

NORTHGATE

Northgate plc Full Year Results 2017

27 June 2017



Agenda

- » Introductions Andrew Page/Kevin Bradshaw
- » Financial Review Paddy Gallagher
- » Strategy and Outlook Kevin Bradshaw

NORTHGATE

Introduction

Andrew Page



Introduction

Kevin Bradshaw

- » 25 years, B2B 'fix & build'
- » 2007–2012 Avis Europe Plc
- » Started as CEO, 11th January 2017



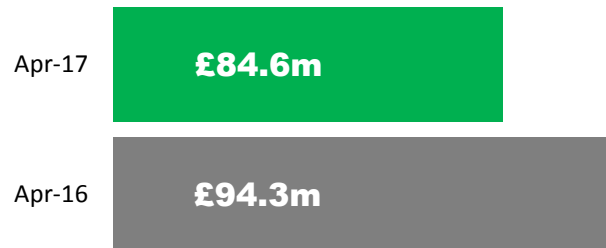
Financial Review

Paddy Gallagher

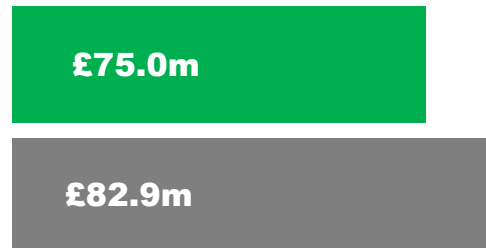


Group Financial Summary

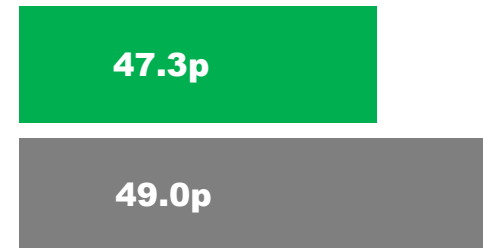
Operating profit



Profit before tax



EPS



Proposed final dividend

17.3p ▲ FY16 – 16.0p

Net debt

£310m ► Apr 16 - £310m

ROCE

10.5% ▼ Apr-16 – 12.2%

£m	UK	Spain	Ireland	Corporate	Group	FY16
Operating profit – (ex-disposals)	29.6	25.5	1.7	–	56.8	63.0
Operating profit – disposals	14.3	17.1	1.5	–	32.9	36.4
Corporate	–	–	–	(5.1)	(5.1)	(5.1)
Operating profit – total	43.9	42.6	3.2	(5.1)	84.6	94.3

Cash Flow

£m	FY17	FY16
Underlying operational cash generation	238.3	242.8
Net capital expenditure	(174.1)	(155.5)
Net taxation and interest payments	(21.2)	(18.8)
Share purchases and refinancing costs	(0.1)	(5.6)
Free cash flow	42.9	62.9
Dividends	(21.9)	(20.1)
Net cash flow	21.0	42.8
Net Debt	309.9	309.9
Facilities headroom	260.0	219.4
Leverage	1.3x	1.3x
Gearing	61%	67%

We continue to maintain the balance sheet structure within the target leverage range of 1.25x to 1.85x net debt to EBITDA



Vehicle Capex

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

£m		FY17	FY16
Purchases	UK	189.1	187.7
	Spain	162.0	94.5
	Ireland	13.4	11.4
Disposals	UK	(144.0)	(123.4)
	Spain	(63.2)	(44.1)
	Ireland	(4.0)	(3.6)
Net fleet capex		153.3	122.5
Vehicles:			
Purchases	UK	15,400	14,800
	Spain	15,500	10,600
	Ireland	1,000	1,000
		31,900	26,400
Disposals	UK	20,400	19,700
	Spain	12,700	10,200
	Ireland	700	600
		33,800	30,500

With two of our three businesses growing VOH we have spent more on the fleet than a year ago



UK

£m	FY17	FY16	Change
Revenue: hire of vehicles	272.2	290.7	(18.5)
Operating profit (excluding vehicle disposals)	29.6	36.3	(6.7)
Vehicle disposals	14.3	19.1	(4.8)
Total operating profit	43.9	55.4	(11.5)

