

Financial Year 2018 Results

26 June 2018

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Results Highlights

Kevin Bradshaw, CEO

26 June 2018





FY 2018 Highlights

A key year of transition:

- New growth strategy developed
- Restructured UK, applied self-help, returned VOH to growth
- Executed transactions adding 3,400 vehicles in UK
- Step changed VOH growth in Spain
- Minimum term propositions launched – growing strongly
- Implemented fleet optimisation strategy to improve cash returns
- Debt facility extended, leverage covenant increased

Foundations built to deliver long term, sustainable growth in shareholder value



Financial Review

David Tilston, CFO

26 June 2018





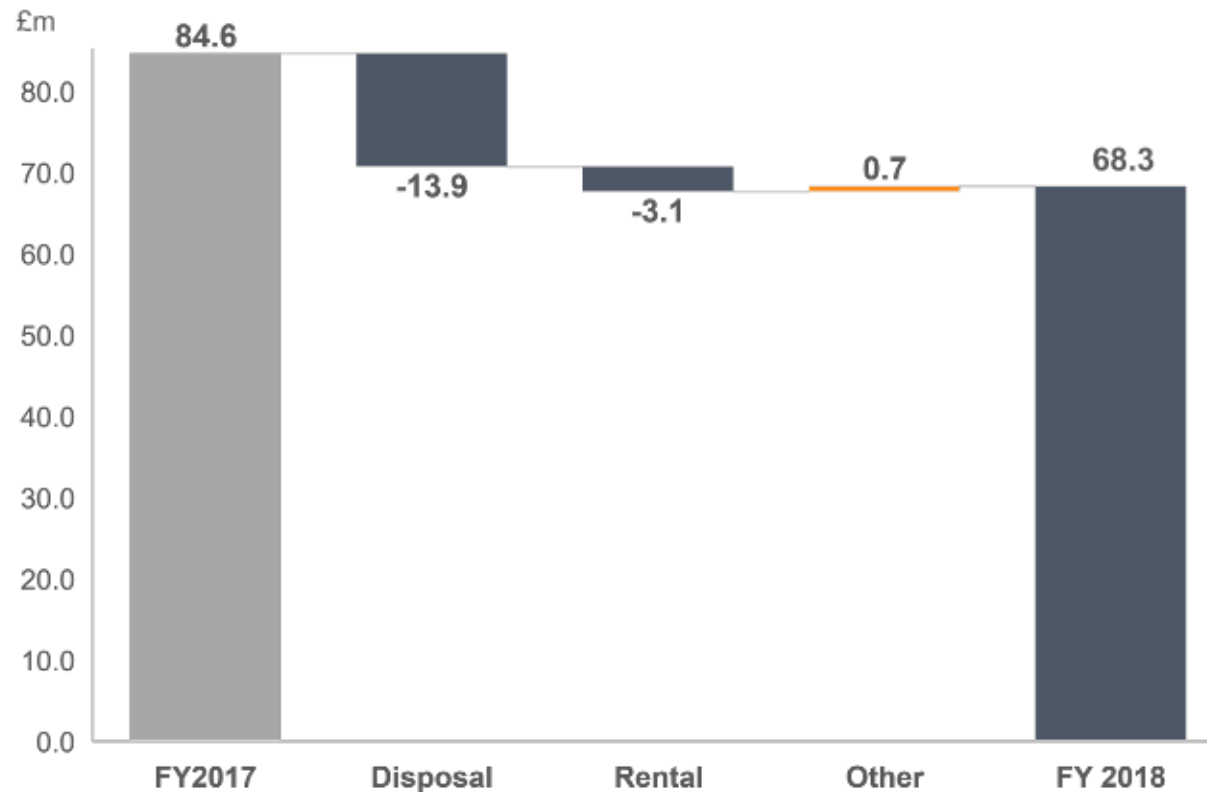
Higher revenue and EBITDA, lower operating profit

	FY 2018	FY 2017	% change
Total Revenue	701.7	667.4	+5.1%
Underlying EBITDA	251.0	241.3	+4.0%
Underlying Operating profit	68.3	84.6	-19.2%
Underlying PBT	57.0	75.0	-24.0%
Underlying EPS	34.8p	47.3p	-26.4%
Dividend Per Share	17.7p	17.3p	+2.3%



Disposal profit decline drove lower operating profits

Group underlying operating profit movement (£m)



- Disposal profits
 - UK down -47%
 - Spain down -42%
 - Includes £4.2 million negative impact from previous depreciation rate changes
- Rental profits
 - UK down -22%
 - Spain up +14%
- Other
 - Ireland down -21%
 - Corporate costs improved by +27%

At actual currency. FX benefit £1.7 million



Free cash flow negative due to higher capex

	FY 2018 £m	FY 2017 £m	Change £m
Underlying operating cash generation	240.5	238.3	2.2
New vehicle purchases	(486.9)	(346.3)	(140.6)
Vehicle disposal proceeds	186.9	177.0	9.9
Other capex	(11.0)	(4.8)	(6.2)
Net tax and interest	(22.2)	(21.2)	(1.0)
Other financing costs	(3.3)	(0.1)	(3.2)
Free cash flow	(96.0)	42.9	(138.9)



Cash flow positive before growth capex

	FY 2018 £m	FY 2017 £m	Change £m
EBITDA	251.0	241.3	9.7
Net Replacement Capex	(185.8)	(172.9)	(12.9)
EBITDA – Net Replacement Capex	65.2	68.4	(3.2)
Growth Capex (incl. inorganic)	(125.2)	(1.2)	(124.0)
Total Capex (incl. inorganic)	(311.0)	(174.1)	(136.9)

- “Steady-state” cash generation : EBITDA – Net replacement Capex



Bank facilities extended

	Facility £m	Drawn £m	Headroom £m	Maturity	Borrowing Cost
UK Bank Facility	457	343	114	Jul. 2021	2.38%
Loan Notes	88	88	-	Aug. 2022	2.38%
Other Loans	23	11	12	Nov. 2018	0.94%
Total	568	442	126		2.27%

