

# Northgate plc

## Return to growth

NORTHGATE

Preliminary results for the year ended 30 April 2014



# Agenda

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- Group summary
- Financial review
  - Depreciation
- Operational review
  - UK
  - Spain
- Outlook

Bob Mackenzie

Chris Muir

Chris Muir  
Fernando Cogollos

Bob Mackenzie

# Bob Mackenzie: Chairman

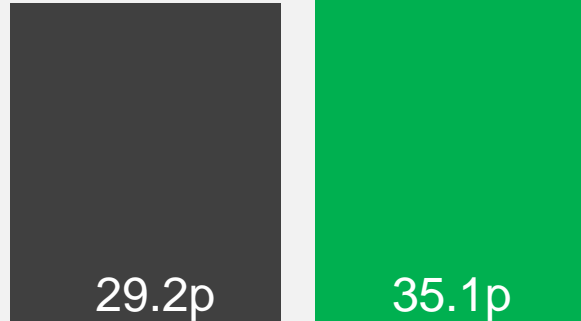
## Group summary

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# Performance in the year

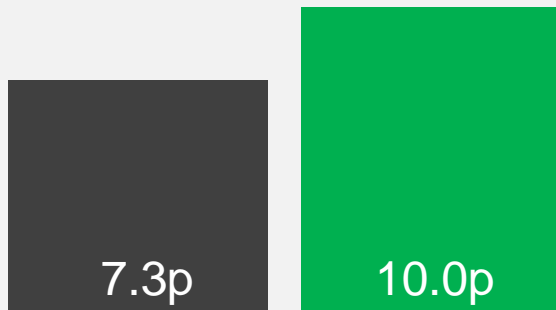
## EPS



FY13

FY14

## Dividend per share



FY13

FY14

- PBT £60.3m compared to £49.5m last year
- EPS increased from 29.2p to 35.1p
- Continued dividend growth

