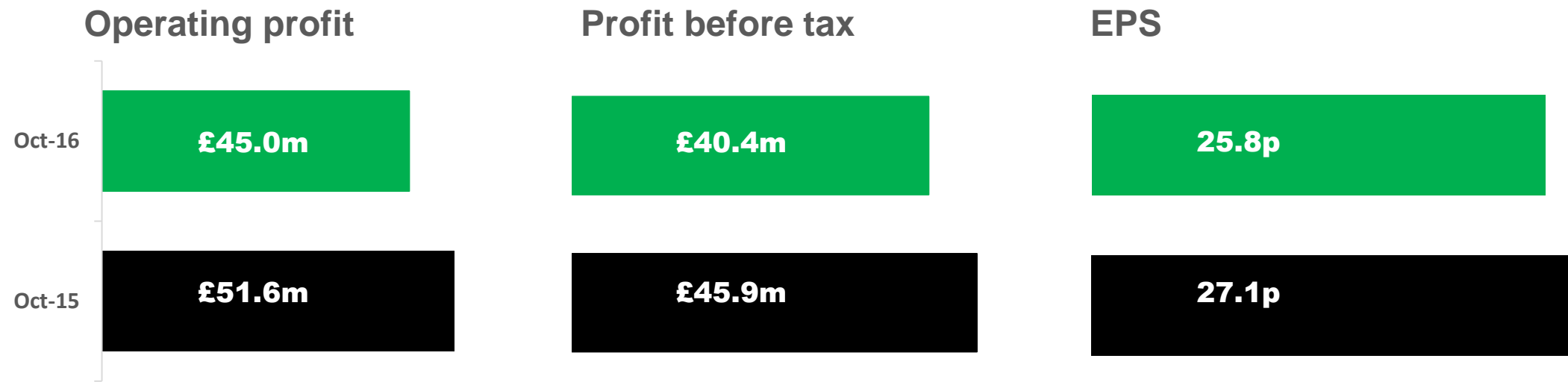


**Andrew
Page**



**Paddy
Gallagher**





Interim dividend

5.7p

▲ Oct-15 – 5.1p

Net debt

£355m

▲ Apr-16 – £310m

ROCE

10.9%

▼ Oct-15 – 12.0%

£m	UK	Spain	Ireland	Corporate	Group	Oct-15
Operating profit – (ex-disposals)	17.3	12.6	0.9	–	30.8	34.4
Operating profit – disposals	6.6	8.7	0.8	–	16.1	19.3
Corporate	–	–	–	(1.9)	(1.9)	(2.1)
Operating profit – total	23.9	21.3	1.7	(1.9)	45.0	51.6

£m	Oct-16	Oct-15
Underlying operational cash generation	113.6	114.6
Net capital expenditure	(95.5)	(92.7)
Net taxation and interest payments	(9.9)	(7.7)
Share purchases and refinancing costs	(0.6)	(6.1)
Free cash flow	7.6	8.1
Dividends	(14.3)	(13.4)
Net cash flow	(6.7)	(5.3)
Net Debt	355.0	338.7
Facilities headroom	231.9	174.7
Leverage	1.49x	1.46x
Gearing	72%	78%

Free cash flow generation is in line with the prior year. Increase in net debt of £45m since year end includes adverse currency impact of £38m, which hedges the movement in Euro assets.



