Redde Northgate PLC
FY-2022 Interim Results presentation – Transcript

Presenters: Martin Ward, CEO
Philip Vincent, CFO

MW: Good Morning, and thank you for joining the Redde Northgate Interim Results presentation.

I am Martin Ward CEO, and joining me online today is Philip Vincent, CFO.

The agenda for this morning will cover a brief overview of the results and headlines, a financial review, and a business update before we end with Q&A's.

The first half has seen a stellar performance which has surpassed the board's expectations.

Revenue (excluding vehicle sales) of £522.9m is up 21.9% driven by strong rental demand and the post lockdown recovery of Redde volumes.

Underlying PBT of £78.9m is up 94.4% benefitting from the *Focus* phase of our strategic plan, which delivered on strong cost management and a spotlight on margins.

Both the UK&I and Spanish businesses have seen rental margin progression, with the underlying improvements in margin already supporting the c.15% target we set ourselves over the full year.

Redde volumes have broadly reached the level we expected, albeit at a faster initial pace, with the traditionally busy winter period ahead. We believe that 90% of pre covid volumes may represent a structural change with work from home and changing work patterns leading to less incident frequency.

Steady state cash generation of £93.5m is up 15.5% over the comparative period, which reflects our strong focus on cash, and ROCE at 12.5% represents a 4.4ppt increase supported by a stronger profit performance.

Overall, the financial results and margin improvements show good momentum in our trading performance.

Looking at our strategic progress, under our framework of *Focus Drive and Broaden* there has been clear evidence of success.

Firstly, we can report a number of sizeable new contract wins with large motor insurers in the UK. In combination these wins are expected to generate in excess of £200m of lifetime contract revenue and utilise services from our integrated mobility platform, mainly around claims administration, accident management, roadside accident recovery, replacement vehicles and vehicle repairs.

And supporting the longer term evolution of our fleet away from ICE, we have increased the number of EV and hybrid vehicles across the Group by 189%, with a c.300% increase in the UK alone. And, we are supporting our customers with the additional capabilities of our electric charging point business, Charged EV, which we acquired in July.

Furthermore, we have signed a MOU with an automotive manufacturer for 5,000 electric LCVs which, providing all the details stack up, will support our near and mid-term transition plans.

And looking at costs inflation which can be seen in wages, vehicle supply and parts, this is actively being managed and overall we are comfortable that costs can be passed on especially in the B2B environment where most businesses are having to do the same.

And, post the period end, we are pleased to report that we have completed a new refinancing deal which has increased our committed borrowing facilities by £104m to £792m, whilst extending the maturity and spread of the facilities and reducing pricing.

This provides good headroom to support an active pipeline of selective bolt on acquisitions.

Given these results, and the continued good momentum in the business, the board is pleased to declare an interim dividend of 6p which follows our dividend policy to pay out 50% of the previous final dividend.

Thank you. I will now hand you over to Philip to cover the Financial Results in more detail.

PV: Thank you Martin, and good morning everyone.

We have had a very good first six months with progression across the Group. So if you could turn to page 7, I will start with an overview of the H1 results.

Revenue excluding vehicle sales grew to £522.9m, 21.9% higher than prior year with good growth across the group.

Total revenue including vehicle sales was £612.9m growing 10.2% year on year.

And vehicle sales revenue of £90.0m was 29% lower as the restrictions in new vehicle supply and strong rental demand have reduced the used vehicles available for sale. The total volume of vehicles sold was 10,100 a 33% reduction on the prior year. The reduction in volumes has been somewhat offset by high sales prices.

Claims and services revenue was £245.8m, a 37% increase with volumes recovering to approximately 90% of pre-COVID levels by the end of the period.

Disposal profits were £27.0m, an increase of 48% with PPUs increasing 121% as result of the increasing sales price of used vehicles.

Underlying profit before tax of £78.9m increased £38.3m or 94.4%. The disposal profits are benefitting from the very strong used vehicle market but if we exclude all disposal profits from both periods, underlying profit before tax increased even more at 132%.

It is worth noting that the statutory profit before tax of £71.7m for the six months is already higher than the full year 2021 statutory profit before tax of £67.2m, which was impacted by COVID.

Underlying Earnings Per Share was 26.1 pence, a 94.7% increase over the prior year in line with the increase in PBT.

Return on capital employed increased 4.4 percentage points to 12.5% as a result of the strong growth in profits.

Now if we turn to cashflow: steady state cash generation of £93.5m increased 15.5% benefitting from the continuation of tight cash controls and the growth of contract hire across the fleet along with the underlying performance of the business.

