Financial Year 2019 Results

25 June 2019

NORTHGATE

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Agenda

1. Overview	Kevin Bradshaw
2. Financial Review	Philip Vincent
3. Business Review	Kevin Bradshaw
4. Q&A	

1. Overview

Kevin Bradshaw, CEO

25 June 2019

Overview

FY 2019 financial performance in line with guidance:

- Double digit VOH[1] growth; UK & Ireland 11.3%, Spain 10.9%
- UK & Ireland rental margin 7.8%, Spain rental margin 19.7%
- Free cash flow of £20.4m, an increase of £116.4m, driven by lower capex from fleet optimisation
- Final dividend proposed 12.1p to give total dividends for the year of 18.3p, +3.4% YoY

Good progress in the delivery of our strategic priorities:

- Strong momentum in the UK from self-help agenda
- Resilience in Spain, market-leading propositions continue to deliver strong returns
- Attractive minimum-term growth complements strong flexible hire propositions
- ROCE 7.7% (FY 2018 7.5%)

Foundations strengthened to deliver long-term sustainable and profitable growth

1. Average VOH

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2. Financial Review

Philip Vincent, CFO

25 June 2019

FY 2019 results in line with guidance

	FY 2019	FY 2018	% change
Total Revenue	**745.5**	701.7	+6.2%
Rental profit	**64.3**	52.5	+22.6%
Rental margin %	**12.4%**	11.1%	+130bps
EBITDA	**268.4**	248.5	+8.0%
Underlying Operating profit	**76.2**[3]	68.3	+11.5%
Underlying PBT	**61.1**	57.0	+7.2%
Underlying EPS	**38.7p**	34.8p	+11.2%
Dividend Per Share	**18.3p**	17.7p	+3.4%
Net debt	**436.9**	439.3	+0.6%
ROCE	**7.7%**	7.5%	+20bps

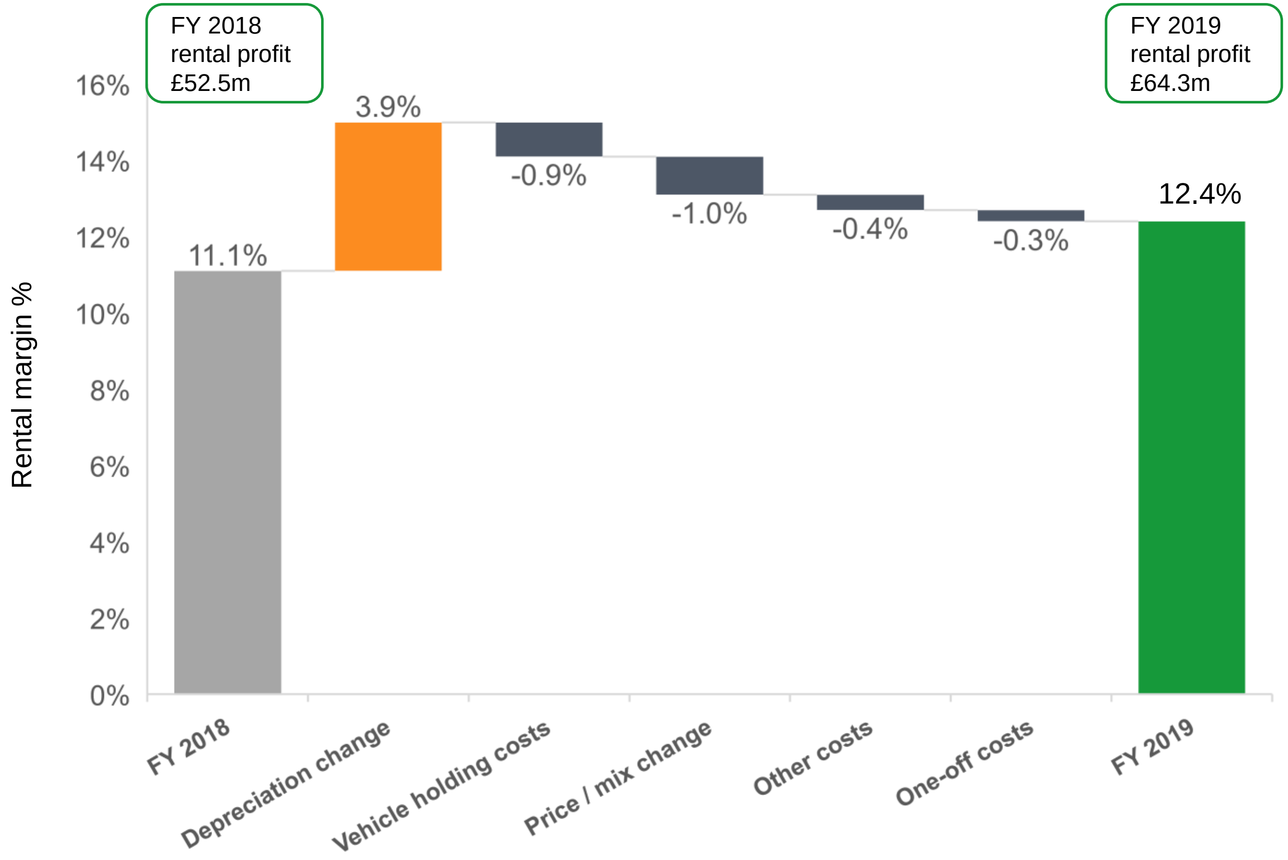
- Double digit VOH[2] growth
- 9.9% growth in hire revenue
- Disposal revenue -1.1%, impacted by fleet ageing