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Vehicle
capex

Presented on an accruals basis
Disposal revenue stated before the deduction of
selling costs

£m		Oct-16	Oct-15
Purchases	UK	97.8	106.6
	Spain	77.0	50.2
	Ireland	8.1	5.7
Disposals	UK	(59.0)	(62.8)
	Spain	(26.1)	(22.9)
	Ireland	(2.0)	(1.7)
Net fleet capex		95.8	75.1
Vehicles:			
Purchases	UK	8,000	8,400
	Spain	7,400	5,900
	Ireland	600	500
		16,000	14,800
Disposals	UK	9,000	10,400
	Spain	5,700	5,300
	Ireland	400	300
		15,100	16,000

Cash flow variance includes £16m difference in working capital movements



£m	Oct-16	Oct-15	Change
Revenue: hire of vehicles	138.4	149.8	(11.4)
Operating profit (excluding vehicle disposals)	17.3	21.7	(4.4)
Vehicle disposals	6.6	10.1	(3.5)
Total operating profit	23.9	31.8	(7.9)

KPI	Oct-16	Oct-15	Change
Average VOH	42,000	44,800	(2,800)
Closing VOH (*vs. Apr-16)	42,500	42,400*	100
Utilisation	88%	88%	—
Vehicle sales units	9,000	10,400	(1,400)
PPU (£)	738	977	(239)
Vehicle sales: retail penetration	41%	31%	10%

Vehicles on hire stabilised and beginning to see momentum



€m	Oct-16	Oct-15	Change
Revenue: hire of vehicles	96.7	95.3	1.4
Operating profit (excluding vehicle disposals)	14.9	16.5	(1.6)
Vehicle disposals	10.4	11.8	(1.4)
Total operating profit	25.3	28.3	(3.0)

In GBP foreign exchange had a £3.1m positive impact on operating profit

KPI	Oct-16	Oct-15	Change
Average VOH	35,900	35,700	200
Closing VOH (*vs. Apr-16)	36,200	35,600*	600
Utilisation	91%	91%	–
Vehicle sales units	5,700	5,300	400
PPU (€)	1,815	2,211	(396)
Vehicle sales: retail penetration	11%	19%	(8%)

A government has now been formed and the fixed term rental trial has been successful



€m	Oct-16	Oct-15	Change
Revenue: hire of vehicles	12.5	10.8	1.7
Operating profit (excluding vehicle disposals)	1.1	1.2	(0.1)
Vehicle disposals	0.9	1.0	(0.1)
Total operating profit	2.0	2.2	(0.2)

In GBP foreign exchange had a £0.2m positive impact on operating profit



KPI	Oct-16	Oct-15	Change
Average VOH	3,400	3,000	400
Closing VOH (*vs. Apr-16)	3,500	3,300*	200
Utilisation	89%	90%	(1%)
Vehicle sales units	400	300	100




Continuation of strong VOH growth



**Bob
Contreras**



Areas of strategic focus:

-  Optimise core business
-  Expand our addressable markets
-  Maximise end of life value



Optimise core business

Area of focus	What we've done
Sales and marketing (UK) <ul style="list-style-type: none">Strengthening<ul style="list-style-type: none">Our propositionOur brand	<ul style="list-style-type: none">Refreshed marketing to articulate:<ul style="list-style-type: none">Our financial propositionProduct rangeService offeringMarketing campaigns – radio and service stations
<ul style="list-style-type: none">Changing our channels to market<ul style="list-style-type: none">Small SMEs (Telesales)Larger SMEs (Regionally based sales team)National (Consultative sales teams)	<ul style="list-style-type: none">Telesales went live in AugustRetraining and additional marketing support to regionally based teamsBespoke offerings to larger customers covering more of their fleet requirements