KPI	FY17	FY16	Change
Average VOH	41,400	44,100	(2,700)
Closing VOH	39,500	42,400	(2,900)
Utilisation	88%	87%	1%
Vehicle sales units	20,400	19,700	700
PPU (£)	703	979	(276)
Vehicle sales: retail penetration	36%	33%	3%

» More work needed on demand generation and sales conversion

Spain

€m	FY17	FY16	Change
Revenue: hire of vehicles	192.9	190.3	2.6
Operating profit (excluding vehicle disposals)	30.1	34.4	(4.3)
Vehicle disposals	20.2	21.4	(1.2)
Total operating profit	50.3	55.8	(5.5)

In GBP foreign exchange had a £5.5m positive impact on operating profit

KPI	FY17	FY16	Change
Average VOH	36,000	35,600	400
Closing VOH	37,700	35,700	2,000
Utilisation	91%	91%	—
Vehicle sales units	12,700	10,200	2,500
PPU (€)	1,589	2,102	(513)
Vehicle sales: retail penetration	10%	17%	(7%)

» Significant momentum in fixed term product

Ireland

€m	FY17	FY16	Change
Revenue: hire of vehicles	25.4	22.6	2.8
Operating profit (excluding vehicle disposals)	2.0	1.8	0.2
Vehicle disposals	1.8	1.9	(0.1)
Total operating profit	3.8	3.7	0.1

In GBP foreign exchange had a £0.4m positive impact on operating profit

KPI	FY17	FY16	Change
Average VOH	3,400	3,100	300
Closing VOH	3,500	3,300	200
Utilisation	89%	90%	(1%)
Vehicle sales units	700	600	100

- » The business will invest in depots with workshops to improve profitability

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Strategy

Kevin Bradshaw



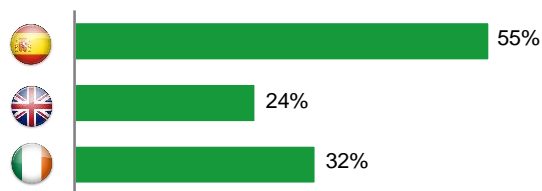
Introduction

- » Five months into role: good look under the bonnet
- » Potential looks significant: capable of delivering sustainable, long-term growth in cash flows with returns well ahead of WACC
- » Undertaken strategic review: identified four strong mid-term growth priorities
- » Identified key self-help priorities: progressed UK leadership changes

Northgate is well positioned with core strategic advantages but there has been no consistent growth strategy

Well Positioned Business

Northgate Flexi Rental Market Share ⁽¹⁾ %



Share vs Nearest Competitor

3.7x

1.3x

4.6x

Nearest Competitor



Core Strategic Advantages

- » Significant OEM purchasing terms
- » Low cost of debt
- » In-house workshop networks
- » Van Monster disposal channel
- » Low cost entry to fixed term product adjacencies

No Consistent Growth Strategy

- » Shallow internal 'fact base'
 - Market data
 - Qualitative data
- » Shifts in direction
 - Term hire; SME vs large fleets;
 - Telematics
- » More clarity required
 - Growth ambitions
 - Financial returns
 - Why we'll win

Source: AER, BVRLA, CV Informa, Management Interviews, OC&C analysis

Note (1): Reflects volume share in LCVs

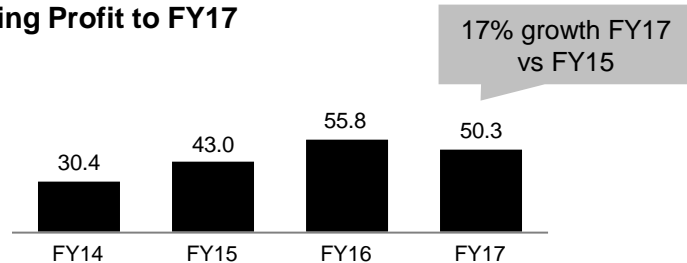
Spain and Ireland are fundamentally strong. Profit performance impacted by tough comparable in Spain and 'growing pains' in Ireland

