Northgate PLC

Preliminary results for the year ended 30 April 2019

25 June 2019

Transcript

KEY

KB: Kevin Bradshaw
PB: Philip Vincent
AN: Andrew Nussey, Peel Hunt
JC: Julian Cater, Numis
JS: Jane Sparrow, Barclays
GP: Greg Poulton, N+1 Singer
JSp: Joe Spooner, HSBC
ER: Eoghan Reid, Berenberg

KB: Good morning everyone, and thank you for joining us today for our 2019 results announcement. Before I begin I can confirm we're not expecting a fire drill or any other interruptions this morning, so if an alarm sounds please exit the room as directed and follow instructions from the staff here at Numis.

Okay, I'm going to start this morning by giving you the highlights of our 2019 financial year. Phillip will then take you through the financial review before I return for the business review. And following that we'll be happy of course to take your questions.

Let me start with a brief overview. We delivered financial results for 2019 in line with the guidance we'd previously given. We saw double digit VOH growth in both territories, and reported rental margins in line with expectations for each country. Our significantly improved free cash flow benefitted from lower capex, as expected, as we transitioned to our new fleet optimisation policy of longer vehicle holding periods.

We delivered strong steady state cash flow and this underpins the proposed dividend of 18.3 pence for the full year, a 3.4% increase over the prior year. This progressive dividend reflects both the strong cash flow generated by the Group and the Board's confidence in the future performance of the business.

We also made some good strategic progress, continuing the turnaround in the UK driven by our self-help agenda. The UK business is delivering extremely encouraging results, with the successful execution of our rental strategy driving improved operational and commercial performance.

In Spain, we've demonstrated much resilience, maintaining our strong returns as the market faces increasing price competition across both for flexible and term hire segments.

Group ROCE reached an inflection point and improved 20 basis points to 7.7% which reflects the strong progress made during the year and shows positive growth despite offsets from reduced disposal profits as a result of fleet ageing and significant capex on new vehicles driven by strong minimum-term growth.

Phillip's going to explore this in more detail with you. Now let me pass over to him to take you through the financials.

PV: Thank you Kevin and Good morning everyone.

Let me start by taking you through our financial results for 2019, which were delivered in line with the guidance we gave to the market.

Total revenue of £745.5 million grew 6.2% year on year driven by 9.9% growth in revenue from vehicle hire, partly offset by an expected 1.1% decline in revenue from vehicles sales. This expected decline in vehicle sales was of course driven by the transition to and the implementation of our new fleet optimization strategy, which resulted in the sale of fewer and older vehicles. This was partly offset by strong performance from our UK disposal channel.

Group rental profit increased £11.8 million or 22.6%, delivering a margin of 12.4% which grew 130 basis points over the prior year and I will explore this in more detail in a few moments.

The Group's underlying operating profit of £76.2 million grew £7.9 million or 11.5% year on year, including a net £15.3 million benefit from the change to depreciation rates. These changes resulted in a benefit to rental profits of £20.2 million, partly offset by the unwind that flows through to a reduction in disposal profits of £4.9 million.

Underlying profit before tax of £61.1 million came in ahead of the consensus average of £60.6 million, leading to underlying Earnings Per Share of 38.7 pence, an 11.2% increase over the prior year.

Net debt at £436.9 million is £2.4 million lower than the prior year, and importantly free cash inflow of £20.4 million, is £116.4 million better than last year.

Group ROCE of 7.7% has reached an inflection point showing a small improvement over the prior year and this reflects the lower disposal profits from fleet optimization as well as higher capital employed as we've grown VOH principally in minimum-term.

As you know, ROCE is a lagging metric in a growing asset-based business recording the capital employed to buy an asset ahead of the returns generated by that asset. Now let's take a closer look at rental profit.

Group rental profit increased £11.8 million or 22.6% year on year delivering a rental margin of 12.4%. And you'll recall the changes to depreciation rates we made at the start of the year following the announcement of our fleet optimisation strategy. These rate changes delivered a £20.2 million incremental benefit to rental profits in the year, equivalent to a 3.9% rental margin improvement.