Optimise core business

Area of focus

What we've done

- Improved operational delivery

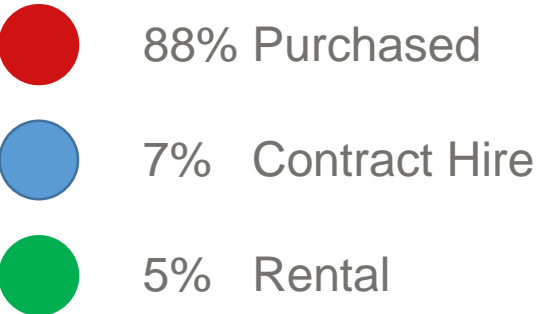
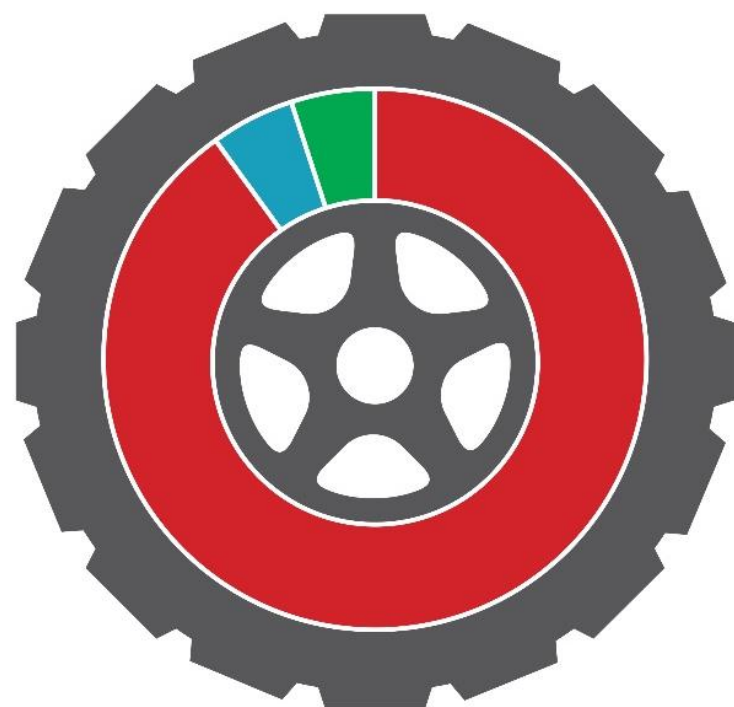
- Stable utilisation and increased workshop efficiency

- Digital approach

- Refreshed websites
- Increased usage of customer portals



LCV market (c.7m vehicles)



Termed rental offering

- Offer of 12 to 48 month termed rental
- Access to new markets – traditional purchasers or contract hire users
- Consistent service offering to customers
- Managed through existing network and fleet composition
- Lower operational cost meaning no margin erosion

Addressable
markets

Area of focus

What we've done

Expand addressable market beyond traditional rental

- Fixed term rental trial in Spain:
 - Development of product terms and conditions
 - Full training of sales teams
 - 1,000 VOH at October 2016
- Trial extended to UK and Ireland in November



Area of focus	What we've done
<p>Expansion of vehicle range</p> <ul style="list-style-type: none">▪ Refrigerated▪ Electric▪ Utility	<ul style="list-style-type: none">▪ Spain – established fleet of 250 refrigerated & isotherm vehicles▪ 70 electric vehicles across the Group▪ 1,900 utility vehicles across the Group
<p>Expansion of geographical footprint in the medium term</p> <ul style="list-style-type: none">▪ UK + 10-12 depots▪ Spain + 2-3 depots▪ Ireland + 3-4 depots	<ul style="list-style-type: none">▪ UK – focus on sales transformation – resume once achieved▪ Spain – two branches to open in 2017▪ Ireland – network expansion to commence following IT system upgrade



Maximise end
of life value

Area of focus	What we've done
UK	
Increase retail penetration to >50%	<ul style="list-style-type: none">Increased to 41% compared with 31% in the prior period
Increase margin through ancillary products	<ul style="list-style-type: none">Increased proportion of retail vehicles sold with ancillary attachment from 20% to 25%
Third party vehicle sourcing for Van Monster	<ul style="list-style-type: none">Trial with 260 sold in the half year