Investment in the owned fleet to meet demand, which at the end of October had increased 4,100 since the year end, resulted in free cash flow reducing £66.2m to a £7.6m outflow.

Net debt excluding IFRS 16 of £470.4m increased £9.4m.

Now I will talk through the headlines for our three operating segments. So let's start with Northgate UK and Ireland, turning to page 8.

Northgate UK and Ireland had a very good first half with EBIT of £52.9m increasing almost 65%.

Hire revenues of £170.8m increased 16.2%. VOH has continued to grow with closing vehicles on hire increasing 7.5% year on year to 50,900 and a 3.5% increase since April. Average VOH grew 10.9% year on year.

The UK & Ireland fleet grew from 54,000 in April to 55,900 vehicles at the end of October. Management of the fleet has remained very tight with utilisation at 92%.

The average hire rate was 2.9% higher than prior year with price increases applied in May.

Minimum term contracts accounted for around 36% of VOH at H1 compared to 33% last year.

The actions taken during the *Focus* phase of the strategy, including the cost synergy savings and tight management of the fleet, resulted in a rental margin for H1 of 17.6%, an increase of 7.3 percentage points over prior year which was impacted by COVID. We continue to expect the sustainable rental margin to be around 15%.

The higher rental revenue and margin increased rental profit by 98.5% to £30.0m.

Vehicle sales volumes of 5,700 were approximately 40% lower than the prior year. This reflects the fact that the prior year H1 period benefited from additional used vehicle stock due to the impact of the COVID-19 lockdown at the end of FY 2020 and the restricted market supply of new vehicles in the current period. Just under 60% of these were sold through our eAuction platform.

The disposal market has continued to be very strong with profit per unit more than doubling, resulting in disposal profits of £22.9m, an increase of 35%.

The higher rental and disposals profit resulted in underlying EBIT of £52.9m, a 64.9% increase over the prior year.

The graph on the right hand side of the slide shows the 3.5% growth in VOH since April, with June benefitting from the bolt on acquisition of 2,000 vehicles.

Since October we are continuing to see strong rental demand which, combined with new vehicle supply shortages, results in an ongoing strong vehicle sales market.

Now let's move to Northgate Spain on page 9.

Spain had a good first half with underlying EBIT of £22.6m increasing 41%.

Hire revenues increased 5.1% to £107.7m and on constant exchange rates increased 11.5%.

The graph on the right shows the recovery in vehicles on hire since COVID; closing vehicles on hire grew 8.6% year on year to 51,100 and grew 9.2% since April. Average VOH grew 8.6% year on year.

The fleet in Spain grew 7.9% since April to 55,900 at the end of October with utilisation in H1 at 93%.

The average hire rate has increased 1.8% in local currency compared to last year, with price increases on new contracts applied in the period.

The percentage of minimum term contracts at the end of the period was 35%, in line with the prior year.

Rental margins increased 2.7 percentage points to 17.1% with the prior period reflecting costs of customer support during COVID.

The higher rental revenue and margin resulted in rental profit of £18.5m, an increase of 25.6%.

A total of 4,400 vehicles were sold in the period, 22.8% lower than prior year. As in the UK&I, the prior year H1 period benefited from additional used vehicle stock due to the impact of the COVID-19 lockdown at the end of FY 2020 and the restricted market supply of new vehicles in the current period. Sales through our digital eAuction platform were 28% compared to 21% in the prior year.

The disposal market in Spain has also continued at strength with the profit per unit increasing over 300% since H1 last year and disposal profits of £4.1m increasing from £1.3m.

EBIT of £22.6m was 41% higher than the prior year.

Since October, rental demand continues to be strong and disposal volumes are low but with high sales prices.

Now let's look at Redde on page 10.

A reminder that Redde was the business in the Group most impacted by COVID with the low traffic volumes, and thereby lower incidents and accidents, impacting revenues.

The graph on the right shows that after the lockdowns eased, volumes have steadily increased. In the current period volumes have been increasing month on month and have now reached approximately 90% of pre-COVID levels.

Revenue was £215.9m which was a 39% increase on the prior year.

EBIT for the year was £16.1m, a substantial increase on the prior year period but not yet at pre-COVID levels and should improve as Redde enters the busiest winter months.

Debtor days were 176 at the end of the period, three days lower than at year end. The calculation uses a trailing 12 months and so is impacted whilst revenues are growing and there continues to be some disruption to claim collection with some insurers still operating with staff working from home.