- Maturity date of majority of UK Bank facility extended in April 2018 by one year, to July 2021



Leverage covenants increased

	Threshold	April 2018	Headroom £m	April 2017
Interest Cover	3x	6.22x	£34m (EBIT)	9.23x
Loan to Value	70%	43%	£277m (Net Debt)	37%
Debt Leverage	2x	1.76x	£31m (EBITDA)	1.31x

- Leverage covenant restriction, calculated in accordance with banking documentation, increased to 2.75 x when facility re-financed in April 2018
- Higher net debt to EBITDA will incur margin increase of 0.25% in FY 2019
- Plan to manage leverage in 1.5x – 2.5x range, towards higher end during growth periods



Business Review

Kevin Bradshaw, CEO

26 June 2018

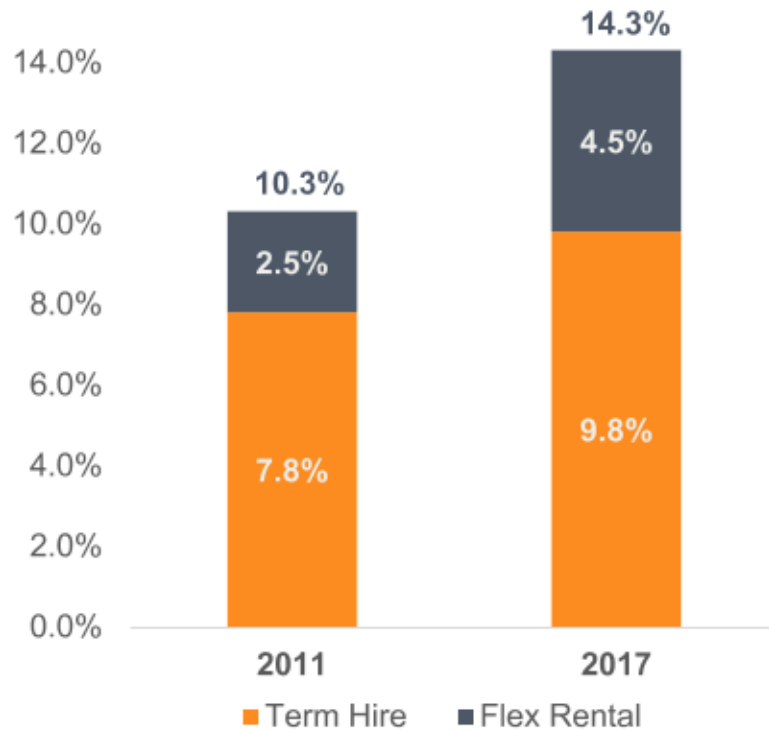




Recap of the drivers of our rental strategy

Structural Growth of Term Hire & Rental

% LCVs in
vehicle parc



Strategic Opportunities:

Flex - Defend & grow share

Historical core of Northgate – key assets in place

Term hire - Grow share

Natural adjacency – cross-sell opportunities

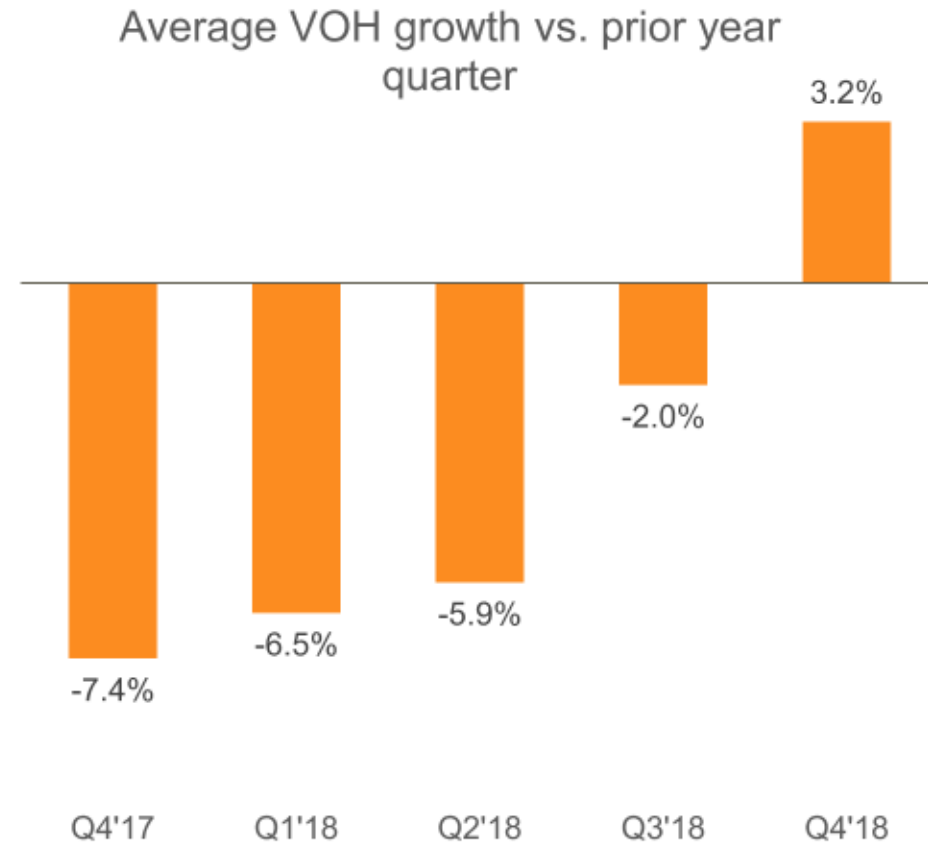
Conversion from ownership to term hire

Biggest opportunity – untapped potential

Sources: BVRLA, SMMT, DFT, Sewells, OC&C analysis



UK VOH returned to growth



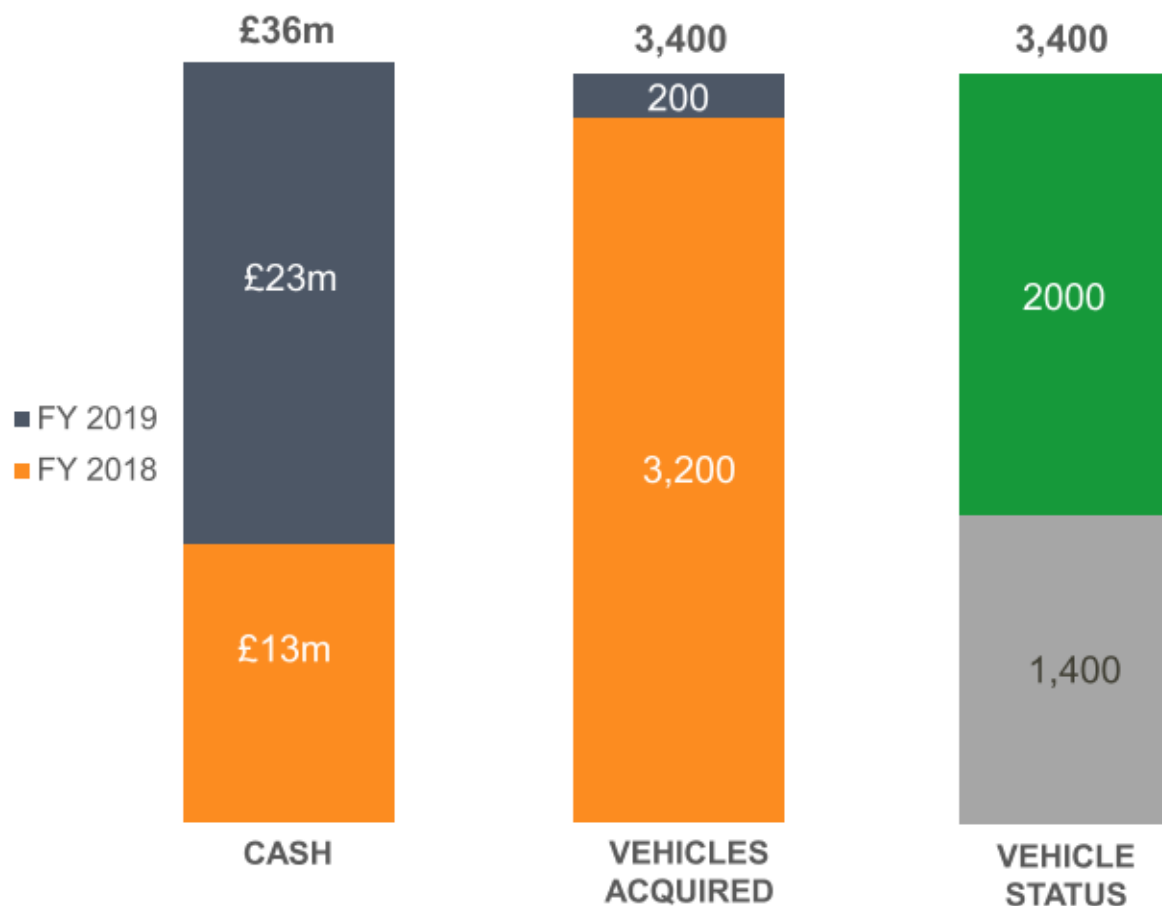
Closing VOH at Q4'18 up 6.9% (organic)

Driven by self-help actions:

- Extensive leadership changes
- Marketing function rebuilt
 - Upgraded telemarketing & digital capabilities
 - Focus on lead generation at attractive ROI
- Sales function restructured
 - Sharper focus on pipeline management
 - More agile decision-making
 - Tactical pricing flexibility
- New minimum term propositions gained traction
 - Grew from c.1% to c.11% of closing VOH
 - Average 3-yr contract
- Flex VOH returned to growth in Q4'18