# Chris Muir: Group Finance Director

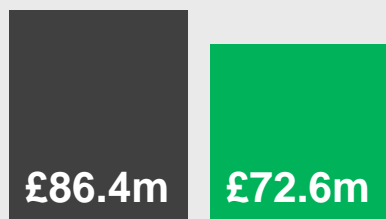
## Financial performance

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# Group financial summary

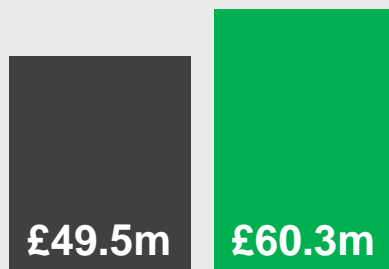
## Operating profit



FY13

FY14

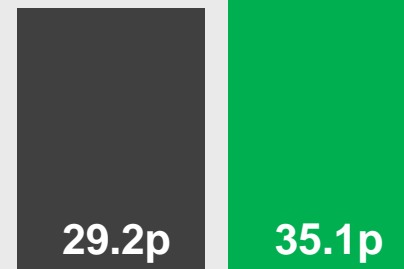
## Profit before tax



FY13

FY14

## EPS



FY13

FY14

## Dividend (full year)

**10.0p**



FY13 – 7.3p

## Net debt

**£346m**



Apr-13 – £363m

## ROCE

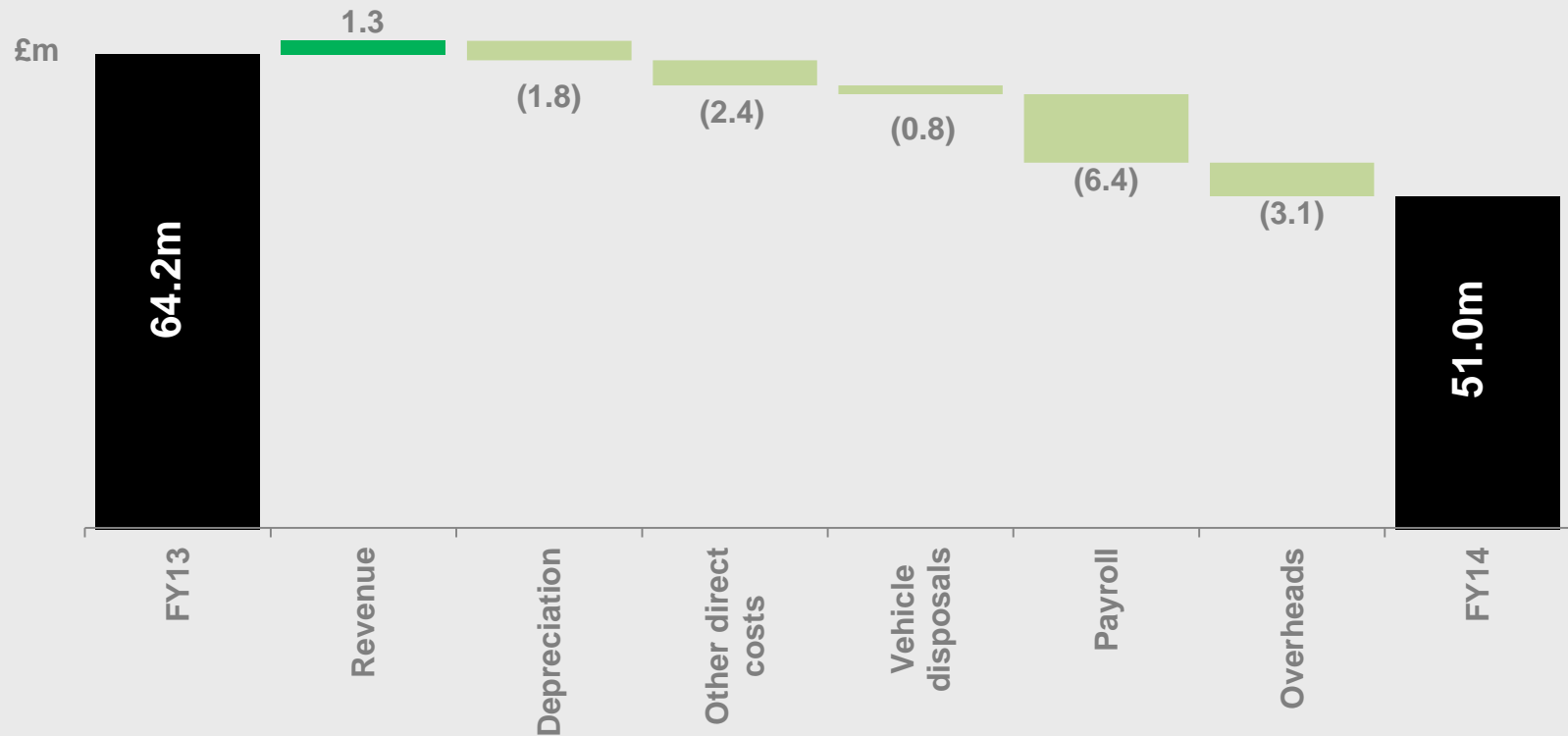
**9.9%**



FY13 – 11.8%

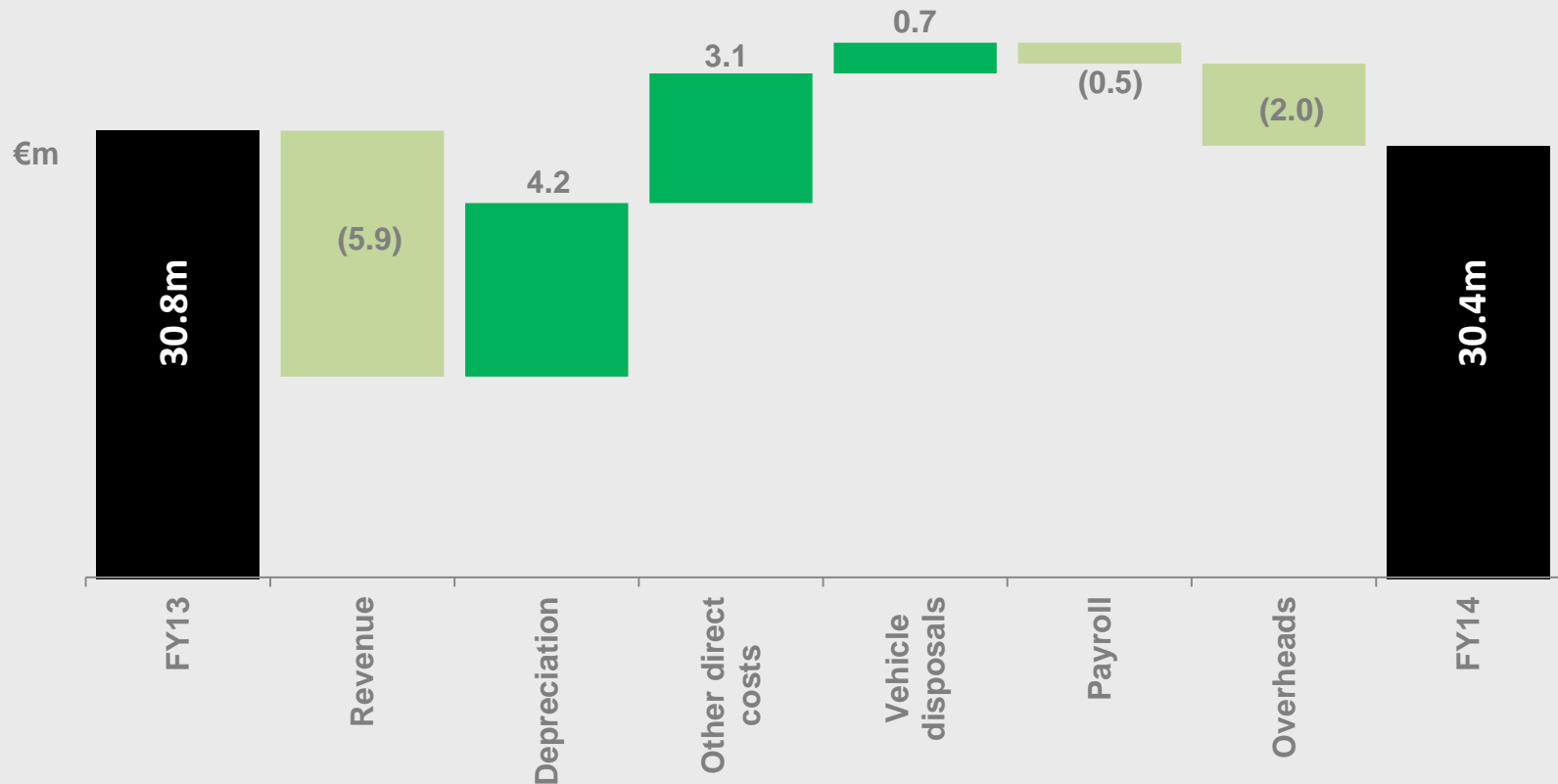
# UK operating profit

The UK underlying operating margin reduced to 17.4% (2013 – 22.1%) as a result of upfront investment in new sites and strengthening of the commercial and operational teams.