Spain

Strengths

- » 55% market share ⁽¹⁾
- » Skilled & experienced team
- » Digitally led marketing & effective sales model
- » Highly efficient workshops, strong customer service

Operating Profit to FY17 €m

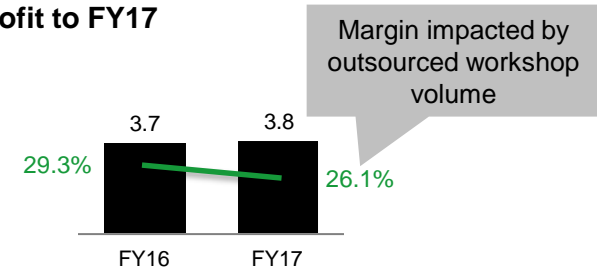


Ireland

Strengths

- » 32% market share ⁽¹⁾
- » Entrepreneurial leadership, agile
- » Strong and growing Van Monster business
- » CAP IT implementation

Operating Profit to FY17 €m/Margin %



However, key weaknesses have been allowed to persist in the UK

Interim VOH Performance

- » Underpinned by broker business
- » Subsequently off-hired
- » Q2 contract wins slow to materialise
- » UK ended year 2,900 VOH down
- » UK business has lost share 2013-2016
 - Market volume growth c.6% p.a.
 - Northgate volume growth -4% p.a.

Five Key Weaknesses

- » Leadership
 - Urgency, commercial focus
- » Marketing
 - Talent, digital, customer data, direct marketing
- » Sales
 - Strategic account focus, empowerment, admin, sector experience
- » Access to sufficient commercial talent in Darlington
- » IT Systems
 - Old, inflexible, high cost and slow pace of change

A number of actions have already been taken

Five Key Weaknesses

- » Leadership
 - Urgency, commercial focus
- » Marketing
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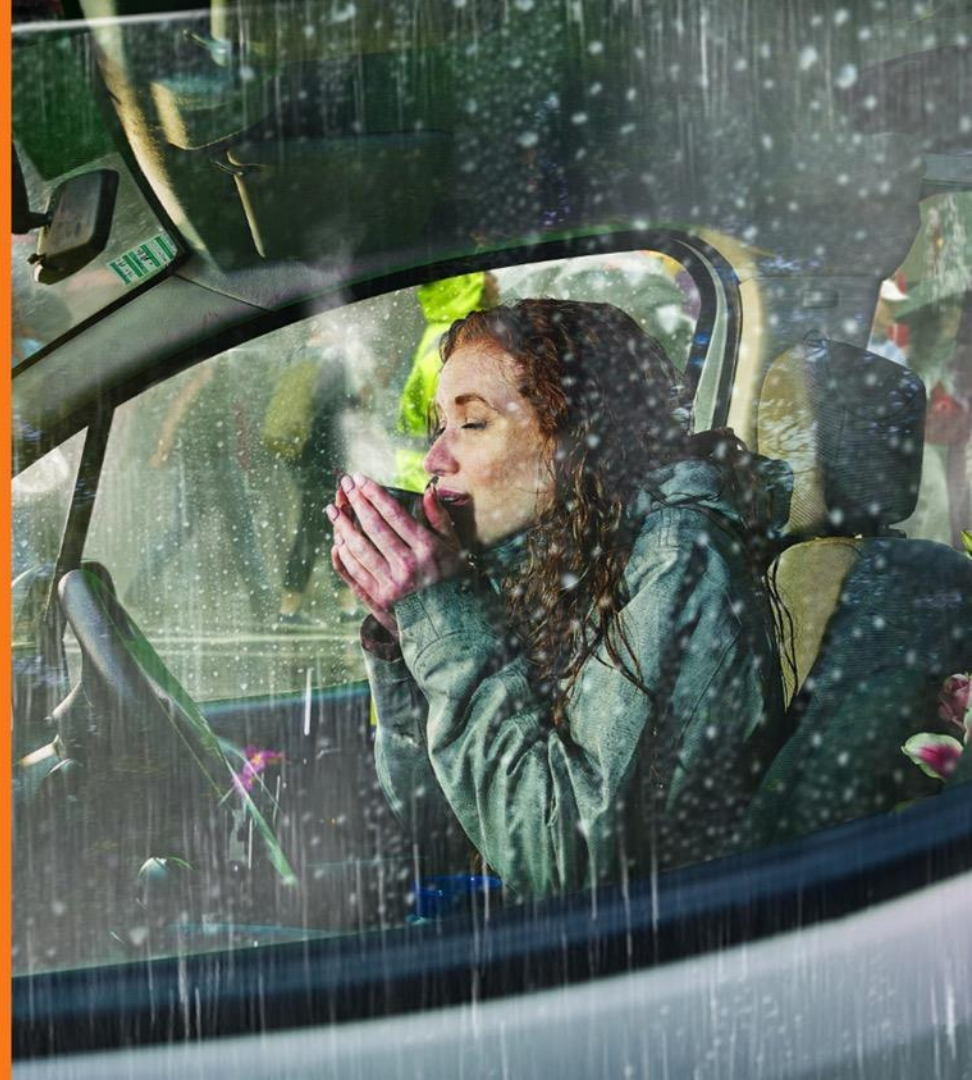