This benefit was an offset by:

- vehicle holding costs of roughly 1% reflecting OEM price inflation;

- price and mix impacts of approximately 1% entirely driven by Spain and the greater proportion of minimum-term in VOH;

- Other costs of approximately 0.4% and you may recall at the interims we explained that some of these costs relate to the investing in the UK & Ireland business in terms of sales, marketing, workshops, people and processes to transform the business and equip it for growth; and

- finally, one-off costs of roughly 0.3%, and the majority of this arising from the processing and integration of the 3,400 vehicles acquired from TOM in the first half of the year.

Let's turn to cash flow and Capex. Underlying operating cash generation of £283.2 million improved by 18% year on year. EBITDA improved by £19.9 million to £268.4 million and working capital was £22.8 million better than last year. This mainly related to the timing of VAT receipts for vehicles purchased at the end of the prior year and also includes improvement in cash collection in the year.

Total net capex of £243.9 million or £67.1 million lower than prior year. I said at the interims I would provide the split of Net Replacement and Growth capex and the methodology presented here is consistent with last year, although I have refined some of the elements of the calculation. Net replacement capex was £201.3 million compared to £185.9 million in the prior year and growth capex of £42.6 million was £82.5 million lower than prior year. Fleet optimisation and the ageing of the fleet resulted in close to a £60 million reduction in net replacement capex which was offset by a £45 million spend on vehicles purchased for minimum-term contracts and £30 million arising from OEM inflation and lower vehicle sales proceeds due to the ageing of the fleet.

Net tax and interest of £15.7 million is lower than prior year with higher interest costs being offset by the timing of payments on account for tax. Other financing includes the cost of extending the bank facilities by one year. As a result, free cash flow of £20.4 million is £116.4 million better than last year.

EBITDA less net replacement capex of £67.1 million is slightly better than last year demonstrating strong steady state cash generation and investment in attractive minimum-term growth. This also presents strong foundations for a continuing progressive dividend.

Let's now take a look at the benefits delivered by our fleet optimization. Fleet optimization delivered roughly £60 million reduction in capex spend in the year, and some of these savings have been invested into minimum-term contracts. The average length of a minimum-term contracts is around 36 months in Spain and slightly shorter and UK & Ireland.

Consequently, we have to date concluded only a small number of the total minimum-term contracts we have in place across the Group. However, there are some very clear findings from our early experience of minimum-term to date. In the UK, minimum-term contracts generate returns at or above those earned by the average of flexible contracts. In Spain, we have found that shorter minimum-term contracts can generate similar returns to flexible contracts, but that longer minimum-term contracts can generate a lower return. Minimum-term remains an important part of our customer proposition in Spain, supporting our strong flexible business, but we need to be selective here to protect returns.

I've included on the right of this slide an illustrative example of the average of flexible contracts and different minimum-term contracts for a small van derivative in the UK. This shows the comparable ROCE, which is calculated by taking the rental income over a year and subtracts variable costs, including: the holding cost of the vehicle, servicing, maintenance and repairs, delivery and collection, road fund licenses, admin costs, and valeting and vehicle checks. This shows that the average comparable ROCE from flexible contracts is just over 15%, whilst the comparable ROCE from a minimum-term contract is above this for all hire terms other than 48 months. The higher ROCE earned on the minimum-term contracts is principally driven by the benefits of the higher utilisation verses flexible contracts.

And you will recall that in the first half of the year we extended our bank facilities by £50 million. Our total facilities are now £604 million, of which we had drawn £439 million at the end of the year, leaving headroom of £165 million, providing plenty of room to grow the business. Interest costs were higher than prior year as there was a 0.25% margin increase in the UK facility as a result of net debt moving above the 1.75 times debt to EBITDA threshold at the end of April 2018. Our overall cost of borrowings is now 2.5%. As well as having sufficient headroom within our facilities we are also comfortably within all of our financial covenants. The key net debt to EBITDA threshold is 2.75 times and we ended the year at 1.64 times, our policy remains to manage our leverage within the 1.5 to 2.5 times range.

Now let me give you our guidance for the 2020 fiscal year. For FY20 we expect Group hire revenue growth to be low to mid single digit. And on the Group rental profit margin, we expect approximately a 50 basis points improvement. Supporting this Group guidance from our operations in the UK & Ireland, is our expectation of low single digit average VOH growth, with hire rate increases offsetting vehicle holding costs. We expect rental margins to benefit from the continuing delivery of operating efficiencies. In Spain, whilst the market is increasingly competitive, particularly from a pricing perspective, we have a strategy in place to protect our strong market position. This will be delivered through selective VOH growth, further market segmentation and the execution of a cost management programme. For the medium-term, we expect the Group rental margin to reach 15% supported by the substantial margin opportunity in UK & Ireland and continued strong margin in Spain.