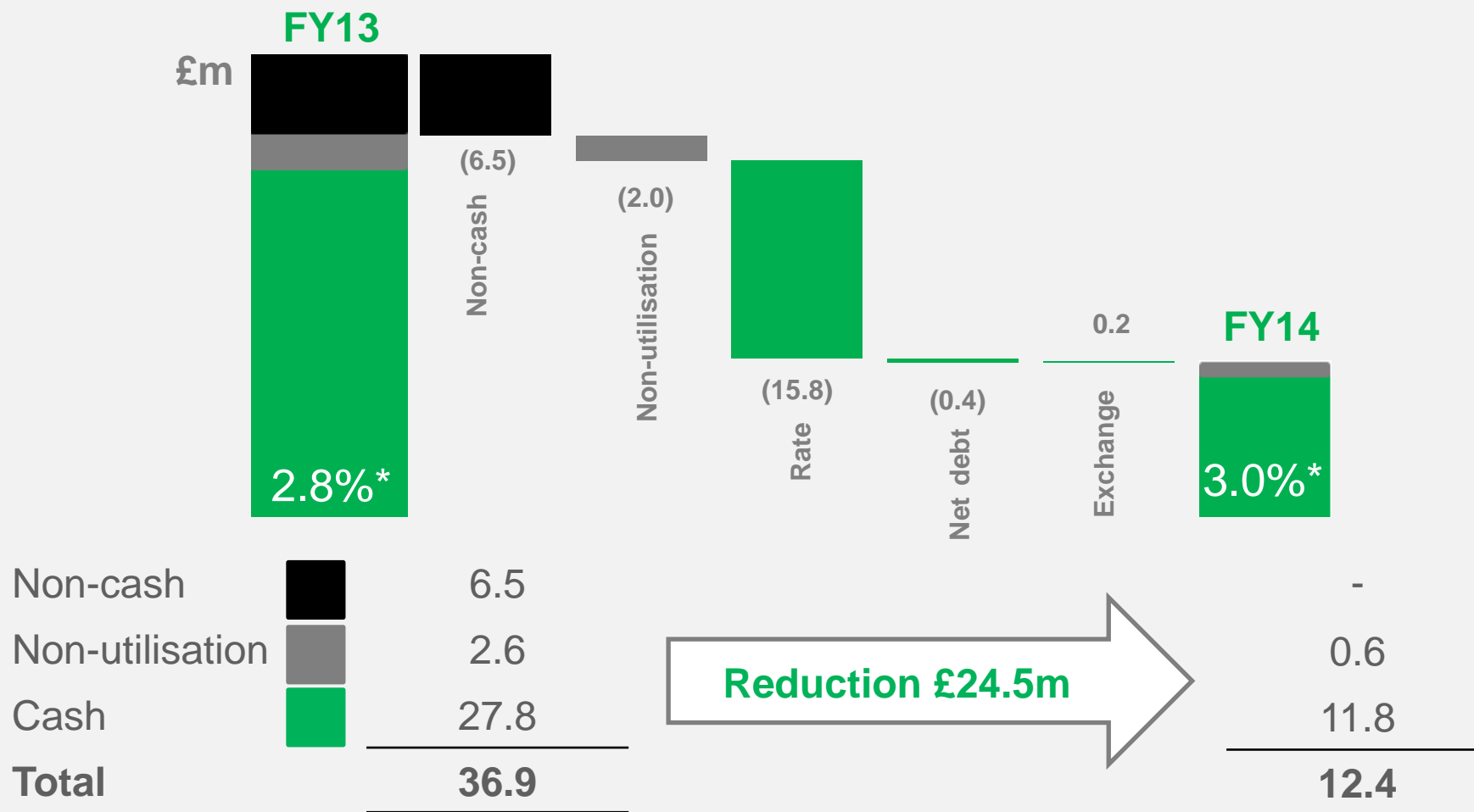


# Spain operating profit

Trading conditions in Spain are showing signs of improvement with our underlying operating margin increasing to 17.1% (2013 – 16.7%)