Self-Help Actions

- » Leadership changes
 - Frank Hayes - UK Managing Director
 - Neil McCrossan - UK Sales Director
 - Claire Harrison-Church - interim UK Marketing Director
- » Marketing Actions
 - Digital capability build
 - Customer data acquire & cleanse
 - Increased direct marketing
- » Sales Actions
 - Increase in solutions sales capability
 - More empowerment; increased price flexibility
 - Rationalised reporting
- » Establishment of small commercial hub in Reading underway
- » IT Strategy & migration planning; implementation start this year

Strategic Review

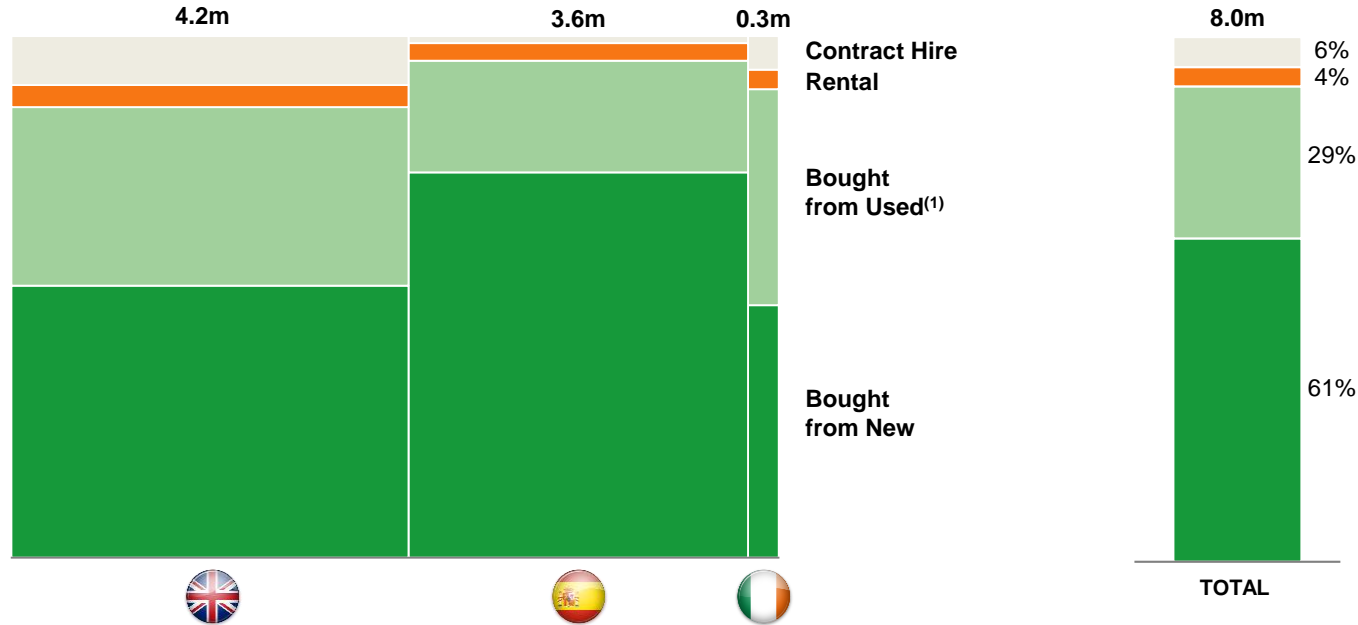
- » Three territories – UK, Spain, Ireland
- » Size, segmentation, growth and profitability of core and adjacent markets
- » Evaluation of strategic advantages and relative competitive position in each market segment
- » Development of four key growth priorities for the Group