And on to capex we're expecting total net Capex to be 15%-20% higher in FY20 driven by growth Capex, OEM price inflation, and the fact that FY19 benefited from fleet optimization. Group disposal profits are expected to be broadly flat year on year, with strong PPUs offsetting the headwind of the £5 million unwind of the depreciation rate change in 2019. Leverage will remain within our guided 1.5 to 2.5 times.

We will be adopting IFRS 16 on leases from the 1st May this year. Northgate occupies a number of properties under lease commitments. The rentals on these leases are currently expensed through the profit and loss account. Under IFRS 16 a right of use asset will be recognised on the balance sheet along with an equivalent lease liability within debt and a financing charge within interest expense. We expect the net impact of adopting IFRS 16 to reduce FY20 profits by circa £0.5m. You can find further information on this in the appendix to this presentation.

Thank you and I am now going to hand you back over to Kevin for the business review.

KB: Thanks Phillip. We're now more than a year on since the launch of the fleet optimization strategy and I'm pleased to report that this is delivering exactly as planned.

In the UK, our execution of the rental strategy is progressing well with growth in rental volumes, pricing and margin. In addition, Van Monster has also performed well with disposal prices comfortably outperforming robust residual values in the market. Our XLr8 transformation programme is also well underway. As this has progressed, we have seen even greater potential available to us through the broader application of automation and technology across our operations. Consequently, to address these opportunities, we have widened the scope of the original plan in order to capture this greater benefit in the future. Our plan to go live with Infor, the principal operating system, during the current financial year has therefore been extended. We now expect to start the go live of several bolt-on systems to Infor over the course of this financial year.

In Spain, our strong market position and attractive financial returns have continued, despite increasing price pressure seen in both the flexible and term hire markets. We have focussed hard on a number of margin improvement initiatives, including greater customer selectivity covering both customer size and industrial sector. We continue to concentrate our efforts in the SME segment where we enjoy higher margins and lower competition. We have also continued the diversification of our fleet through the provision of niche vehicles to our customers, principally refrigerated, electric and LPG low emission vehicles and have started to further embrace technology to drive efficiency across our core processes.

And onto minimum-term. This product is a core part of the overall rental proposition we provide to our customers. Combined with flex, it enables customers to manage their fleet most effectively though their entire business cycle in the most cost-efficient way. As Philip has outlined, our early experience of minimum-term has provided us with differing perspectives in the UK & Ireland versus Spain.

In the UK & Ireland, opportunities for profitable minimum-term growth where ROCE substantially exceeds the Group's weighted average cost of capital are plentiful. In Spain, these opportunities are fewer, and we are more selective to ensure we protect rental margins. The approach to minimum-term in Spain is therefore more holistic. We recognise it serves as an important piece of the overall fleet solution that our customers require, and is a valuable proposition to offer to help maintain our strong flexible hire business.

Finally, I'm pleased to say we are seeing improved financial returns following fleet optimisation. As expected, increased vehicle ageing has reduced the volume of vehicle sales and purchases as we have transitioned to the new fleet optimisation policy. This, in turn, has delivered significant improvement in free cash flow, which is being used to fund our growth into attractive minimum-term contracts, while at the same time keeping net debt flat on prior year. We have also seen an important inflection point and modest improvement in ROCE a key lagging indicator for the Group. Now let me take you through the countries in more detail.

In the UK & Ireland we delivered rental revenue growth of 11.3% in 2019, matched by the same year on year growth in average VOH. Our expansion into term hire has resulted in 24% of our fourth quarter VOH from minimum-term contracts, up from 11% one year ago. Importantly, and as you can see from the chart on the left of this slide, we turned a corner with pricing in the second half following a three year period of pricing decline. We have successfully introduced regular price increases during the year, to pass through the increases in fleet holding costs we incur, and to mitigate the margin drag of this. Onto rental margin.

Our sequential improvement has continued, the rental margin reached 8.5% in the second half of 2019, or a blend of 7.8% for the full year. This improvement reflects the firmer pricing introduced throughout the year as well as stronger discipline in a number of areas of cost recovery. Our utilisation has improved to 88%, despite the drag from integration of the TOM acquisition. This reflects the greater proportion of minimum-term contracts as well as the results of our self-help actions driving improved operations. Let's continue our review of the UK on the next slide.