# Interest



\* Closing weighted average borrowing rate inclusive of swaps where appropriate

# Cash flow and net debt

## Net debt

Apr-14 £346m

Apr-13 £363m

Apr-12 £371m

## Gearing

Apr-14 91%

Apr-13 102%

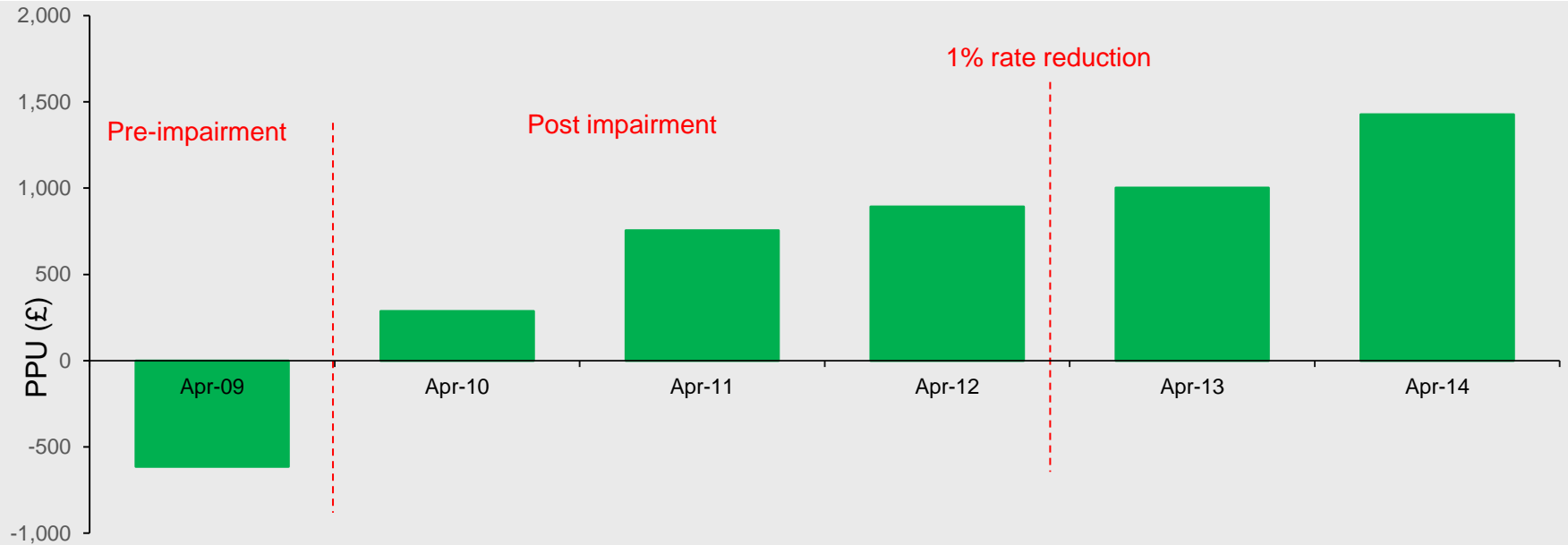
Apr-12 105%

	£m
Opening net debt (1 May-13)	362.7
Pre-dividend cash flow	(22.6)
Dividend	12.2
Other non-cash movements	(0.6)
Exchange movements	(5.6)
Closing net debt (30 Apr-14)	346.1
Facilities headroom	92

## June 2014 refinancing

- Increase in facilities of £112.7m
- Facilities now mature in June 2018
- Improved pricing achieved

# UK depreciation rates

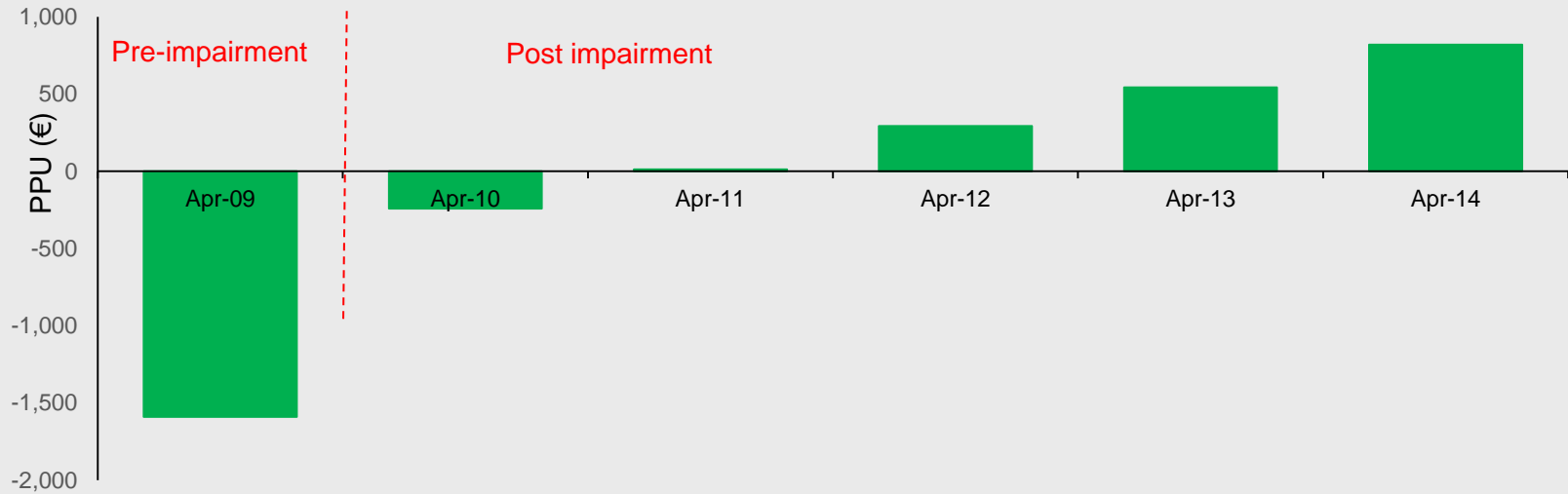


- 2014 PPU at £1,427
- Expect market conditions and increasing retail penetration to support residual prices in medium term
- Rate reduction of 1.8% prospectively from 1 May 2014