**We operate in territories with 8 million LCVs supplied via three fulfilment models.
The majority are owned; contract hire and rental are most developed in the UK**

Market Volume Map, 2016

Vehicles

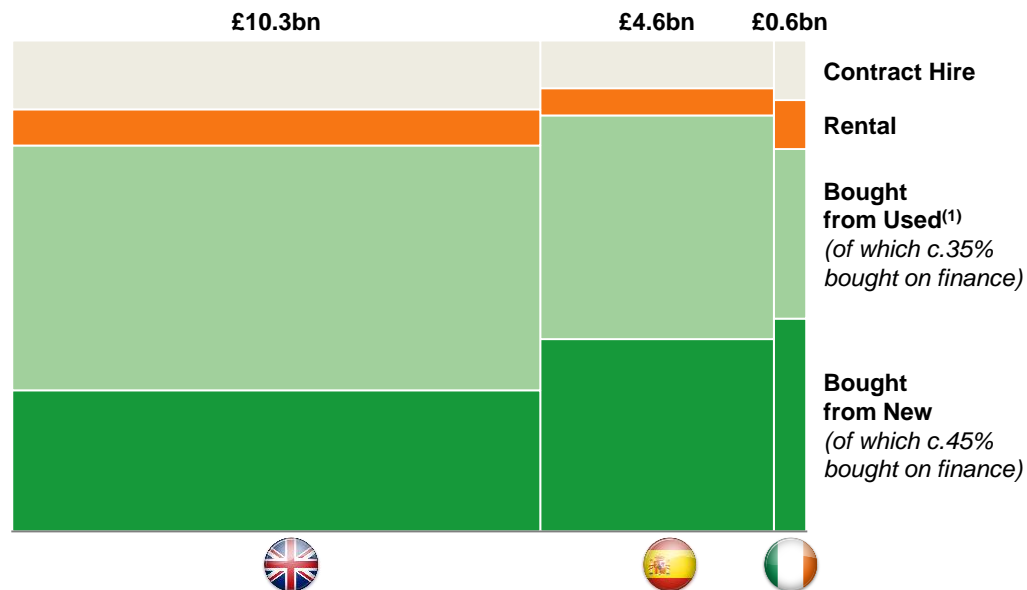


Source: MSI, BVRLA, DFT, SIMI, OC&C analysis

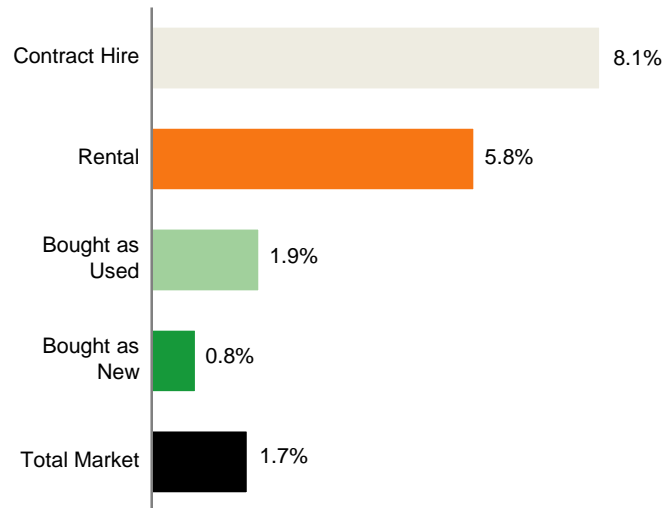
Note (1) Includes both primary and secondary transactions on used vehicles