- Free cash flow FY 2019 £20.4m, an increase of £116.4m on prior year

1. All results are underlying unless otherwise stated. A reconciliation of underlying to reported results can be found on slide 30
2. Average VOH
3. £15.3m net benefit of depreciation rate changes included in operating profit, £20.2m benefit in rental profit, offset by £4.9m unwind in disposal profit

Rental profit and margin expansion

Group rental margin %



- Rental profits +22.6% YoY
  - ➢ includes £20.2m benefit from revised depreciation rate[3] changes
- Other headwinds as expected:
  - ➢ Vehicle holding costs reflects OEM inflation
  - ➢ Price / mix impacts - neutral in the UK & Ireland, reflect greater minimum-term in Spain
  - ➢ Other costs incurred to grow and transform the business
  - ➢ One-off costs include the UK acquisition of TOM

1. All results are underlying unless otherwise stated. A reconciliation of underlying to reported results can be found on slide 30
2. Rental margin bridges for UK & Ireland and Spain can be found on slide 29
3. Depreciation rates reduced by 3.0% in Spain and Ireland, and 0.5% in UK, announced 22 March 2018 and applied prospectively from 1 May 2018

Improved free cash flow and lower capex

	FY 2019 £m	FY 2018 £m	Change £m
EBITDA	**268.4**	248.5	19.9
Working capital	**14.8**	(8.0)	22.8
Operating cash generation	**283.2**	240.5	42.7
Total net Capex	**(243.9)**	(311.0)	67.1
Net tax and interest	**(15.7)**	(22.2)	6.5
Other financing costs	**(3.2)**	(3.3)	0.1
Free cash flow / (out flow)	**20.4**	(96.0)	116.4
EBITDA – Net Replacement Capex	**67.1**	**62.6**	**4.5**

	FY 2019	FY 2018
Net replacement capex[2]	201.3	185.9
Growth capex	42.6	125.1
Total net capex	243.9	311.0

Strong steady state cash generation

- reflects investment in attractive minimum-term growth
- strong foundations for progressive dividend

1. All results are underlying unless otherwise stated. A reconciliation of underlying to reported results can be found on slide 30
2. Net replacement capex is total net capex less growth capex. Growth capex represents the cash consumed in order to grow the fleet or the cash generated if the fleet size is reduced in periods of contraction.