# UK depreciation rates - impact

	Apr-14	£m – May 14	FY15	FY16	FY17	FY18
Closing fleet	53,900	Depreciation	10.9	10.9	10.9	10.9
Closing cost	£605.7m	Profit on disposal	(1.8)	(5.5)	(9.1)	(10.9)
2014 average rate	19.0%	Operating profit	9.1	5.4	1.8	-
Revised rates	17.2%	Year-on-year	9.1	(3.7)	(3.6)	(1.8)
Holding period	36 months					
		£m – May 12	FY13	FY14	FY15	FY16
		Depreciation	6.1	6.1	6.1	6.1
		Profit on disposal	(1.0)	(3.0)	(5.0)	(6.1)
		Operating profit	5.1	3.1	1.1	-
		Year-on-year	5.1	(2.0)	(2.0)	(1.1)
			FY15	FY16	FY17	FY18
		PPU impact £	(212)	(479)	(679)	(779)

# Spain depreciation rates



- 2014 PPU at €821
- Expect market conditions to support residual prices in medium term
- Rate reduction of 0.9% prospectively from 1 May 2014

# Spain depreciation rates - impact

	Apr-14				
Closing fleet	37,800				
Closing cost	£366.1m				
2014 average rate	19.8%				
Revised rates	18.9%				
Holding period	42 months				
£m	FY15	FY16	FY17	FY18	FY19
Depreciation	3.3	3.3	3.3	3.3	3.3
Profit on disposal	(0.5)	(1.4)	(2.4)	(3.2)	(3.3)
Operating profit	2.8	1.9	0.9	0.1	-
Year-on-year	2.8	(0.9)	(1.0)	(0.8)	(0.1)

# Chris Muir: Group Finance Director

## Operational review: UK

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# UK operational highlights

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## Vehicles on hire

**+4,500**

since April 2013

## Utilisation

**88%**

(2013 – 88%)

## Revenue p/v

**+1%**

compared to 2013

## Vehicle sales

**14,000**

at improved values

## ROCE

**11.2%**

(2013 – 14.8%)

## Commercial

**4** new sites

opened in the year

Focus on driving growth in the UK

# Driving growth in the UK



## Commercial

- Growth in VOH of 4,200 from regional customers
- Growth in VOH of 300 from national customers
- Customer numbers increased by 21% since Apr-13



## Vehicle Sales

- Improved residual values
- Increased retail penetration from 22% to 27% of sales
- Target of 30%

# Employee engagement

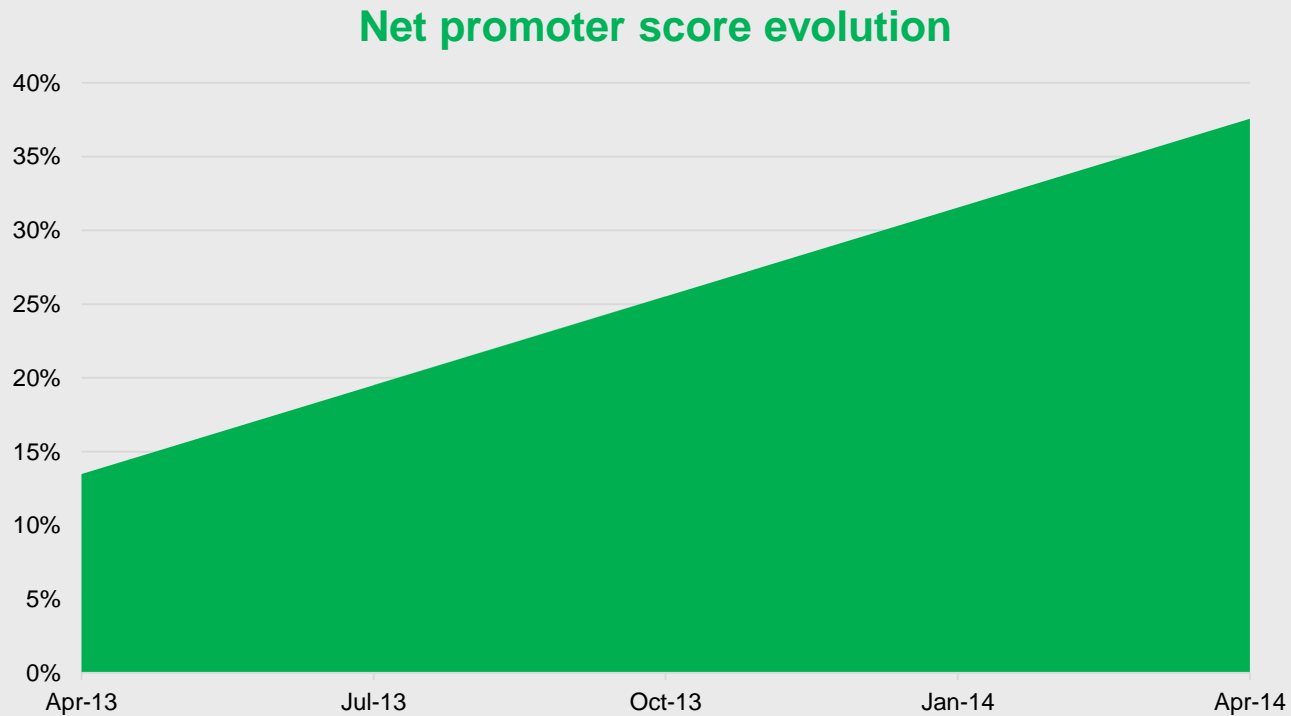
Employee engagement is being enhanced through:

- Improving communication in order to help employees understand their role in delivering the proposition;
- Induction procedures;
- Recognition, and
- Reward/share ownership.