This translates to total annual revenues of c.£16bn with strong volume growth in rental and contract hire

Estimated Market Revenues, 2016
£bn



LCV – Volume Growth UK, ES, IE, 2013-16
% CAGR



Source: MSI, BVRLA, DFT, SIMI, OC&C analysis
Note (1) Primary transactions only

Within this, we have prioritised four key opportunities

1

Defend & Grow Flex Share

- £1bn market revenue
- 6% p.a. volume growth
- Northgate 31% share

A key segment to defend:

- » Historical core of Northgate
- » Key assets (Network, salesforce, repair network) configured to win in the segment
- » Profitable and feeds the disposal network

2

Share Gain in Fixed Term

- £2bn market revenue
- 8% p.a. volume growth
- Northgate <0.5% share

A natural adjacency:

- » Significant cross-sell opportunities within existing customer base
- » Limited variations in operating model required to serve
- » Needed to fend off competition from CH&L providers

3

Conversion of 'Owned' to Fixed Term

- £12bn market
- 1.2M annual transactions
- Of which, 450K financed

An untapped potential:

- » Bulk of spend in the market in vehicle purchase today
- » Ongoing shift away from owning to renting or leasing vehicles
- » Significant value for Northgate to support this transition

4

Consolidate the Fragmented UK LCV Trading Market

- £5bn market
- 4% market growth
- Van Monster 2.5% share

A market ripe for consolidation

- » Very fragmented retail market today, with limited number of scale players
- » Northgate sitting on an under-exploited asset (network, sourcing)
- » Wide range of growth levers available

In Flex rental, we will focus particularly in the UK on growing share in small and mid-sized accounts at attractive marginal ROCE

Flex Rent - Implementation Focus

- » SME – Web/Digital lead generation
- » Regional Accounts – Investment in customer data and direct marketing
- » Optimise proposition
- » Greater pricing flexibility

Flex Rent Illustrative Economics for £100 Van⁽¹⁾

	P&L	Cash
Purchase		-100
Net Disposal Proceeds		60
Total Holding Cost		-40
Rental Revenue pa	42	42
Depreciation pa	-18	
SMR / Other Costs pa	-5	-5
Profit pa	18	36
Profit on Disposal	23	
Total Profit	87	87
Avg Cash Flow pa		25
Average Capital Employed		69
ROCE		36%

Note (1) Assumes a 42 month holding period and list pricing

In Fixed term we will focus in all markets on share gain and converting ‘owners’.
Marginal ROCE is equally attractive.

Fixed Term - Implementation Focus

Share Gain

UK

- » Regional & strategic accounts
- » Cross sell Flex + Fixed solution

Spain & Ireland

- » Grow share of small and mid-sized fleets

Convert ‘Owners’ to Fixed Term

All territories

- » Sole traders and SMEs
 - Digitally led; trade-in offer
- » Regional customers
 - We buy assets and dispose
 - Replace with term hire
- » Focus on 450K financed transactions
- » Spanish sales rate currently 430 fixed term VOH per month of which 150 are conversions from ‘owners’

Fixed Term Illustrative Economics for £100 Van⁽¹⁾

	P&L	Cash
Purchase		-100
Net Disposal Proceeds		60
Profit / Loss on Trade In		2
Total Holding Cost		-38
Rental Revenue pa	39	39
Depreciation pa	-18	
SMR / Other Costs pa	-4	-4
Profit pa	17	35
Profit on Disposal	24	
Total Profit	85	85
Avg Cash Flow pa		24
Average Capital Employed		67
ROCE		36%

Note (1) Assumes a 42 month holding period and list pricing

For Van Monster we will focus in the UK on consolidation of the highly fragmented used LCV trading market