Additional 3,400 UK vehicles acquired

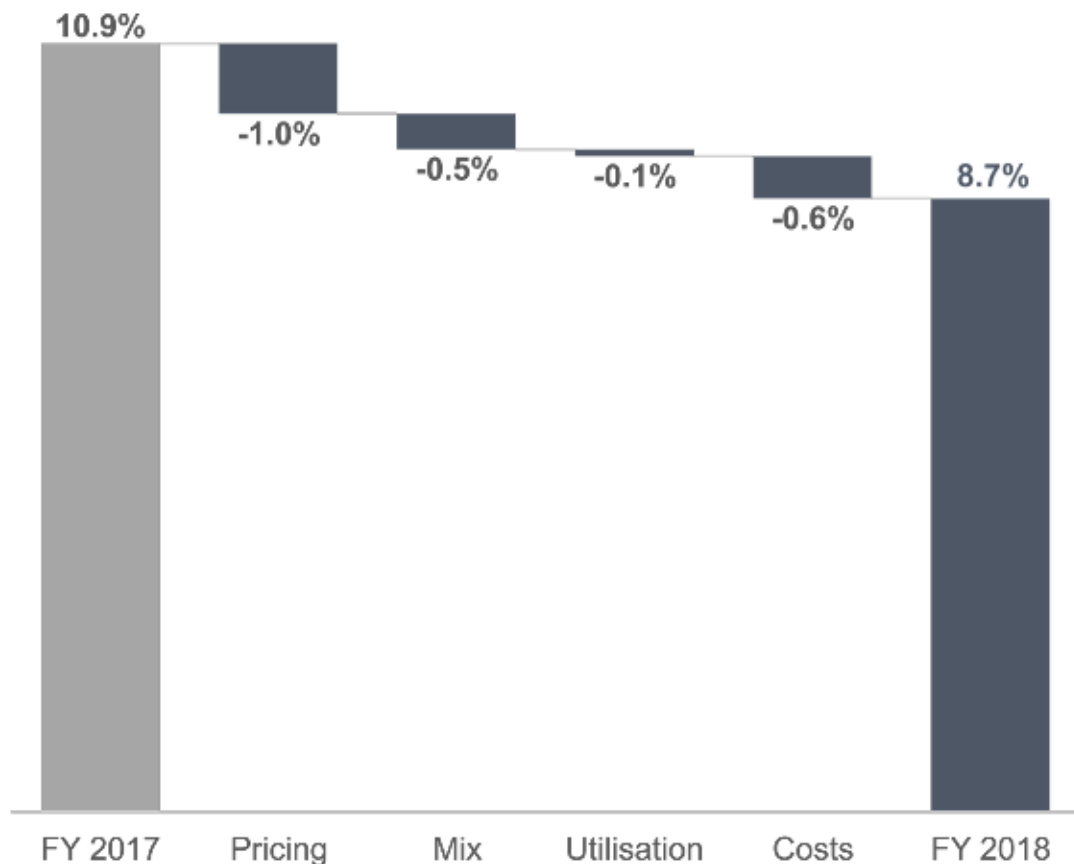


- 2,000 Vehicles on Hire
 - Competitor customers converted
 - Rates & contracts renegotiated
 - Existing Northgate customers
-
- 1,400 Vehicles
 - To be redeployed or sold



UK margins reflected growth strategy

UK Rental Margin ⁽¹⁾ %

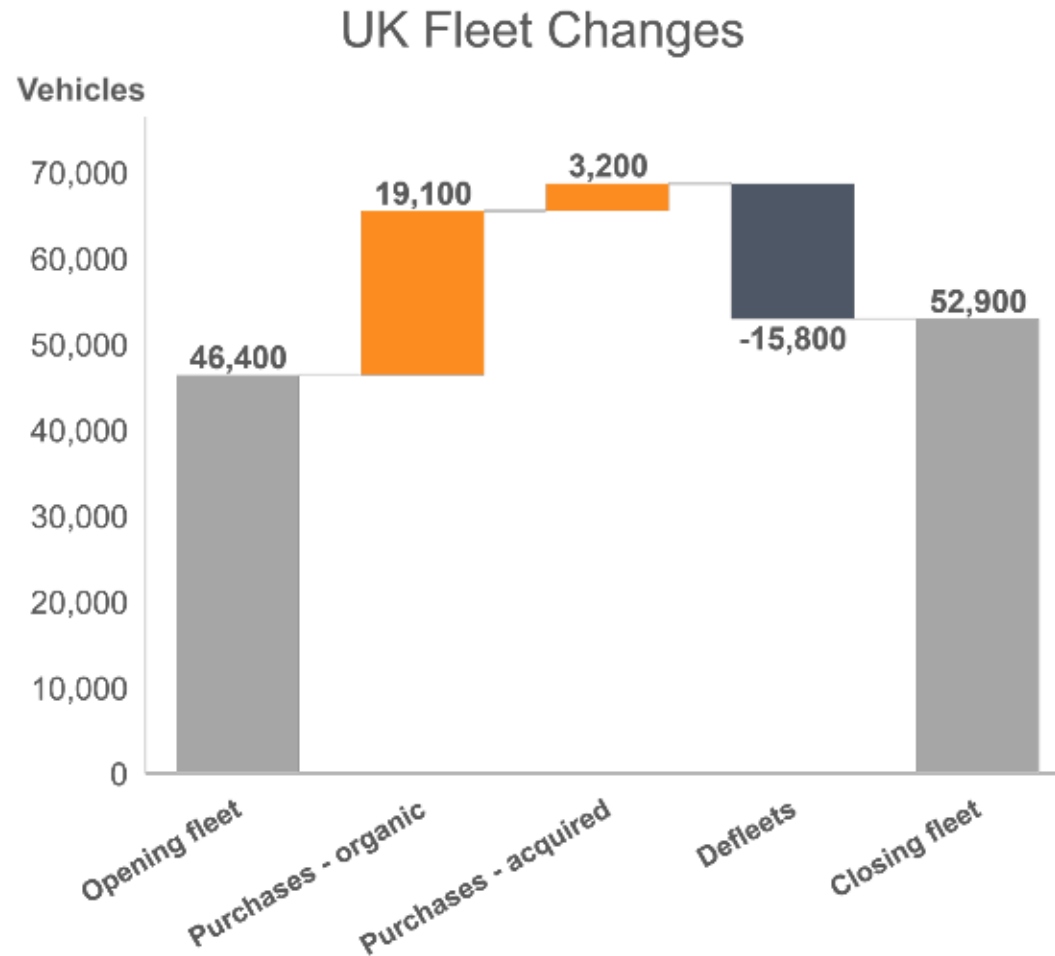


Notes : (1) Reported underlying rental profit / reported rental revenue

- **More competitive pricing**
 - Less prepared to lose business in a market with robust competition
- **Product mix changes**
 - Higher proportion of minimum term contracts
- **Significant cost pressures**
 - New vehicle price increases not passed through
 - New marketing and sales capabilities