UK business stabilised – confidence in medium term prospects



Spain continues to develop – political situation stabilising



New product trials demonstrate confidence in further growth



Full year results remain in line with market expectations





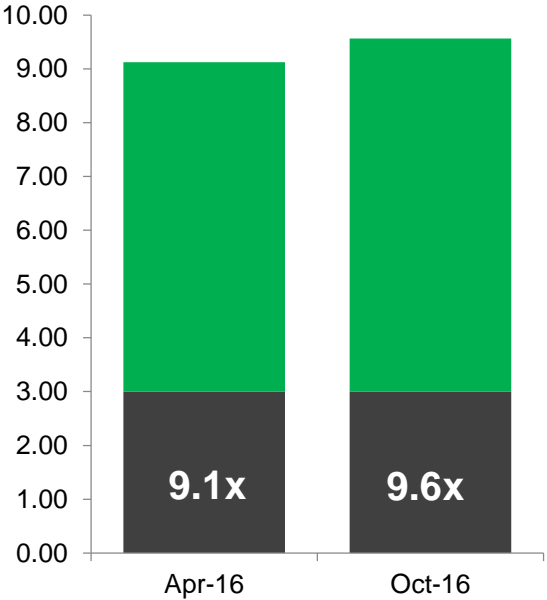
£m	Oct-16					Oct-15
	UK	Spain	Ireland	Elims	Total	Total
Revenue: hire of vehicles	138.4	81.2	10.5	(0.5)	229.6	225.7
Operating profit (excluding vehicle disposals)	17.3	12.6	0.9	—	30.8	34.4
Vehicle disposals	6.6	8.7	0.8	—	16.1	19.3
Total operating profit	23.9	21.3	1.7	—	46.9	53.7
Corporate	—	—	—	—	(1.9)	(2.1)
Group operating profit					45.0	51.6
Operating margin %					19.6%	22.8%
Cash interest					(4.3)	(5.4)
Non cash interest					(0.3)	(0.3)
Profit before tax					40.4	45.9

£m	Oct-16	Oct-15
Operating profit (statutory)	44.2	50.1
Depreciation and amortisation	78.7	70.8
Working capital and other movements	(9.3)	(6.3)
Underlying operational cash generation	113.6	114.6
Net interest paid	(3.8)	(5.4)
Net corporation tax paid	(6.1)	(2.3)
Cash flow after interest and tax	103.7	106.9
Vehicle purchases	(168.1)	(164.5)
Vehicle disposals	74.4	75.4
Other net capex	(1.8)	(3.6)
Share purchases and refinancing costs	(0.6)	(6.1)
Free cash flow	7.6	8.1
Dividends	(14.3)	(13.4)
Net cash flow	(6.7)	(5.3)

£m	Oct-16	Rate*
Syndicated bank facilities	461	
Loan notes	90	
Other facilities	38	
	589	
Fixed rate borrowings	337	2.2%
Floating rate borrowings	20	1.3%
Net debt (excluding arrangement fees)	357	2.1%
Headroom	232	