Van Monster - Implementation Focus

- » Optimise existing sites
 - Increase stock availability (optimised de-fleet, third party sources)
 - Optimise retail offer; model site
 - Optimise marketing
- » Develop site roll out plan
 - Network expansion
 - Digital marketing support

Van Monster Illustrative Branch Economics ⁽¹⁾

	P&L	Cash
Purchase		-100
Net Disposal Proceeds		118
Total Net Margin		18
Profit on Disposal	18	
Total Profit	18	
Avg Cash Flow pa		74
Average Capital Employed		150
ROCE		49%

Note (1) At site maturity, after all variable costs and site overheads

Summary

- » Well positioned; strategic advantages
- » Spain & Ireland strong; significant remedial work required in the UK but fixable via self help – already started
- » Core and adjacent markets large, profitable and in strong structural growth
- » Significant value to be generated via four opportunities
- » Dividend increase reflects our conviction in growth opportunities
- » Capital markets day planned for October
 - Strategic review; more detail
 - Implementation plans for opportunities
 - Update on progress
 - 1–3 year milestones



Questions



Appendix 1 – Financial Summary

£m	FY17					FY16
	UK	Spain	Ireland	Elims	Total	Total
Revenue: hire of vehicles	272.2	163.4	21.5	(1.0)	456.1	447.1
Operating profit (excluding vehicle disposals)	29.6	25.5	1.7	–	56.8	63.0
Vehicle disposals	14.3	17.1	1.5	–	32.9	36.4
Total operating profit					89.7	99.4
Corporate					(5.1)	(5.1)
Group operating profit					84.6	94.3
Operating margin %					18.5%	21.1%
Cash interest					(9.0)	(10.1)
Non cash interest					(0.6)	(1.3)
Profit before tax					75.0	82.9

Appendix 2 – Operating Cash Flows

£m	FY17	FY16
Operating profit (statutory)	81.5	90.6
Depreciation, amortisation and impairment	158.3	146.3
Working capital and other movements	(1.5)	5.9
Underlying operational cash generation	238.3	242.8
Net interest paid	(8.6)	(10.5)
Net corporation tax paid	(12.6)	(8.3)
Cash flow after interest and tax	217.1	224.0
Vehicle purchases	(346.3)	(296.2)
Vehicle disposals	177.0	145.9
Other net capex	(4.8)	(5.2)
Share purchases and refinancing costs	(0.1)	(5.6)
Free cash flow	42.9	62.9
Dividends	(21.9)	(20.1)
Net cash flow	21.0	42.8

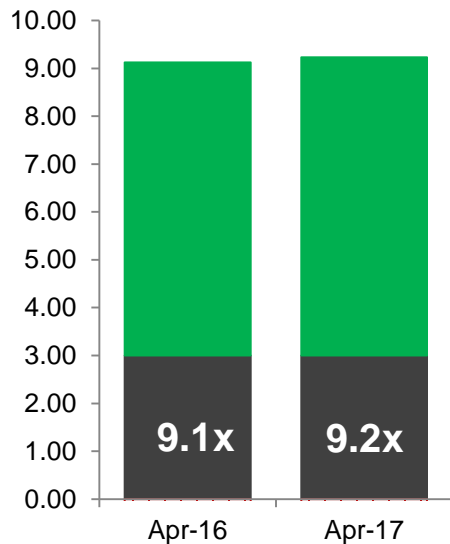
Appendix 3 – Facilities And Borrowing Costs

£m	FY17	Rate*
Syndicated bank facilities	451	
Loan notes	84	
Other facilities	37	
	572	
Fixed rate borrowings	321	2.2%
Floating rate borrowings	(9)	0.8%
Net debt (excluding arrangement fees)	312	2.2%
Headroom	260	