Operating profit in the UK grew healthily as both rental and disposal profit increased. A higher number of third party vehicles were sold to maintain the operating efficiency of the Van Monster estate with the net effect of ageing delivering higher disposal profits in a firm market of residual values.

Moving into FY20 we see strong margin opportunity driven by technology transformation and significant and ongoing self-help improvements. Our rental revenues are underpinned by the conversion from ownership, and we are operating in a market with continued rational pricing across competition. Our disposal operations through the Van Monster network performed very well in 2019. We expect disposal profits to remain firm, supported by the disposal of older vehicles and a continued firm outlook for residual values. As I look forward to 2020, I am confident this strong progress will continue, in particular with regard to UK & Ireland rental margins but also with regard to disposal profits.

Let's turn now to Spain. Our business in Spain delivered 7.7% growth in rental revenues in 2019, driven by 10.9% growth in average VOH. Earlier entry into the term hire market has resulted in 31% of fourth quarter VOH being minimum-term, up from 22% just a year ago. Our pricing in Spain also turned a corner in the second half of 2019, changing direction as a result of the increased efforts to apply greater selectivity to both the existing and new customers. These initiatives have led to a reshape of the customer portfolio, with a modest reduction in large fleet customers and with a greater exposure to the SME segment. The rental margin in Spain continued to be strong, with a second half margin of 18.6% resulting in a full year rental margin of 19.7%. This strong margin has been delivered despite increasing price competition in the Spanish market across both flexible and term hire segments. Our utilisation also remains strong at 91%, and together with our increased customer selectivity and increasing cost focus, we remain confident in our ability to deliver strong rental profit margins in Spain. Let's complete the review of Spain on the next slide.

Disposal profits in Spain were significantly impacted by fleet ageing and the unwind of last year's higher depreciation rate change. An 11% reduction in the number of vehicles disposed, together with a 29% decrease in PPU, delivered disposal profits of £6.4m, some 36% lower year on year. Looking forward into 2020, we expect to see rental revenues continue to be underpinned by significant conversion from ownership. While pricing pressure from competitors is expected to continue, we will protect rental margins by continued customer selectivity as well as applying greater cost focus across the business.

I look forward, in particular, to welcoming Jorge Alarcon to the Spanish business in August. Jorge will succeed Fernando Cogollos as General Manager of Northgate Spain, when Fernando retires from his executive role later this summer.

Now let me change direction here and review the landscape for return on capital in the wider flex and minimum-term rental markets. Clearly, a key financial target for Northgate is to increase the Group's return on capital employed. And we believe this is achievable principally through continued expansion of UK rental margin, coupled with maturity of the fleet optimisation strategy coming through. However, the ROCE of the flex and term hire peer group shown here, based upon an analysis of all key competitors in the UK and Spanish markets, indicates mid single digit returns on average in our core rental markets. Most of these competitors apply significantly higher gearing than Northgate and enjoy a WACC closer to their cost of debt. Equally, their return on equity is supported by this higher gearing, while they deliver a more modest overall return on capital employed.

Consequently our strategy is evolving. You will all be familiar with our existing four-part strategy, and this has now evolved to capture the attractive opportunities we see in providing a broader range of capital-light fleet solutions to both our existing and new customers.

Our priorities remain to defend and grow our share in flexible hire. And in the area of minimum-term, to selectively gain share in this market, capturing the structural shift from ownership to usership. On this first priority, there is clear opportunity to gain further share particularly in the UK from a base share of 25%. The economics of flexible rental are attractive, and Northgate offers a compelling proposition supported by nationwide coverage and strong customer service. In Spain, we remain the market leader in flexible hire holding roughly 50% of the market. And here we will continue to use our innovative customer propositions to strengthen our presence in the more rewarding SME segment.

Our second strategic focus is on minimum-term hire where I have already outlined our different approach in the UK and Spanish markets. Discipline around marginal returns are the key focal point here to ensure we continue to drive improvements in Group margins and ROCE. In both countries, but particularly in the UK, we have the opportunity to drive efficiencies in our cost base, and these too will help drive rental margins.

Coming on to the third strategic pillar here, which is new, and focuses on broadening our provision of capital-light fleet solutions, to provide a more comprehensive offer to both our current and new customers. And we see two opportunities in particular.