Clear cash benefits of fleet optimisation

Cash benefits of ageing

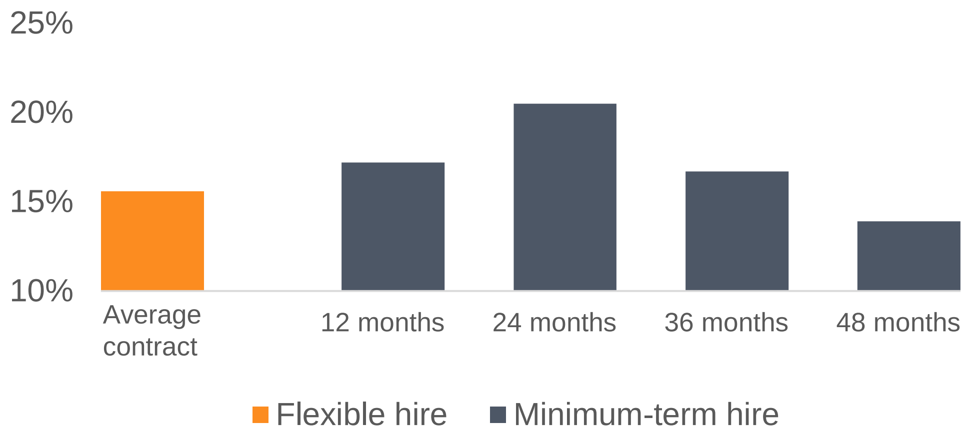
- Fleet optimisation has delivered c.£60m of savings in net replacement capex

Uses of cash

- Investment in minimum-term
- Higher purchase price for new vehicles, offset by lower sales price from older de-fleets

Comparable ROCE of minimum-term

Illustrative small van – comparable ROCE in UK



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Bank facilities provide room for growth

	Facility £m	Drawn £m	Headroom £m	Maturity	Borrowing Cost
UK Bank Facility	**504**	343	161	July 2021	2.6%
Loan Notes	**86**	86	-	Aug. 2022	2.4%
Other Loans	**14**	10	4	Nov. 2019	1.0%
Total	**604**	439	165		2.5%

	Threshold	April 2019	Headroom £m	April 2018
Interest Cover	**3x**	**5.3x**	£33m (EBIT)	6.2x
Loan to Value	**70%**	**43%**	£284m (Net Debt)	43%
Debt Leverage	**2.75x**	**1.64x**	£108m (EBITDA)	1.76x

- Borrowing cost 0.2% higher than FY 2018, driven by higher leverage in prior year

Outlook & guidance FY 2020

GROUP HIRE REVENUE GROWTH:
Low to mid single digit year-on-year growth %

GROUP RENTAL PROFIT MARGIN:
Approximately 50 basis points improvement year-on-year

Guidance assumptions

UK & Ireland

- Low single digit VOH[1] growth
- Hire rate increase to offset vehicle holding costs

Spain

- Low to mid single digit VOH[1] growth, as a result of greater selectivity applied to customer contracts

UK & Ireland

- Strong opportunity driven by the application of technology and self-help

Spain

- Greater selectivity applied to customer contracts

Medium-term[2]: Group rental margin of at least 15%

- ➢ substantial margin opportunity for UK & Ireland
- ➢ continued strong margin in Spain

1. Average VOH
2. Medium term is 3 – 5 years

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Outlook & guidance FY 2020 – Capex

TOTAL NET CAPEX:
15% - 20% higher in FY 2020

- Driven by growth capex, with closing fleet higher than opening fleet
- OEM price inflation
- Reduced ageing benefit versus FY 2019

Other guidance information

- Group disposal profits broadly flat YoY
  - Adversely impacted by £5m depreciation unwind, offset by
  - Strong PPUs
- Expect to operate in target leverage range of 1.5x – 2.5x net debt to EBITDA
- IFRS 16[1] Lease Accounting implementation from 1 May 2019 reduces FY 2020 profit before tax by approximately £0.5m
- All guidance prepared at constant currency, FY 2019 EUR:GBP rate of 1.13

1. IFRS 16 will be applied prospectively from 1 May 2019, see slide 31 for further information

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3. Business Review

Kevin Bradshaw, CEO

25 June 2019

Substantial progress since fleet optimisation strategy

UK self-help is delivering

- Turnaround is well underway
- Rental margins are increasing
- Disposal channel has strengthened
- XLr8 transformation programme