# Customer satisfaction

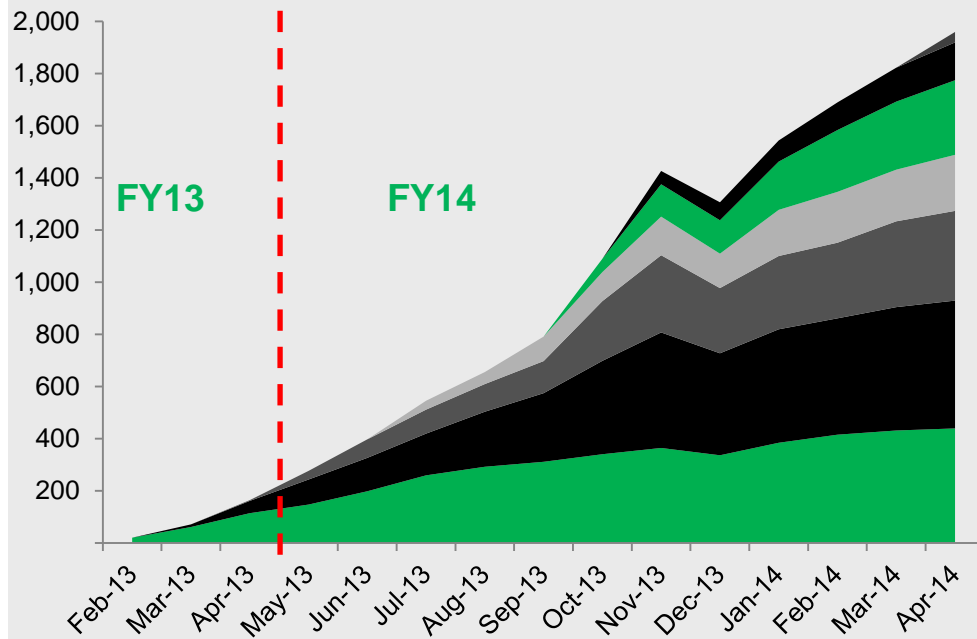
- Focus on customer service
- Net promoter score on a site by site basis
- Three key areas – ‘the proposition’



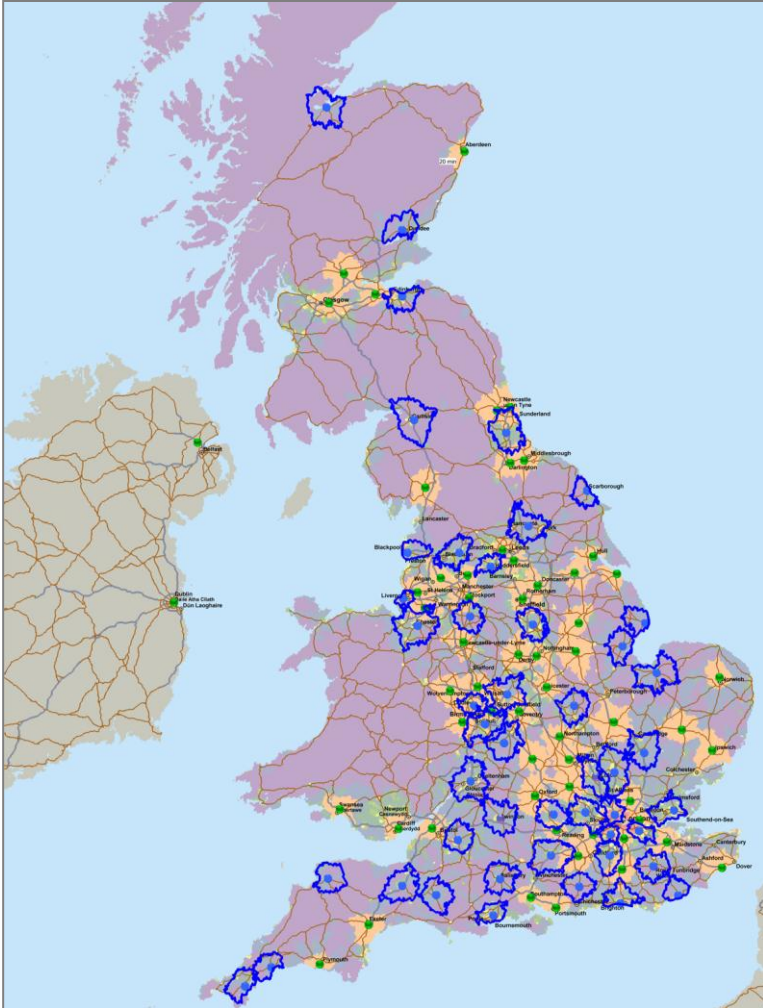
# Network expansion: progress to date

## Vehicles on hire from new sites

Growth of 2,000 (1,800 in FY14)



# Network expansion

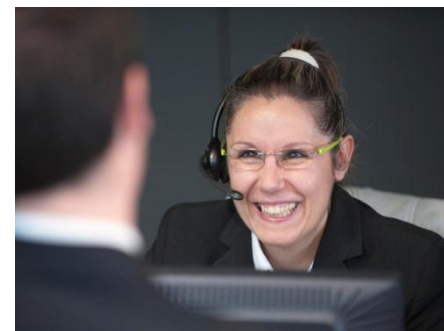


- Continued focus on London area
- Potential for up to 13 sites in London area (currently 9 open)
- Opportunities for at least 18 further sites across the remainder of the UK to fill regional gaps
- Potential sites will have to meet minimum 16% ROCE threshold target