* As at 30 April 2017

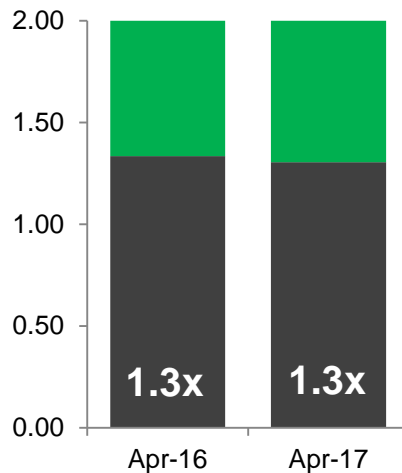
Appendix 4 - Covenants

Interest cover



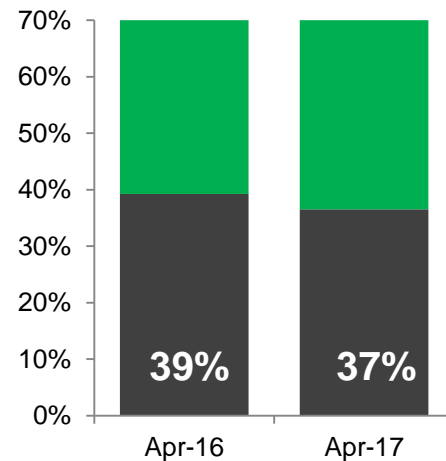
- EBIT headroom £56m
- Threshold 3.0x

Leverage



- EBITDA headroom £84m
- Threshold 2.0x

Loan to value



- Loan headroom £289m
- Threshold 70%

Appendix 5 – UK KPIs

	FY17	FY16
Fleet size (closing)	46,400	49,600
Utilisation (average)	88%	87%
Closing vehicles on hire	39,500	42,400
Revenue per vehicle	£6,347	£6,383
Operating margin	16.1%	19.1%
Headcount (closing)	1,781	1,787
PPU (£)	£703	£979
ROCE	9.4%	10.4%

Appendix 6 – Spain KPIs

	FY17	FY16
Fleet size (closing)	41,800	39,800
Utilisation (average)	91%	91%
Closing vehicles on hire	37,700	35,700
Revenue per vehicle	€5,356	€5,350
Operating margin	26.1%	29.3%
Headcount (closing)	1,038	994
PPU	€1,589	€2,102
ROCE	14.2%	19.6%

Appendix 7 – Ireland KPIs

	FY17	FY16
Fleet size (closing)	3,900	3,700
Utilisation (average)	89%	90%
Closing vehicles on hire	3,500	3,300
Revenue per vehicle	€7,380	€7,274
Operating margin	15.0%	16.5%
Headcount (closing)	97	78
PPU	€2,568	€2,955

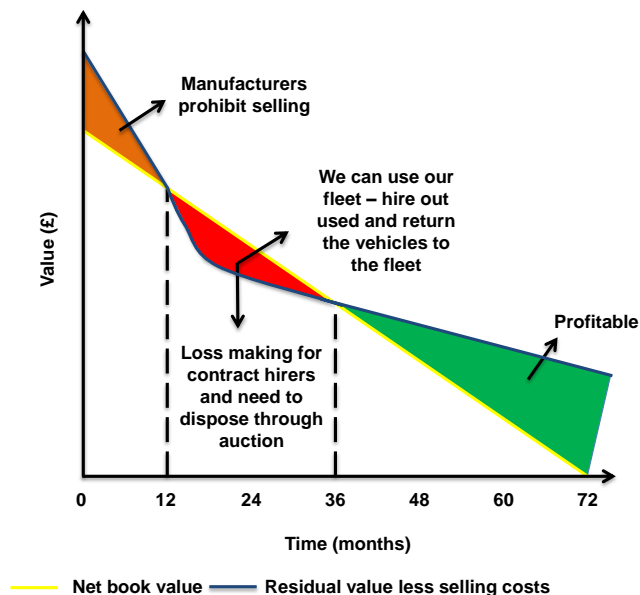
Appendix 8 – Remaining depreciation rate change impact

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

£m	UK	Spain	Ireland	Group
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

Appendix 9 – Fixed Term Product



	Contract hire	Northgate
Differences	36 – 60 month contracts	12 – 60 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	