Strong performance in Spain

- Profitability remains strong
- Greater customer selectivity
- Vehicle diversification
- Digital transformation starting

Minimum-term growth

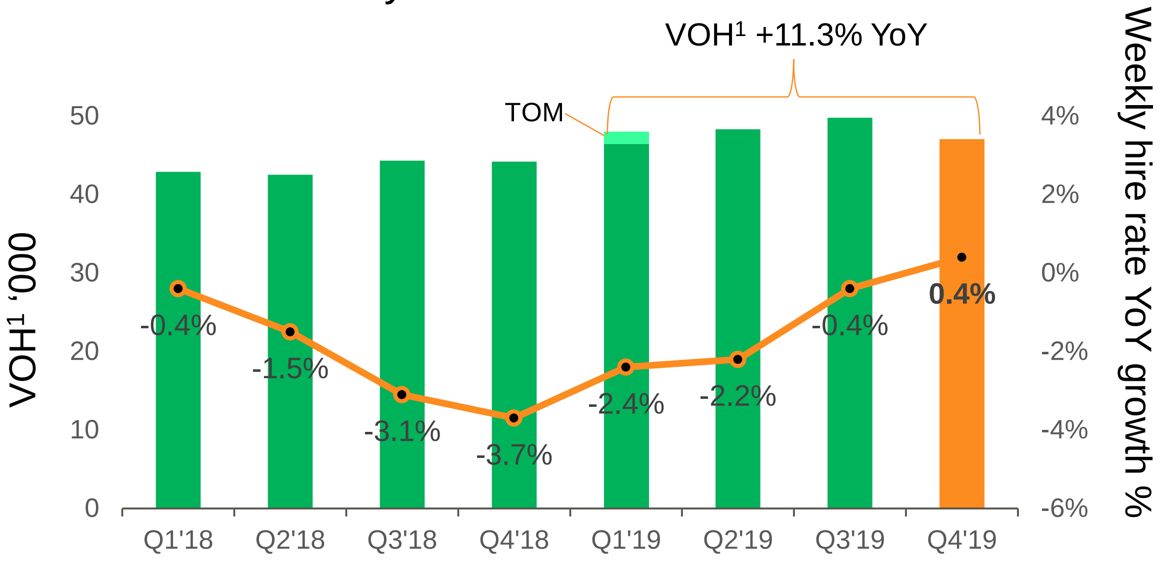
- An essential part of a full rental proposition
- Returns available substantially ahead of WACC, but need to be selective

Improving financial returns

- Fleet optimisation implemented to maximise cash returns, reduce net debt, and support ROCE improvement once fleet is aged
- Organisational focus on increasing steady state free cash flow: EBITDA – Net Replacement Capex
- Continued discipline on deployment of growth capex; selectivity in minimum-term
- Rental revenue and margins improving
- ROCE starting to improve

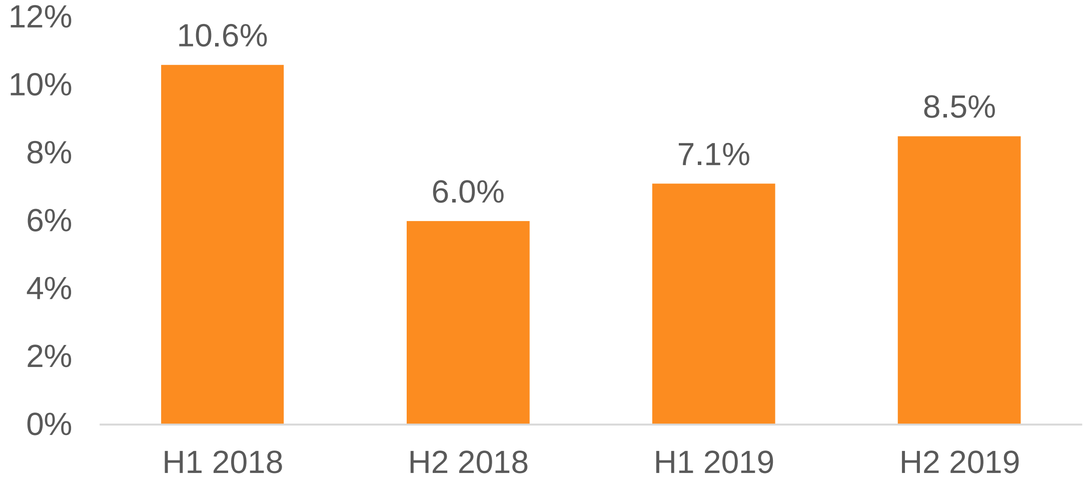
Improved pricing and margin recovery in UK & Ireland…..