Organic VOH growth & acquisition drove UK fleet growth



Note : Closing fleet includes acquired vehicles awaiting redeployment or sale

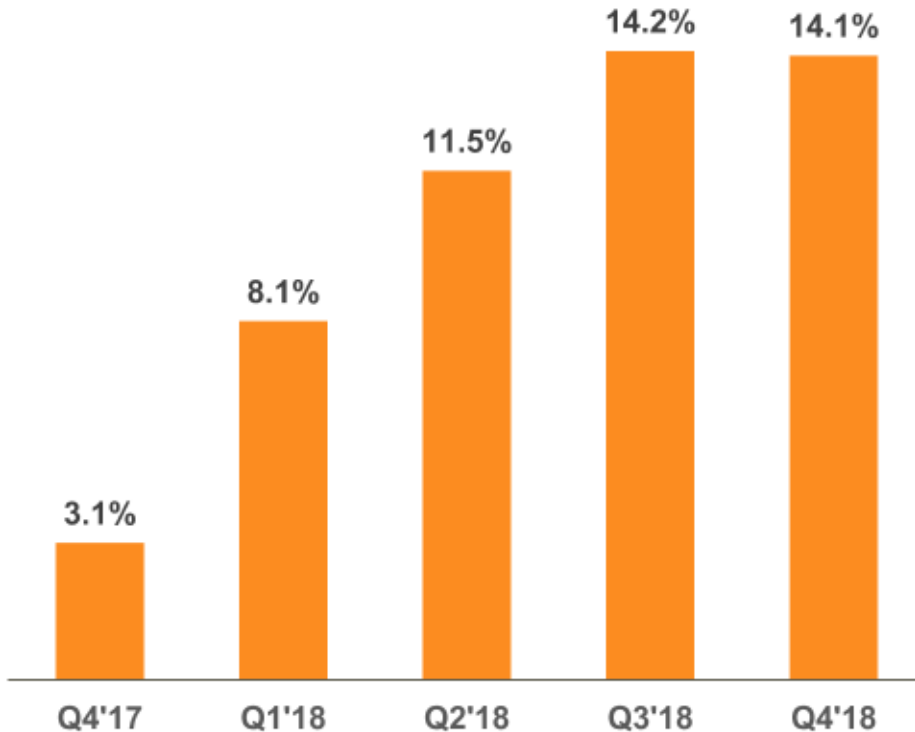
Vehicle sales	FY 2018	FY 2017
De-fleeted	15,800	18,200
Third-party & stock movement	4,000	2,200
Total vehicle sales	19,800	20,400
Of which Van Monster channels	48%	36%

- Fleet grew by +14.0%; organic growth +7.1% driven by 6.9% closing VOH growth
- Average fleet age reduced by 1 month over the year



Spain VOH growth rate stepped up

Average VOH growth vs. prior year quarter



FY 2018 Closing VOH up 13.3% to 42,700

Favourable macro conditions

- Service sector thriving
- Shift out of LCV ownership into minimum term

Northgate out-performing market

- Superior operational execution
- Targeting fast growing service sectors

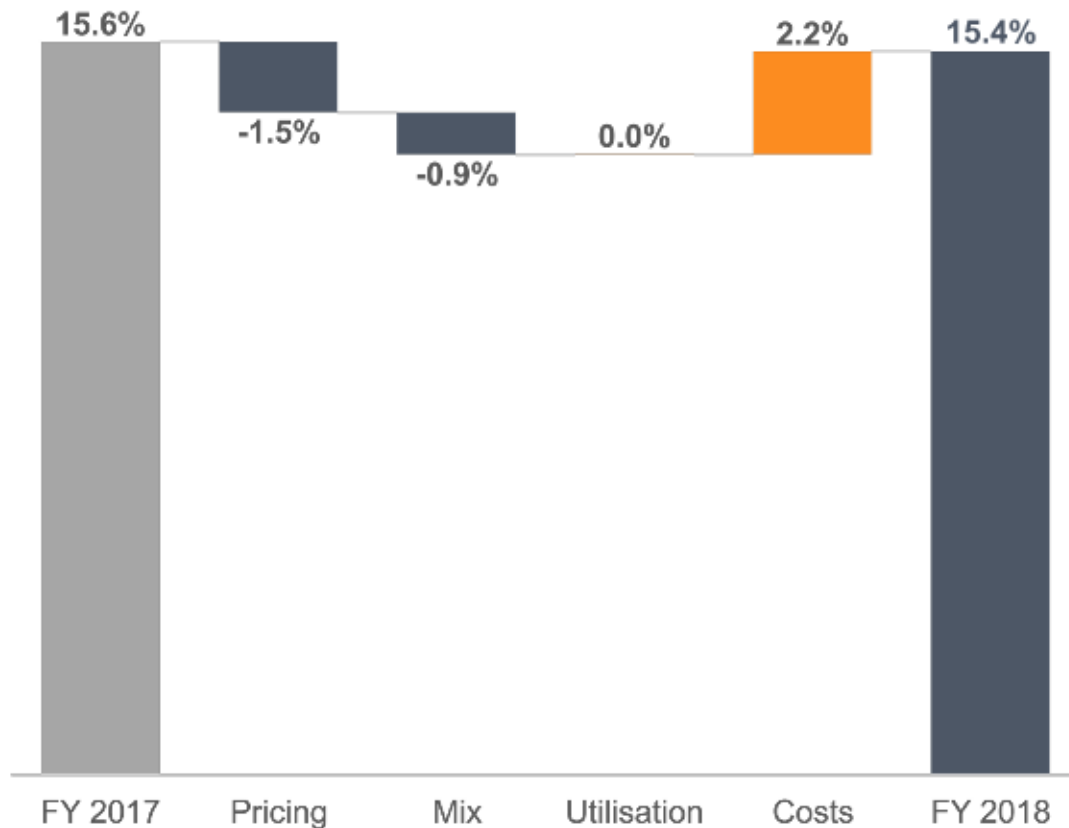
Strong growth in minimum term

- New propositions launched, including “bundles”
 - Cross-selling into flex customer base
 - Good traction with larger customers