First to monetise capital-light services where we already have strong capabilities today. As examples in the UK alone:

- We already undertake around 250,000 service and maintenance jobs in our workshops on our own fleet every year
- We fleet manage around 13,000 vehicles, only a third of which are Northgate owned, and the balance are owned by third parties
- We run all accident management processes in house for our own fleet, managing the repair cycle and replacement vehicles

Second, we will explore bolt-on acquisition opportunities in these markets to increase our participation in the provision of these capital-light services.

Our fourth and final strategic priority is in the vehicle disposal market. And here of course we will continue to optimise our disposal operations across the existing Van Monster estate. Importantly, we will also build scale in our newly developed e-Auction sales platform to support third party vehicle sales, as well as sales of our own de-fleeted stock which numbered around 4,000 units on this platform this year.

We have analysed all of the complementary market segments throughout our entire vehicle lifecycle which may hold opportunities for us to deliver capital-light services, in addition to our core business of flex and term rental. Each of these segments represents a sizeable and complementary market in its own right, many of which support sector ROCEs that are substantially greater than those provided in the flex and minimum-term areas and for which there is clear demand across our existing customer base.

In the segments covering disposal of used vehicles and accident management for example, both, areas in which we have significant operational capabilities today, sector returns on capital are in excess of 20-25%.

Before I conclude today's presentation, I wanted to take the opportunity also to remind everyone of our capital allocation priorities at Northgate.

First, we start by sweating the core business to maximise profitability and capital efficiency in order to deliver the highest possible steady state cash generation. We track this by measuring EBITDA less net replacement capex. Using this cashflow, the business deploys organic growth capex where we see opportunities to deliver marginal returns significantly ahead of WACC.

Beyond this our next priority is the dividend where we have a strong track record of delivering a progressive dividend policy, supported by solid steady state cash generation.

Third, we explore opportunities for inorganic growth, including bolt-ons to our core rental operations as well as from capital-light opportunities. All of this framework is of course underpinned by an efficient management of debt, with a goal to maintain leverage within the target ratio of 1.5x – 2.5x.

We have undertaken much work to position the Group to deliver sustainable long-term growth in revenues, profits and shareholder returns. In the UK & Ireland we see continued strong opportunity for rental margin expansion, and attractive minimum-term growth, with ROCE available substantially ahead of WACC. In Spain, we will take a more selective approach to minimum-term growth, in order to complement our strong flexible hire proposition. Across the Group, we will focus on maximising steady state cash flow to support a progressive dividend. This will include steps to maximise our EBITDA margin and minimise net replacement capex. And we see opportunities to drive higher ROCE, both through an increase in core Group rental margins, as well as an opportunity to broaden our provision of capital-light fleet solutions, and disposal services.

Now before I conclude, I'd also like to add a further few key points. The first and most important of these is that the Board and the executive team are very conscious of the significant discount to net asset value at which Northgate has been trading. We are already focused on ways to address this valuation disconnect. Additionally, and as you would expect, with any new Chairman coming in, this will be a priority area of focus for them to ensure the right actions are taken to maximise shareholder value. I am pleased to say that the search for a new Chairman has made significant progress in recent weeks. This search is being led by our Interim Chairman and Senior Independent Director, Bill Spencer. Our shortlist has now narrowed to three exceptionally strong candidates, and we are keen to move swiftly on the appointment. The Board of course looks forward to providing you with an update in due course. Okay, Now let's move on to questions.

AN: Morning Andrew Nussey from Peel Hunt. First of all, slide 10 which has a comparable ROCE of the minimum-term, which is an illustrative example for the UK. How would that look for Spain?

Secondly, I wasn't able to write quickly enough, can you run me through the calculation of the return element of that calculation?

Thirdly, in terms of hire rates in the UK, can you remind us of the timings of those regular increases so we can get a feel for what the full year impact might be on FY20?

PV: Andrew, I've called it a comparable ROCE. It's not a full marginal ROCE, so it takes the majority of our variable costs but not necessarily all of them. Our current systems don't necessarily allow us to allocate all variable costs to all of our assets at the moment. It takes our rental income and then it's subtracting the holding cost of the vehicle where we're looking at the purchase price, the estimated residual value and taking the average of that two point average to say the holding cost. Then we're looking at the service maintenance and repairs of servicing that vehicle, the delivery and collection of that vehicle, at the start and at the end of the contracts, road fund license, admin costs and the balloting, and the vehicle checks on that vehicle when it comes back off of contract.