VOH[1] and weekly hire rate



- Rental revenue growth of 11.3% in FY 2019
- 11.3% VOH[1] growth in FY 2019 (FY 2018:-2.9%)
- 24% of VOH[1] are minimum-term
- Closing VOH 47,100, + 3.4% YoY
- Pricing returned to positive YoY growth in Q4

Rental margin



- Successful price increases throughout the year
- Improving utilisation; 88% (FY 2018 87%)
- Self-help initiatives delivering operational efficiencies
- Accretive minimum-term expansion
- Stabilisation of operations in Ireland

1. Average VOH

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…delivers strong momentum for FY 2020

	FY 2019 £m	FY 2018 £m	% change
Rental profit[2]	**24.6**	23.5	+4.8%
Disposal profit	**10.8**	9.6	+12.0%
Operating profit[3]	**35.4**	33.1	+6.9%
ROCE	**6.4%**	6.3%	+10bps
Vehicles sold '000	***21.0***	*21.0*	-
PPU	***512***	*457*	*+12.0%*

Strong momentum going into FY 2020

- Strong margin opportunity, driven by technology transformation and ongoing self-help
- Rental revenue underpinned by ownership conversion and continued rational market pricing
- Disposal profits to remain firm, supported by the benefits of ageing, and a firm market outlook

1. All results are underlying unless otherwise stated. A reconciliation of underlying to reported results can be found on slide 30
2. Rental profit includes £4.8m depreciation rate[4] change benefit
3. Operating profit includes net £4.1m benefit from depreciation rate[4] change to reflect lower vehicle holding costs, partly offset by fleet optimisation impacts
4. Depreciation rates reduced by 0.5% in UK and 3.0% in Ireland, announced 22 March 2018 and applied prospectively from 1 May 2018.