The potential for Redde to increase its contribution to the Group's profit, and cash, remains as volumes return to normal levels.

Now let's turn to cashflow and capex on page 11.

Steady state cash generation of £93.5m was strong and £12.6m higher than prior year.

EBITDA of £182.8m was £38.8m higher than the prior year with good growth in each business.

Net replacement capex of £68.8m was £22.7m higher than the prior year period due to the impact of the timing of payments to OEMs and continues to benefit from tight controls over the acquisition of new vehicles and the benefit of high residual values.

Working capital including non-cash items was a £33m outflow due to the reversal of COVID payment deferrals and the impact of increasing Redde volumes.

Growth capex of £51.7m reflects the growth in the fleet to meet demand and benefits from managing the entire UK&I fleet as one with continued high utilisation and tight controls over the acquisition of new vehicles.

As a result, free cash flow was an outflow of £7.6 million, a £66.1m reduction on the prior year period reflecting investment for growth.

Now, let's look at our borrowing facilities on page 12.

Our borrowing facilities at the end of October were £706m with £273m of headroom available against our total committed facilities at a borrowing cost of 2.1%.

We have continued to develop contract hire with 8,100 vehicles on contract hire across the whole fleet utilising £115m of credit lines. This has reduced reliance on debt to fund the upfront capital cost of all of the fleet as well reduced exposure to residual values.

We have comfortable headroom on all of our covenants and year end leverage was 1.5 times compared to 1.6x last year, with our policy remaining to manage our leverage within the 1.0 to 2.0 times range.

I am very pleased to announce that during November we successfully refinanced our core debt facilities, capitalising on an improved credit rating resulting from the enlarged and successful mobility solutions platform developed since the merger.

If you turn to page 13 your will see on the left the facilities in place at the end of October and on the right of the table the facilities now in place.

We have replaced our €100m private placement borrowing which was due to mature in 2022 with €375m of new notes split over 6, 8 and 10 year terms at a weighted average coupon of 1.32%, a 108 basis points reduction compared to the previous coupon of 2.4%.

In addition, we renewed our RCF facility for four years at £475m, a reduction of £128m reflecting the increase in the value of private placement lending.

The result is an increase in our facilities of £104m with a 50 basis points reduction in current borrowing costs on our drawn debt; significant lengthening of debt maturities, as shown in the graph on the right-hand side; and greater diversification of our sources of debt and lenders.

Based on borrowing at the end of October this refinancing provides us with headroom of £371m. This headroom will enable us to invest in growing and developing our existing business as well as bolt on acquisitions as they arise in the market.

Thank you, and I will now hand you back over to Martin for the business update.

MW: Thank you Philip. We set out our vision at the time of the merger and we have been building plans to develop this since with good success.

This slide (15) is a reminder of the Integrated Mobility Solutions Platform offered by Redde Northgate, covering the 7 key product and service verticals.

Our verticals are strong in their own right, but the ability to offer a wide range of products and services that can be integrated makes this a unique and unrivalled proposition. We are still in the early stages of this journey and there is significant opportunity for growth in markets where our share is less than 3%.

The proposition to our customers, Partners and market is strong and they can choose any combination of the services on the platform. Our sales teams are equipped to develop and facilitate the platform services into business leads capable of conversion.

The insurance market is one of the biggest users and purchasers of mobility services in the UK and the Redde businesses are a significant conduit to this market.

Leveraging the benefits from the merger and the operational scale and capabilities delivered under the *Focus* phase of our strategy, we were successful in winning a number of sizeable new service contracts with new and existing insurance partners.

One of these contracts is with an existing large motor insurer, who significantly extended their mobility services leveraging the scale of the operational synergies created to offer an enhanced customer journey which utilises our digital services to support this.

And we are delighted to announce that Tesco Underwriting has become a partner, awarding our FMG business a new multiyear contract to provide services from our integrated mobility solutions platform which will commence in the new financial year.

We have also seen further merger benefits from existing long-term relationships, such as Admiral, who have broadened their contracted services utilising products from the integrated mobility platform.

These new business wins are expected to deliver in excess of £200m of Revenue over the lifetime of the contracts and we are encouraged by the continued development of the pipeline the merger has created.

Looking at vehicle supply and used vehicle dynamics on slide 17.

There is a lot reported in the news about new vehicle supply shortages and the price of used vehicles – most of it is true and it’s unlikely to get better anytime soon.