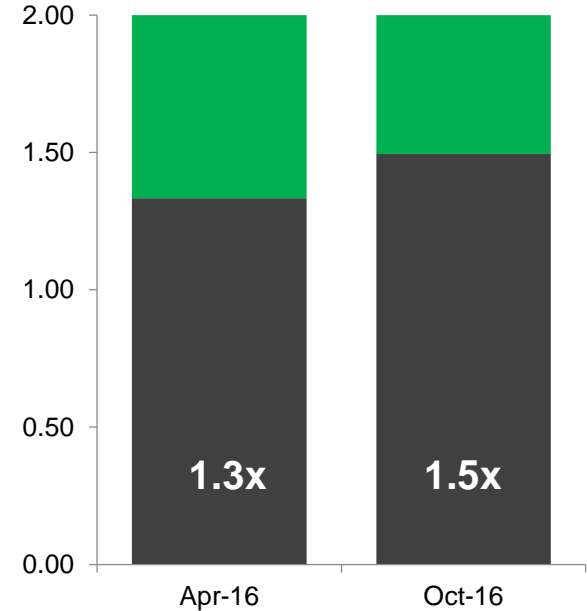
* As at 31 October 2016

Interest cover



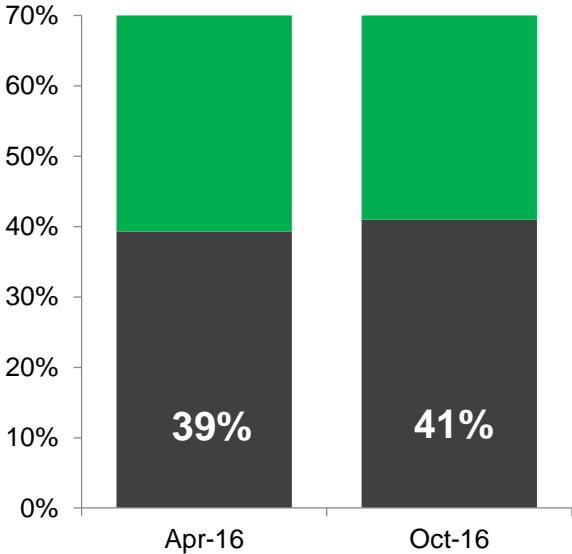
- EBIT headroom £59m
- Threshold 3.0x

Leverage



- EBITDA headroom £61m
- Threshold 2.0x

Loan to value



- Loan headroom £257m
- Threshold 70%

	Oct-16	Oct-15
Fleet size (closing)	49,500	51,700
Utilisation (average)	88%	88%
Closing vehicles on hire	42,500	44,400
Revenue per vehicle (annualised)	£6,584	£6,687
Operating margin	17.3%	21.2%
Headcount (closing)	1,863	1,949
PPU (£)	738	977
ROCE	9.9%	12.2%

	Oct-16	Oct-15
Fleet size (closing)	41,100	39,700
Utilisation (average)	91%	91%
Closing vehicles on hire	36,200	35,700
Revenue per vehicle (annualised)	€5,386	€5,337
Operating margin	26.2%	29.6%
Headcount (closing)	1,034	940
PPU (€)	1,815	2,211
ROCE	14.8%	13.5%

	Oct-16	Oct-15
Fleet size (closing)	3,900	3,500
Utilisation (average)	89%	90%
Closing vehicles on hire	3,500	3,200
Revenue per vehicle (annualised)	€7,395	€7,230
Operating margin	15.7%	20.0%
Headcount (closing)	83	80
PPU (€)	2,655	3,143

£m	UK	Spain	Ireland	Corporate	Group
Operating profit - reported	23.9	21.3	1.7	(1.9)	45.0
Impact of depreciation change	1.7	0.7	0.1	–	2.5
Adjusted operating profit	25.6	22.0	1.8	(1.9)	47.5
Oct-15 operating profit	31.8	20.3	1.6	(2.1)	51.6
Adjusted (decrease) increase	(6.2)	1.7	0.2	0.2	(4.1)
Oct-16 operating margin	17.3%	26.2%	15.7%	–	19.6%
Adjusted operating margin	18.5%	27.1%	16.6%	–	20.7%
Oct-15 operating margin	21.2%	29.6%	20.0%	–	22.8%

Prospective year-on-year operating profit increase (decrease) arising due to the previous changes made to vehicle depreciation rates:

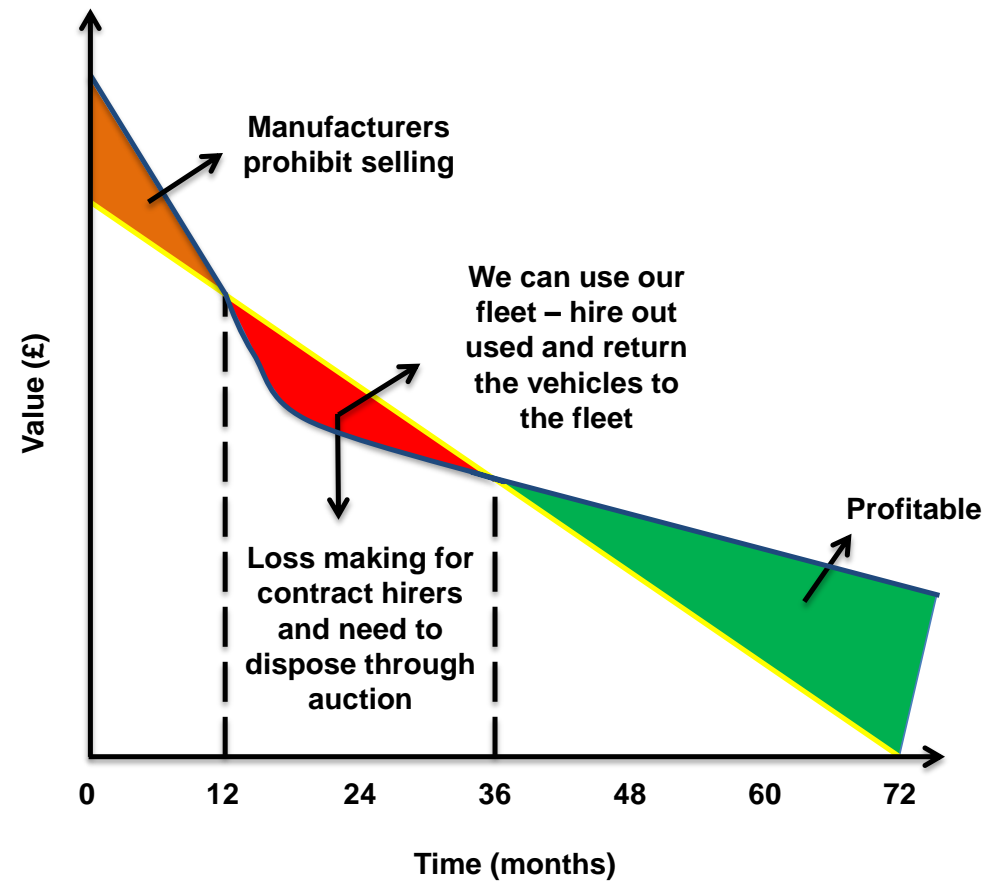
£m	UK	Spain	Ireland	Group
FY16	(5.4)	2.2	(0.5)	(3.7)
FY17*	(3.8)	(1.6)	(0.3)	(5.7)
FY18*	(2.6)	(1.5)	(0.1)	(4.2)
FY19*	-	(2.1)	-	(2.1)

* Management estimates

Profit and loss and cash flow generation of a typical vehicle in the UK business over its life cycle, using a purchase price of £100 per vehicle*:

£	P&L	Cashflow
Purchase		(100)
Net Disposal Proceeds		53
Total Holding Cost		(47)
Rental Revenue pa	52	52
Total Costs exc Depreciation pa	(10)	(10)
Depreciation pa	(17)	-
Profit pa	25	42
Profit on Disposal	8	-
Total Profit	89	89
Discounted cash flow		55
ROCE	40.0%	

* Based on a holding period of 39 months and a discount rate of 9.7%



	Contract hire	Northgate
Differences	36 – 60 month contracts	12 – 48 month duration
	New vehicles only	New if > 24 months, fleet < 24 months
	Thousands of vehicle types	Circa 100 core vehicle types
	At expiry – dispose of through auction. Contract tied to economic life of vehicle.	At expiry – dispose of through retail arm or recycle into fleet. Contract and economic life of vehicle separate.
	Service, maintenance and repair outsourced	Service, maintenance and repair performed in-house
Similarities	Large early termination penalties	Lower early termination penalties
	Retrospective excess mileage charges	Combination of retrospective and prospective excess mileage charges
	Damage charges apply	

— Net book value — Residual value less selling costs