# Fernando Cogollos: Managing Director Northgate Spain

## Operational review: Spain

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# Spain operational highlights

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## Vehicles on hire

**+2,600**

since April 2013

## Revenue p/v

**-1%**

compared to 2013

## Utilisation

**92%**

(2013 – 90%)

## Vehicle sales

**8,300**

at improved values

## Retail vehicle sales

**16%**

(2013 – 9%)

## ROCE

**9.2%**

(2013 – 8.4%)

# Progress against actions to improve ROCE



## Commercial

- Customer numbers increased by 20% through targeting SME business
- Construction industry reliance 28% (31% at Apr-13)
- Improvement in customer profiling to benefit returns



## Operations

- Maintain utilisation above 90% (92% achieved)
- Workshop efficiency programme has contributed to a 16% saving in maintenance costs
- Age out vehicles subject to suitable customer profile (24.3mths from 22.9mths at Apr-13)



## Retail sales

- Improved residuals: Change in customer profile presents retail quality vehicles to market
- Retail disposals increased from 9% to 16% of sales
- Target to achieve UK levels

# Bob Mackenzie : Chairman Outlook

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# Outlook

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## UK

Continue to build on commercial improvement and branch expansion

## Spain

Continue to take actions to grow and increase ROCE

## Dividend

Maintain progressive dividend policy whilst investing organically to strengthen and grow returns

## Outlook

UK provides medium term growth opportunity whilst ROCE in Spain remains priority

# Questions

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# Financial summary

Appendix 1

£m	April 2014			April 2013
	UK	Spain	Total	Total
Revenue	292.4	149.9	442.3	441.9
Operating profit (excluding vehicle disposals)	31.0	19.8	50.8	63.6
Vehicle disposals	20.0	5.7	25.7	25.8
Total operating profit	51.0	25.6	76.5	89.4
Corporate	-	-	(3.9)	(3.0)
<b>Group operating profit</b>	<b>-</b>	<b>-</b>	<b>72.6</b>	<b>86.4</b>
Operating margin %	17.4%	17.1%	16.4%	19.6%
Cash interest			(12.4)	(30.4)
Non cash interest			-	(6.5)
<b>Profit before tax</b>			<b>60.3</b>	<b>49.5</b>

# Capital employed (April 2014)

Appendix 2

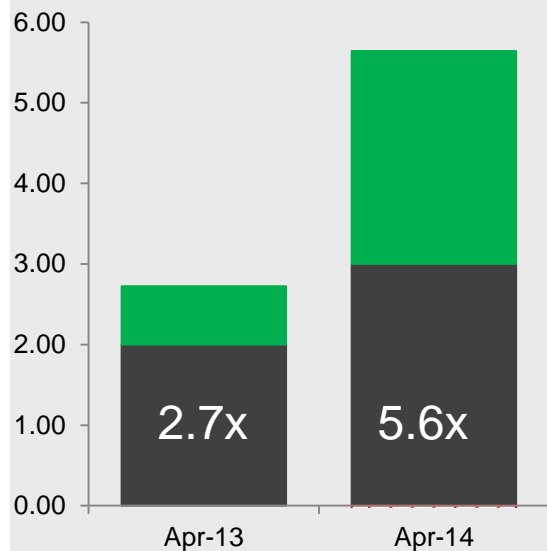
£m	UK	Spain	Group
Vehicles (hire and used)	412	216	628
Property	28	34	62
Other fixed assets	16	4	20
Trade and other debtors	62	33	95
Trade and other creditors	(54)	(14)	(68)
<b>Capital employed</b>	<b>464</b>	<b>273</b>	<b>737</b>
Net debt	(212)	(134)	(346)
<b>Net assets</b>	<b>252</b>	<b>139</b>	<b>391</b>
ROCE	11.2%	9.2%	9.9%
Capital employed (April 2013)	449	281	730

£m	April 2014	April 2013
DB pension scheme settlement	2.4	-
Net property losses & impairment	2.0	0.4
Restructuring costs – UK	1.4	2.1
Restructuring costs – Spain	0.4	0.8
<b>Exceptional operating costs</b>	<b>6.2</b>	<b>3.3</b>
Exceptional financing costs	-	54.0
<b>Total exceptional items</b>	<b>6.2</b>	<b>57.3</b>

# Facilities and borrowing cost

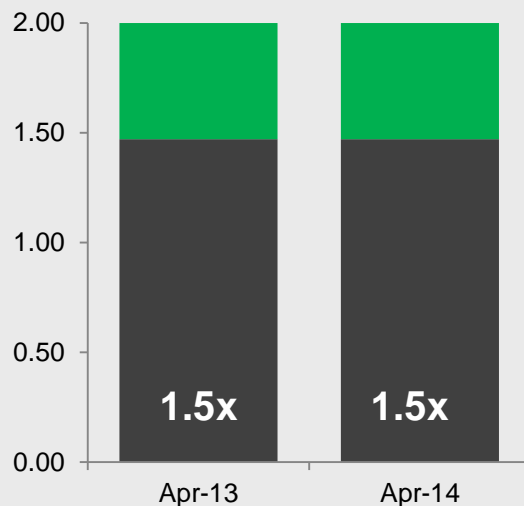
£m	April 2014	
Syndicated bank facilities	422	
Other facilities	16	
	<b>438</b>	<b>rate</b>
Fixed rate borrowings	276	3.1%
Floating rate borrowings	70	2.7%
<b>Net debt</b>	<b>346</b>	<b>3.0%</b>
<b>Headroom</b>	<b>92</b>	