Spain margins broadly flat

Spain Rental Margin ⁽¹⁾ %

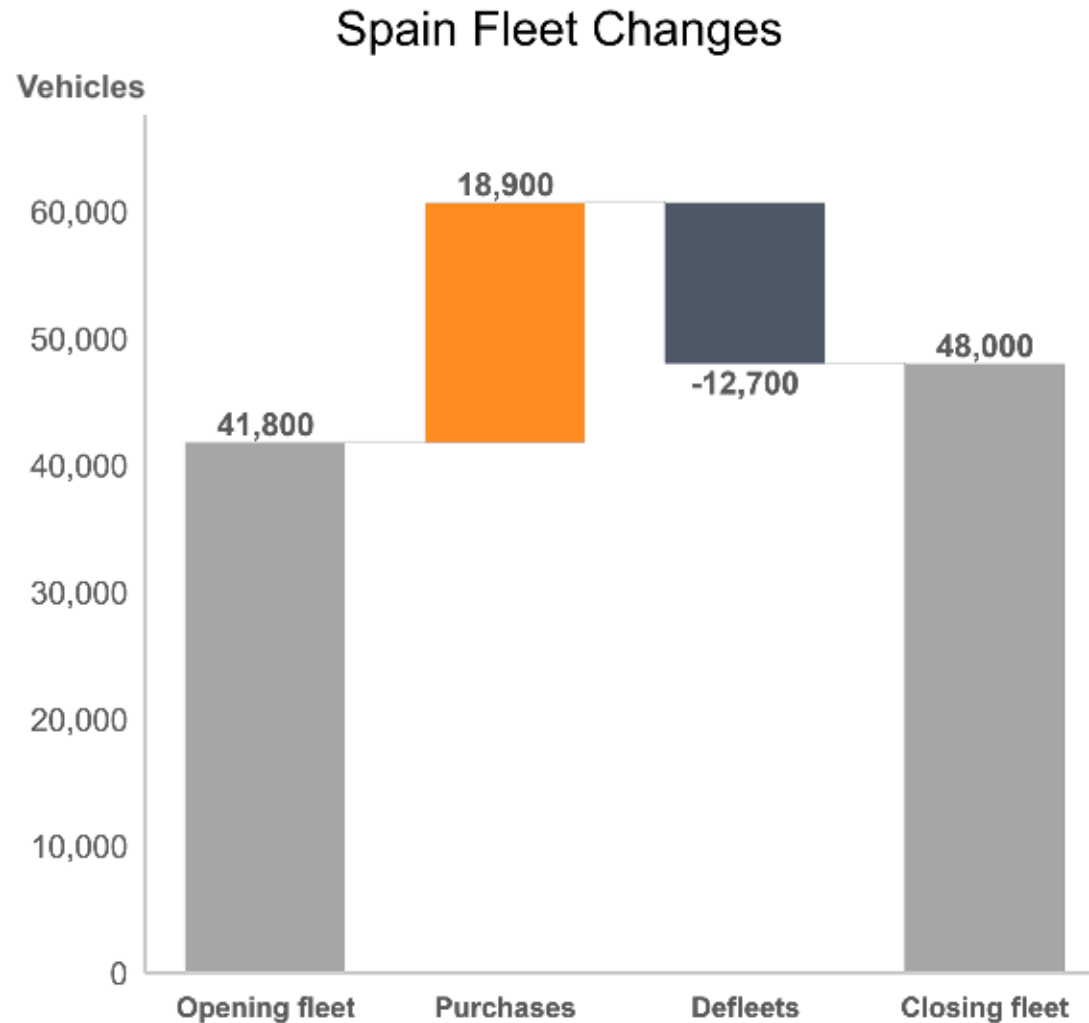


Notes : (1) Reported underlying rental profit / reported rental revenue

- More competitive pricing
- Product mix changes
 - Higher proportion of minimum term contracts – now account for 23% of VOH
- Utilisation remains 91%
- Efficiency initiatives drove cost reductions
 - Process improvements – enabled faster vehicle turnaround in workshop
 - Network extensions deferred until FY 2019



VOH growth drove Spain fleet growth



Vehicle sales	FY 2018	FY 2017
De-fleeted	12,700	13,500
Stock movement	300	(800)
Total vehicle sales	13,000	12,700

- Fleet grew by +14.8% driven by 13.3% closing VOH growth
- Average fleet age reduced by 1 month over the year



New fleet optimisation policy

Objective	Actions	Impact	Guidance
<ul style="list-style-type: none">➤ Maximise cash returns➤ Reduce net debt➤ Improve ROCE➤ Increase shareholder value	<ul style="list-style-type: none">➤ Previous disposal ages<ul style="list-style-type: none">– UK 39 months– Spain 41 months➤ New disposal ages<ul style="list-style-type: none">– Extended by 3-9 months– Unless constrained operationally– Minority can be rotated faster	<ul style="list-style-type: none">➤ Lower volume of replacement vehicle purchases and sales➤ Lower net replacement capex➤ Higher steady-state cash flow i.e. EBITDA - net replacement capex➤ Positive structural impact on net debt➤ Higher ROCE due to lower average NBV of the fleet	<p>FY 2019:</p> <ul style="list-style-type: none">➤ Net replacement capex 25-35% lower than FY2018 <p>Beyond FY 2019:</p> <ul style="list-style-type: none">➤ Structurally lower net replacement capex



Outlook & guidance – UK & Ireland

- New guidance incorporates evolution of strategy, recent trading including acquired vehicles, and Ireland
- VOH growth in late FY 2018 continued into FY 2019
- Disposal profits a less significant component of guidance after depreciation rate change

		Previous UK Guidance (October 2017)			Updated UK/Ireland Guidance		
		FY 18	FY 19	FY 20		FY 19	FY 20
RENTAL	Average VOH Growth (Q4-Q4)	<i>Broadly Flat (Actual +3.2%)</i>	<i>Mid-high single digit % growth p.a.</i>		Average VOH Growth (Full year)	High single-digit % growth	Mid-high single-digit % growth
	Rental Margin %	- - - Minimum of 2.5% pts growth by FY 20 - - -			Rental Margin %	Broadly flat	Expanding
DISPOSAL	Units sold	<i>Strong growth driven by VOH de-fleets, selective fast cycling and 3rd-party stock</i>			Disposal profits vs. prior year	Lower	Lower
	Net PPU	<i>Decline (depreciation unwind)</i>	<i>Broadly flat as increased retail penetration offsets third party mix</i>				