The key reasons for the differential in ROCE is the additional utilization we get from minimum-term, which effectively means it's coming back to the depot less and carrying less admin, less balancing and vehicle checks. We haven't got the similar chance for Spain, but if we were to do them it would be mixed, and it depends very much on the individual contract, the customer segmentation and the vehicle. We don't see quite the same favourable curve in Spain, which is why we're concentrating on the flex proposition when we're trying to drive VOH, recognizing that minimum-term is still an important element of the service we provide to our customers. It is wrapped into that overall bundle proposition.

KB: As per the capital allocation method, we are very disciplined around the deployment of organic growth capex against those hurdles. We simply won't deploy Capex unless we can see an ability to deliver a strong, attractive marginal return on capital from the contract. On pricing and timing, effectively the beginning of each financial year is the key time for flex price increases. We announced a set as you'll recall last year, we've done the same this year, with a price increase of about 2.7%, again applying to much of the flex hire base.

JC: Julian Cater from Numis. I've got two questions please. The first picks up on Andrew's question on that ROCE slide. I want to understand the quite significant variations on the minimum-term. Is that function simply of pricing or anticipated to repair and maintenance costs? Perhaps you could just flesh that out.

Secondly, within the statement you've talked about some of the marketing and sales initiatives, and I remember when you spoke about that a couple of years ago, you described a process that was perhaps barely fit for purpose. I wonder whether you could talk about the evolution of sales and marketing, and maybe Frank could give us an idea of the sort of customers that you've been winning over the last 18 months?

PV: Julian on your first question, the variation you're right, it's pricing. Inevitably its part of it as you move into the longer-term of our minimum-term proposition, there's more competition of that pricing end, and we know that. We tend to play in the shorter end of that. Pricing is tighter at the longer end of the contracts at 48 months. Importantly, as we go through the SMR costs, you get to 36 months etc, get towards the end of warranty, potentially vehicles coming in and repairing on maintenance costs on average.

KB: The reason for that difference in competition is at a 48 month end of the spectrum, you start to get closer to the leasing market. When you're closer to 12 months in terms of duration, the traditional lease players can't turn vehicles that quickly without taking a hit on residuals in the open market when they're forced to dispose the vehicle. That's why the competitive environment is more rarefied at the shorter end of the spectrum, and therefore from a pricing coming through. To give you a bit of colour on the sales and marketing initiatives, in the UK, we've seen terrific progress in sales and marketing. Neil McCrossan who heads up both our sales and marketing teams now, has driven much more integration and coordination between those two groups.

We have a smaller but much more capable, much more focused sales and marketing team than ever before. We've invested particularly in digital marketing. If you go onto the Northgate site in the UK today in particular, you'll see a completely refreshed view and presentation of Northgate propositions, that is much more efficient, much more effective at capturing and converting demand with many more tools on there, including call back and contact sheets that are generating a much better conversion of eyeballs as they go onto the web. Equally, in Spain we've enjoyed a very strong marketing position and marketing team. We deploy, spend in television in the Spanish market, which is a very effective channel for us. Again driving eyeballs to the website through which we then convert very effectively and over the phone. There's been a huge amount of development in marketing and sales, particularly in the UK and where we are very pleased with the effectiveness of both of those functions.

JS: Jane Sparrow from Barclays, just following your guidance in the UK for low single digit VOH growth. Given where the closing VOH was below the average VOH for the year, you obviously need to deliver a bit more than low single digit closing on closing. Can you share with us how May and June have started in terms of delivering that?

The second question, just on the systems that you talked about, the expansion of the rollout of these systems, could you give us concrete examples of the exact benefits that you hope to extract from that?

JS: The first question was given that the closing VOH was 47.1 and the average was 48.4, just the extra growth you need to deliver, how have May and June got us on the way?

KB: You're absolutely right. The implication when you run the numbers is that the closing VOH growth end to end in the UK, this year is particularly strong. We remain confident of our ability to deliver that clearly. We continue to be supported on volume in the UK market through the conversion of ownership to rental. Relative to a broader set of concerns around Brexit, which of course face every business in the UK, we have a particular advantage structurally of that shift out of ownership and into rental. As we said on many occasions uncertainty favours the rental environment. There's a couple of tail winds there that give us confidence on our ability to drive through that and deliver increased VOH. So far, trading over the first couple of months, we feel comfortable of the outlook that we're giving.