## Interest cover



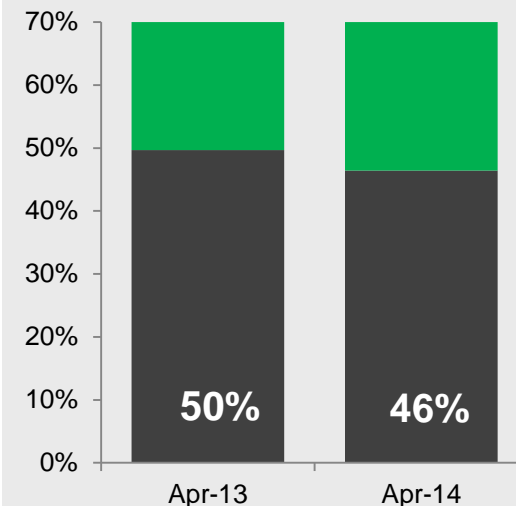
- EBIT headroom £33m
- Threshold 3.0x (FY13: 2.0x)

## Leverage



- EBITDA headroom £63m
- Threshold 2.0x

## Loan to value



- Loan headroom £177m
- Threshold 70%

# Operating cash flows

Appendix 6

£m	April 2014	April 2013
Operating profit (statutory)	63.5	79.5
Depreciation and amortisation	168.2	167.3
Working capital and other movements	3.7	11.6
<b>Cash generated from operations</b>	<b>235.4</b>	<b>258.4</b>
Net interest paid	(11.3)	(31.3)
Corporation tax paid	(4.3)	(16.8)
<b>Cash flow after interest and tax</b>	<b>219.8</b>	<b>210.3</b>
Vehicle purchases	(301.4)	(255.2)
Vehicle disposals	112.3	145.9
Other net capex	(5.3)	(8.4)
<b>Cash flow before equity and financing costs</b>	<b>25.4</b>	<b>92.6</b>
Equity and financing costs, dividends and other items	(15.0)	(47.1)
<b>Net cash generated</b>	<b>10.4</b>	<b>45.5</b>

# Group fleet capital expenditure

Appendix 7

£m		April 2014	April 2013
Purchases	UK	201.2	186.7
	Spain	99.8	72.3
Disposals	UK	(90.7)	(124.6)
	Spain	(38.5)	(43.4)
<b>Net fleet capex</b>		<b>171.8</b>	<b>91.0</b>
<b>Vehicles:</b>			
Purchases	UK	17,000	16,500
	Spain	10,700	7,300
		<b>27,700</b>	<b>23,800</b>
Disposals	UK	14,000	20,700
	Spain	8,300	11,200
		<b>22,300</b>	<b>31,900</b>

*Purchases and disposals stated on an accruals basis and exclude direct selling costs.*

	April 2014	April 2013
Fleet size (closing)	53,900	49,900
Utilisation (average)	88%	88%
Closing vehicles on hire	47,600	43,100
Revenue per vehicle	£6,131	£6,063
Operating margin	17.4%	22.1%
Headcount (closing)	1,968	1,835
PPU	£1,427	£1,003
ROCE	11.2%	14.8%

	April 2014	April 2013
Fleet size (closing)	37,800	35,100
Utilisation (average)	92%	90%
Closing vehicles on hire	34,700	32,100
Revenue per vehicle	€5,399	€5,562
Operating margin	17.1%	16.7%
Headcount (closing)	865	858
PPU	€821	€544
ROCE	9.2%	8.4%

# New branch 1 - assumptions

Appendix 10

Revenue	£
Revenue pv on rent	6,163

Costs	£
Non fleet site CAPEX	125k
Depreciation pv	2,011
Maintenance / repair costs pv	674
Other direct costs pv	398

Costs	£'000 Yr. 0	£'000 Yr.1	£'000 Yr.2
Staff costs	51	305	414
Rent & rates	13	75	77
Marketing	-	65	10
Other overheads	33	90	92
Total	97	535	593

No.	Yr. 0	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5
Average on rent	-	122	334	472	534	534
Closing on rent	-	240	410	540	540	540
Average fleet	-	145	375	530	600	600
Closing fleet	-	290	460	600	600	600
Disposals	-	-	-	-	145	230

- On rent at maturity 540
- 84% utilisation year 1 then 89%
- 14 employees

# New branch 2 – annual impact

Appendix 11

	Yr. 0	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5
Revenue	-	751	2,077	2,966	3,391	3,425
Depreciation	-	(292)	(769)	(1,109)	(1,280)	(1,306)
Maintenance / repair	-	(98)	(258)	(371)	(429)	(437)
Other direct costs	-	(58)	(152)	(219)	(253)	(258)
Staff costs	(51)	(305)	(414)	(422)	(431)	(439)
Overheads	(46)	(230)	(178)	(182)	(184)	(189)
Disposal profit	-	-	-	-	87	138
<b>Operating profit</b>	<b>(97)</b>	<b>(232)</b>	<b>306</b>	<b>663</b>	<b>901</b>	<b>934</b>
<b>ROCE</b>	<b>-</b>	<b>(13%)</b>	<b>7%</b>	<b>12%</b>	<b>16%</b>	<b>17%</b>