Notes : New guidance includes (i) Ireland (ii) vehicles acquired (iii) depreciation rate change (iv) impact of fleet optimisation policy
 Rental margin defined as reported underlying rental profit / reported rental revenue



Outlook & guidance – Spain

- New guidance incorporates evolution of strategy and recent trading
- VOH growth in late FY 2018 continued into FY 2019
- Disposal profits a less significant component of guidance after depreciation rate change

	Previous Guidance (October 2017)			Updated Guidance	
	FY 18	FY 19	FY 20	FY 19	FY 20
RENTAL	Average VOH Growth (Q4-Q4)	>10% (Actual +14.1%) <i>Continued double digit % growth p.a.</i>		Average VOH Growth (Full year)	- - - Continued double-digit - - - % growth p.a.
	Rental Margin %	- - - Minimum of 1.5% pts growth by FY 20 - - -		Rental Margin %	Significant expansion Broadly flat
DISPOSAL	Units sold	Strong growth driven by VOH de-fleets, selective fast cycling		Disposal profits vs. prior year	Lower Higher
	Net PPU	Decline (depreciation unwind)	Broadly flat		

Notes : New guidance includes (i) depreciation rate change (ii) impact of fleet optimisation policy
Rental margin defined as reported underlying rental profit / reported rental revenue



Outlook and Guidance - Group

FY 2019:

Rental Profit

- Expected to grow strongly, driven by continuing VOH growth and expanding margins in Spain

Disposals Profit

- Expected to be significantly lower due to fleet optimisation policy extending holding periods 3-9 months

Interest Charge

- Higher due to higher net debt and higher margin charge due to increase in leverage

Net Replacement Capex

- 25-35% lower than FY'18 delivering £50-70 million increase in cashflow pre-growth

Organic growth capex

- Expected to be in range £90-120 million generating returns substantially ahead of WACC

ROCE

- Impacted by reduction in disposal profits as fleet is aged, and by strong VOH growth

Target leverage

- Range 1.5 to 2.5 x Net Debt to EBIDTA, towards higher end during periods of growth

Beyond FY 2019 :

- Further rental profit growth, higher disposal profits, higher ROCE



Summary of Northgate equity story

- Market leader in large, growing profitable markets
- Growth underpinned by structural shift from ownership to rental
- Historically under-managed, substantial self-help upside
- New, compelling growth strategy
- New, strong UK management, supplementing strong Spanish team
- Volume turnaround delivered in UK, margin opportunities being pursued
- Continued strong growth available in Spain
- Sharp focus on managing the business for cash returns