KB: On systems, let me start with Spain. A good example of an application of technology in Spain is the original adoption of base technology for CRM. This is an advanced CRM solution, which uniquely puts contact information for customers and case management in the hands of the mobile devices for the sales team right across the Spanish business. This has been received extraordinarily well internally because you talk to the sales guys and they feel genuinely better able to manage and pursue leads and convert sales prospects as a result of that. In the UK as we've broadened the scope of Infor, some of the early adoptions and systems that are bolted on. A dealer management system to improve the effectiveness of managing stock within the Van Monster operation in the UK is one of the early and additional bolt-ons that will take. As well as even smaller items like the upgrade to the entire telephony system, which again has gone live over the course of recent weeks which is delivering real benefit again in terms of conversion of leads and management of service inquiries. A couple of examples there, but happy to give you more offline.

JS: On the average fleet age in the UK at year end, it doesn't look like it's moved which I assume is just some quirk of the calculation and mix of fleet, you've talked about the fleet optimization strategy. Can you run me through that?

KB: Despite an ageing of the fleet in terms of the disposal timing, so the timeframe over which and the extended timeframe over which we hold the vehicle, we have of course invested heavily in new vehicles to support minimum-term growth. It's the maths of that, it's taking that position in aggregate.

GP: Greg Poulton from N+1 Singer. Could you talk a bit about the flexible hire market in the UK? Obviously, you've seen strong growth in minimum-term, but flexible used to be the core business in the UK. What are you seeing in terms of the growth numbers there and given the big investment in the marketing and sales functions there?

In Spain, could you talk about the selectivity in terms of your customers? To what extent in a low growth, higher pricing competition environment you can afford to be selective?

Thirdly, on working capital you saw a big swing in working capital this year. How much of that will fall off at the post year end, given the VAT benefit?

KB: Okay, thanks Greg. Let me take the first two and then I'll ask Phillip to Comment on working capital. The flex market and particularly in the UK, we see our competitiveness in flex unchanged in the UK. We are utterly confident in the strength of our service proposition and the strength of our customer service that goes out within that flex business. We feel satisfied that we have pricing in the market and competitive and where it needs to be. I don't think there is any concern on our part about our ability to compete or the effectiveness with which we can compete in flex. The overall market for flex in the UK is certainly not as strong as the growth that we're experiencing and seeing in minimum-term. The biggest driver of this, is that the conversion that we see out of ownership typically lands in minimum-term.

If somebody is going to move out of owning a vehicle and into renting a vehicle instead, 99 times out of a hundred that's going to land in a minimum-term contract of the particular length that suits that customer. What we're seeing is a reflection of much stronger growth now shifting in the rental market into minimum-term. We think less growth in flex albeit, it's hard to measure. There are reported stats around particularly the flex split. Consequently, our flex volumes have been flat to down slightly in the UK. I'm keen to emphasize that's not a concern of ours of being any reflection on our competitive ability, we think its entire reflection of what the market's doing and the way it's behaving currently.

In Spain, we need to be selective. I want to be clear here, the rental market in its broader sense in Spain is in really strong growth both across B2B and also in the consumer sector for Spain. There is absolutely no shortage of growth in the Spanish business and growth rates are running into the strong double digits in terms of volumes coming into rental. What you're seeing in us focusing hard on selectivity is a focus on the richer aspects of that business. This is absolutely a proactive decision on our part to find the best balance between volume and margin as we pursue increases in return on capital and as we pursue growth in our cash flows, in our steady state cash flows.

These are active choices and to respond to the challenge, absolutely we can afford to be selective because there is a significant amount of volume out there. We just choose to pick out and focus on the richer, the higher margin aspects of the market as it grows and that will continue to protect our margins and help us deliver the ROCE that we aspire to.

PV: On the working capital, everything else being equal we would expect that to reverse. Having said that, an element was to improve cash collection, which we're focused on and we'd like to think we can improve on over the current year. In addition to that, there's definitely an increased focus on cash management overall across the whole business and also on working capital management.