The latest forecast from the SMMT on new vehicle registrations shows an undersupply of 1.3m vehicles through to December 2021 into the UK, up from the 1m forecast when we last reported this in July, so vehicle supply shortages are growing and cars make up by far the biggest part of this shortfall.

This in turn is fuelling demand for used vehicles and placing more demand on rental services. In our view that undersupply is going to take some time to correct and possibly two yearly cycles to recover.

The British Car Auction (BCA) data on the right-hand chart shows a 28% increase in sold values of LCVs from October 2020 through to September 2021. If you look at the green line, the data supports some levelling off towards the end of that period, although we are currently seeing used LCV pricing continuing to remain strong albeit the number of available units to dispose of is limited.

Used car pricing is currently very strong as seen in the chart although some observers believe this will level in the near term.

Turning to our fleet, its funding, and plans to transition to EV on slide 18.

Contract hire funding was partly a feature of the Redde fleet and introduced into Northgate at the time of the merger. It's an effective financing line that can compete against risk funding or be used to acquire selective stock where there may be more perceived risk to residual values.

In total contract hire now represents £115m of utilised funds of which c.£18m is LCV, with a further £99m of funding available but not committed. The split of vehicles currently is 8,000 on contract hire and 114,000 risk funded. Given the tight supply of new vehicles, contract hire deals will be limited but are still available in the market and we continue to utilise these to good effect. Clearly, our new borrowing costs are much lower under the new refinancing package so contract hire will find it more difficult to compete on pricing.

Turning to the right hand chart and looking at our fleet plan, timing and transition from ICE to EV, it shows that in the UK&I we expect to be fully EV or non-ICE by the end of 2033. That's based on no new ICE vehicles being purchased post 2030 in the UK, in line with existing legislation.

Spain is planning to be 100% EV or non-ICE by 2043, or sooner, given the different legal requirements in place and the National Infrastructure investment to support this.

In the period reported, our EV and hybrid fleet increased by 187% across the businesses and is now at 2% of the total fleet which is fully representative of the total number of EVs and hybrids in the UK car parc as at October 2021, as reported by the SMMT.

We believe there has to be significant investment in the national charging network and renewable energy sourcing to support current legislation on EV usage and a substantial improvement in battery technology to support commercial LCV usage. Given the billions of investment in this area it should only be a matter of time before we see improvements in non-ICE technology, however the infrastructure and technology needs to step up considerably for customers to make a change.

To partly support and plan for future supply needs, we have signed an MOU with a specialist EV manufacturer for 5,000 electric LCVs which is subject to detail and full specifications. These are planned for delivery over the period to 2025.

We have continued to make good progress on our ESG plan.

Customer ratings are high and the feedback on our integrated mobility platform shows the appeal and further potential to develop this.

COVID support for our customers proved very successful last year and benefitted many during the height of the crisis. We have moved on from this, but where we see potential hardship for our customers or in the communities we serve, we will respond. Another proud example of support followed the recent and ongoing volcano activity in La Palma. We supported the local community with our vehicle fleet which provided help to move families and belongings out of harm's way – a great example of the community spirit that our people show in response to emergency situations.

And the Redde Northgate business has over 6,000 colleagues where we seek to create an environment that is a rewarding and attractive place to work. There have been a number of new employee benefits rolled out which have seen a strong take up and we continue to seek ways to make Redde Northgate a great place to work.

We continue to be reminded of the importance businesses play in reducing carbon emissions to protect the environment and we are keen to contribute to making changes that support these aims. We have made good progress with developing our ESG plans and for the year end report we will deliver on key milestones including:

- Conducting a materiality assessment to inform our ESG strategy
- Developing Scope 1 and 2 reduction targets and a Net Zero plan
- Conducting a qualitative scenario analysis
- And producing our maiden Sustainability Report

We look forward to seeing the positive impact we can make and we were pleased to see participation from over three hundred of our colleagues when we ran a recent competition to support ideas that would make a positive impact to our environment.

In summary, this is a strong set of numbers for the period, ahead of the board's expectations and with good underlying margin improvements.

Redde volumes are up to the level we expected, and we should see these progress the Redde EBIT number, especially through the winter period.

The new business wins are leveraging the integrated mobility platform which was only made possible through the merger and developments since.

The fleet transition to EV is in line with our plan – with good visibility of near and mid-term supply.

The merger has strengthened the rating and standing of the business as evidenced through the successful refinancing on a long-term basis at a lower cost. This provides confidence in supporting further growth.

In conclusion, it's been a period of strong delivery against our strategic aims and we now head into the second half of the year with good momentum.

Thank you for listening.