Q&A



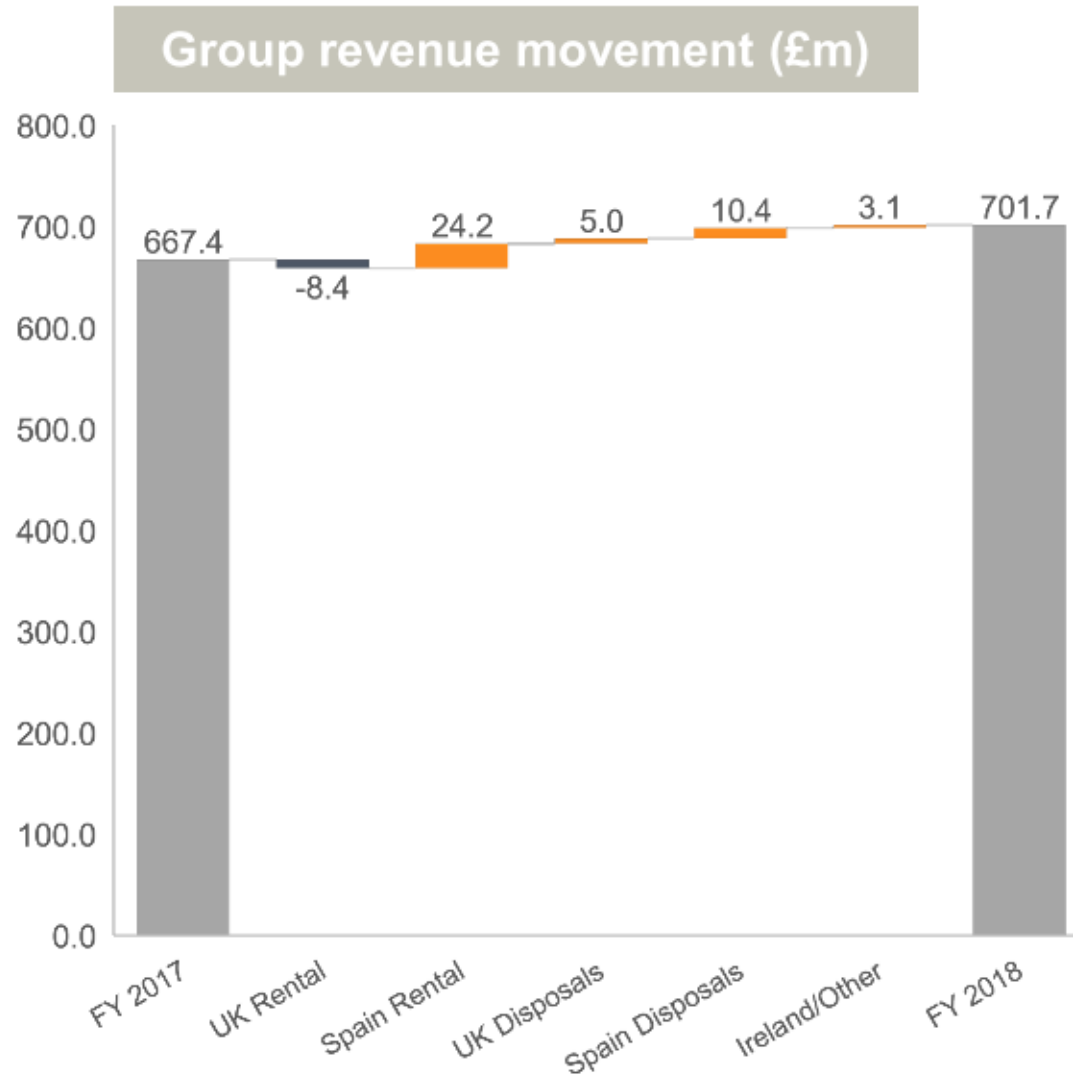
NORTHGATE

APPENDIX





Group revenue movement

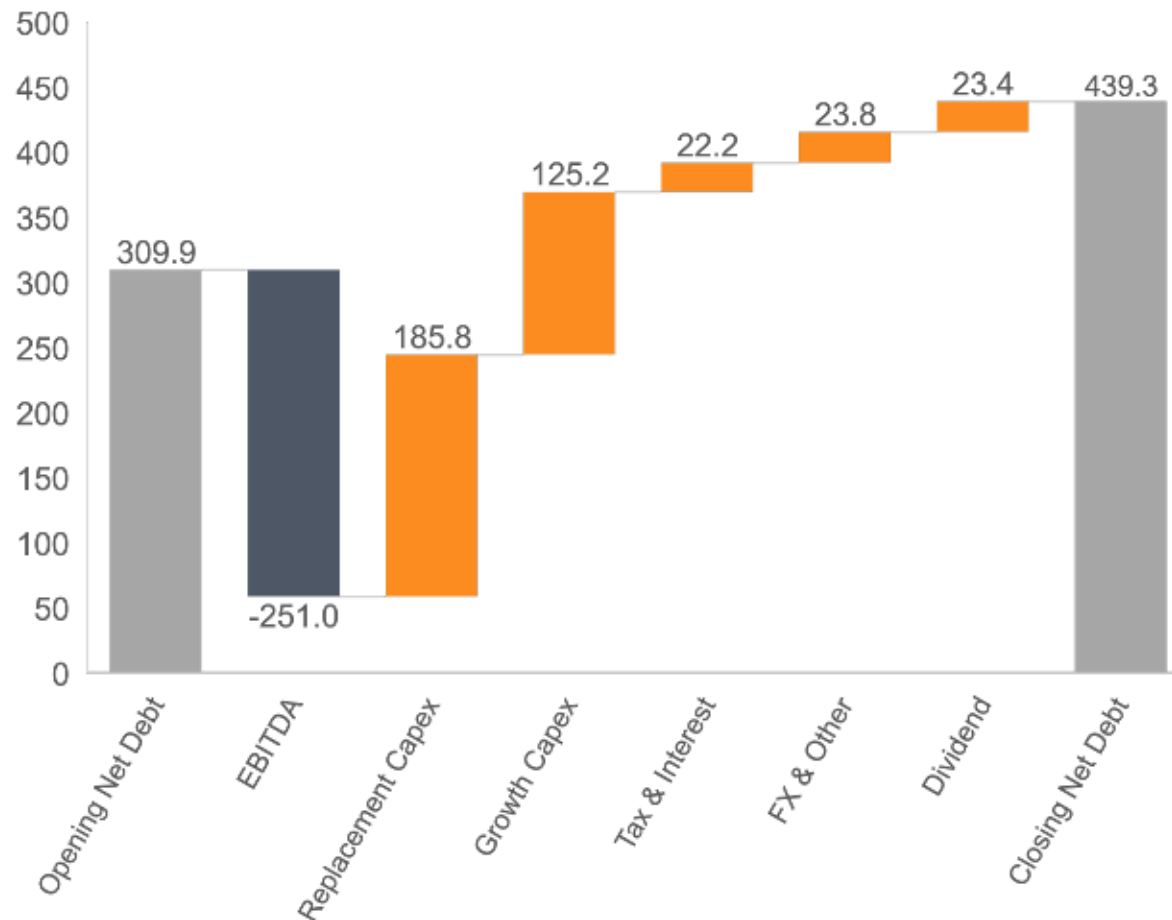


- UK rental revenue -3.1%
 - Average VOH -2.9%
- Spain rental revenue +14.8%
 - Average VOH +11.9%
- UK disposals +3.5%
 - Volumes -2.9%
- Spain disposals +16.3%
 - Volumes +2.4%
- Ireland +11.2%
- Includes £12.2 million FX benefit



Increase in Net Debt

Net debt increased by £129.4 million



- Positive “steady-state” cash generation
 - EBITDA – Net replacement Capex £51.9 million
- Increase in debt driven mainly by £112.8m growth capex to expand fleet



Depreciation Rate Changes

Previous Rate Changes:

	Cumulative impact	Year-on-year impact		
Year:	Group £m	Group £m	UK & Ire. £m	Spain £m
30 April 2013	5.3	5.3	5.3	–
30 April 2014	4.3	(1.0)	(1.0)	–
30 April 2015	15.7	11.4	8.4	3.0
30 April 2016	12.0	(3.7)	(5.9)	2.2
30 April 2017	6.3	(5.7)	(4.1)	(1.6)
30 April 2018	2.1	(4.2)	(2.7)	(1.5)
30 April 2019	2.1	(2.1)	-	(2.1)

Rate Changes with effect from 1 May 2018:

	Cumulative impact	Year-on-year impact		
Year:	Group £m	Group £m	UK & Ire. £m	Spain £m
30 April 2019	17.4	17.4	4.1	13.3
30 April 2020	12.0	(5.4)	(1.4)	(4.0)
30 April 2021	6.6	(5.4)	(1.4)	(4.0)
30 April 2022	1.3	(5.3)	(1.4)	(4.0)
30 April 2023		(1.3)	-	(1.3)

Management estimates based on indicative fleet size and assuming equal de-fleeting rate each year