ER: Eoghan Reid from Berenberg. On slide eight, you have your bridge from last year to this year in terms of the margin mix and then you guided to 50 basis points improvement for the coming year. Could you give me an idea of how that plays out, in terms of price and mix change vehicle holding costs, one-off costs coming off? On the medium-term you set your 15% target, how did you arrive at that number? And is there a sort of an implied ROCE that you're targeting underneath that?

PV: We're not guiding on the individual breakout of those elements, but essentially we will have OEM price inflation coming through, which is probably kind of low to mid-single digits is really what you face, is very much driven by what's happening to FX in the UK. Its slightly lower in Spain. But the real improvement in margin is coming from the improving margin in the UK & Ireland, where we've got the ongoing efficiencies and improvements which are accelerating on what we've been building on this year. Which are all the points which Kevin alluded to earlier on around sales process, people, marketing et cetera. All of those are building to the momentum in terms of that sequential turn in margin.

ER: I'm sorry, pricing is an aspect of that.

PV: Pricing is within there as well, generally what we're trying to look at is our pricing, we should be looking to try to offset that increase in vehicle holding costs, i.e. the OEM price inflation, that's where we look at it. The rest of the margin income will come from more efficiencies throughout the business.

KB: On UK pricing, you've seen us turn positive year over year in the last quarter. That's been a lot of hard work to get to that position after multiple years of decline. That's underpinning our confidence in terms of forward pricing in the UK coupled with a rational market environment. We've seen competition follow again this year. Our lead on pushing price increases through. In Spain, if you refer back to the chart, you'll see that pricing year over year has come down as a function of minimum-term mix but also competitive pressure. Our confidence in managing that through selectivity... I think you heard in my response to Greg's.

ER: The 15% medium-term target for the margin, is that efficiency?

KB: If you take that commentary and sentiment it gives you a sense of how we've got out to the 15.

ER: Three to five years is that 50 bps per year or is there point where it accelerates?

PV: I'm not sure we specifically guide how we see that moving year on year.

ER: Yeah, certainly. Thanks Phillip.

JSp: Joe Spooner from HSBC. Can you talk a little bit about these capital-light opportunities you listed? Which ones you're prioritizing and what needs to be put in place to execute that and then some timescales around when you're looking to achieve that?

Secondly, you noted that the replacement capex that you're looking in a slightly different way now. Can you just give us a sense of how you've changed that metric?

KB: On capital-light, the driver here is a clear recognition of the limitations from competition as to how far and how hard we can push return on capital in those core flex and minimum-term markets. We do see an ability to increase ROCE even in our core markets - I want to be crystal clear about that. That's primarily as a function of UK margin moving forward, as well as benefits on the net book value of the fleet as that fleet optimization matures. We certainly see opportunities to drive up the call. However, if we look along the full life cycle of our vehicles, and our vehicle holding from start of life through in life operations to end of life, it is clear to us that we have significant capabilities to compete in some of those markets.

KB: In a way that up till now we have always bundled in those services as part of our overall rent and flex propositions. We are at a stage of evaluating.

We've shown on one of the slides the breadth of the potential market segments that are there and talk to in particular fleet management, Accident Management and service and maintenance and repair. Those are certainly three sectors across the two markets that we'll explore and look at much harder. In terms of real progress, if we turn to the disposal markets and the E-auction platform in the UK, that's something that we are particularly excited about. We have 4,000 disposals going across that E-auction platform over the course of the last year.

KB: It's not an insignificant number, it's been focused entirely on our own de-fleets to this point in time. We see clear opportunities and demand across our customers, to use that electronic platform to dispose of aspects of their own fleet too. There is a good near term example of where we can start to develop that forwards. The model there is built not around ownership of the vehicle as it passes through that exchange, it's built around taking a margin from the buy side and sell side and therefore it is a capital-light opportunity.

PV: On net replacement capex and the definition, it's consistent with what we did last year. It's growth capex which is defined as the closing total fleet, less the opening total fleet and in periods of growth you multiply that by the average purchase price, in periods of contraction, we would multiply by that by the average proceeds on disposal. The only refinement is looking at what happens to the working capital balances at the opening and the closing. When I've looked at those, they're really relating to the growth of the fleet and the payments around those so we've clustered that buy those as growth capex. It's fine tuning essentially.

KB: Okay. Are there any further questions from people in the audience? We are all done here in the room. Thank you everyone for your attendance. Thank you on the call for listening, and I think it's time for us to just draw things to a close. Thanks very much.