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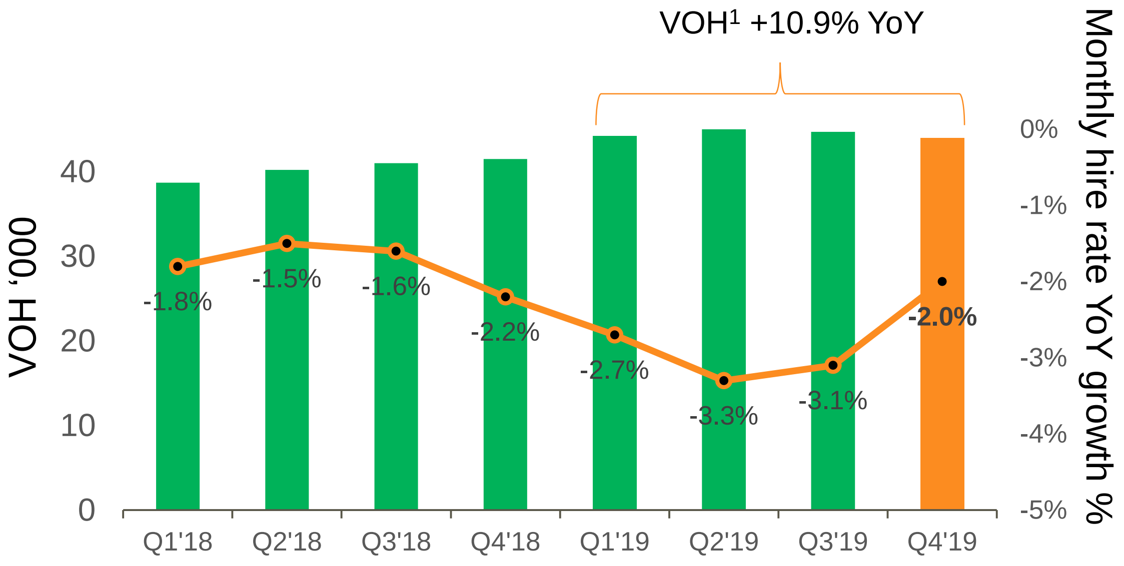
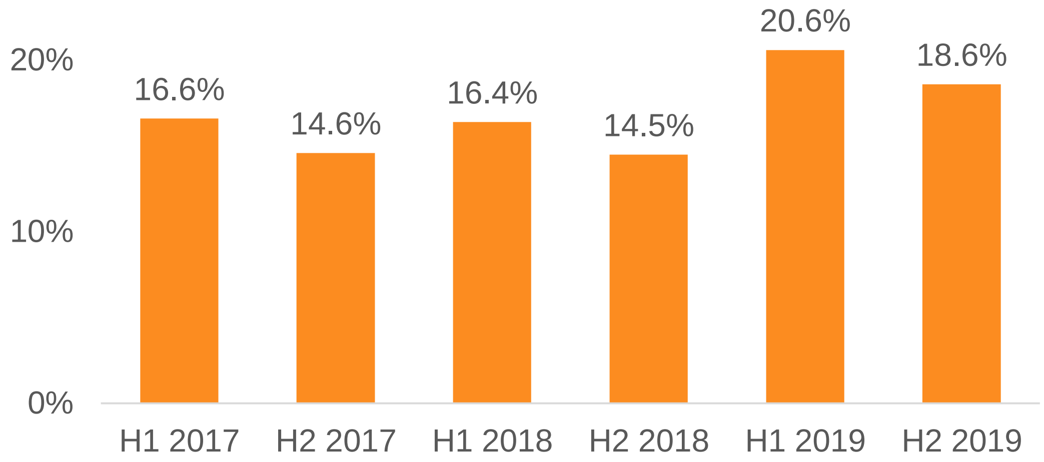
Strong rental margins continue in Spain…..

VOH[1] and monthly hire rate



- Rental revenue growth of 7.7%
- 10.9% VOH[1] YoY growth in FY 2019 (FY 2018: 11.9%)
- 31% of average VOH are minimum-term
- Closing VOH 46,000, + 7.5% YoY
- H2 price improvement from greater customer selectivity

Rental margin



- H2 2019 sequentially lower, but consistent with prior years
- Price competition has increased through the year
- Increasing customer and product selectivity to maintain margins
- Continuing strong utilisation; 91% (FY 2018: 91%)
- Increased cost focus to protect attractive returns

1. Average VOH

…driving operating profit growth despite lower disposal profits

	FY 2019 £m	FY 2018 £m	% change
Rental profit[2]	**39.7**	**29.0**	+37.1%
Disposal profit	**6.4**	**10.0**	-36.3%
Operating profit[3]	**46.1**	**39.0**	+18.3%
ROCE	**10.7%**	**10.0%**	+70bps
Vehicles sold '000	***11.6***	***13.0***	*-10.8%*
PPU	***551***	***770***	*-28.5%*

Strong momentum going into FY 2020

- Rental revenues underpinned by strong ownership conversion
- Ongoing customer and product selectivity to protect margins
- Increased cost focus to protect margins
- Jorge Alarcón will join Northgate Spain in August as General Manager

1. All results are underlying unless otherwise stated. A reconciliation of underlying to reported results can be found on slides 30
2. Rental profit includes £15.4m depreciation rate[4] change benefit
3. Operating profit includes £11.2m net benefit from depreciation rate[4] change to reflect lower vehicle holding costs, offset by fleet optimisation impacts
4. Depreciation rates reduced by 3.0% in Spain, announced 22 March 2018 and applied prospectively from 1 May 2018.

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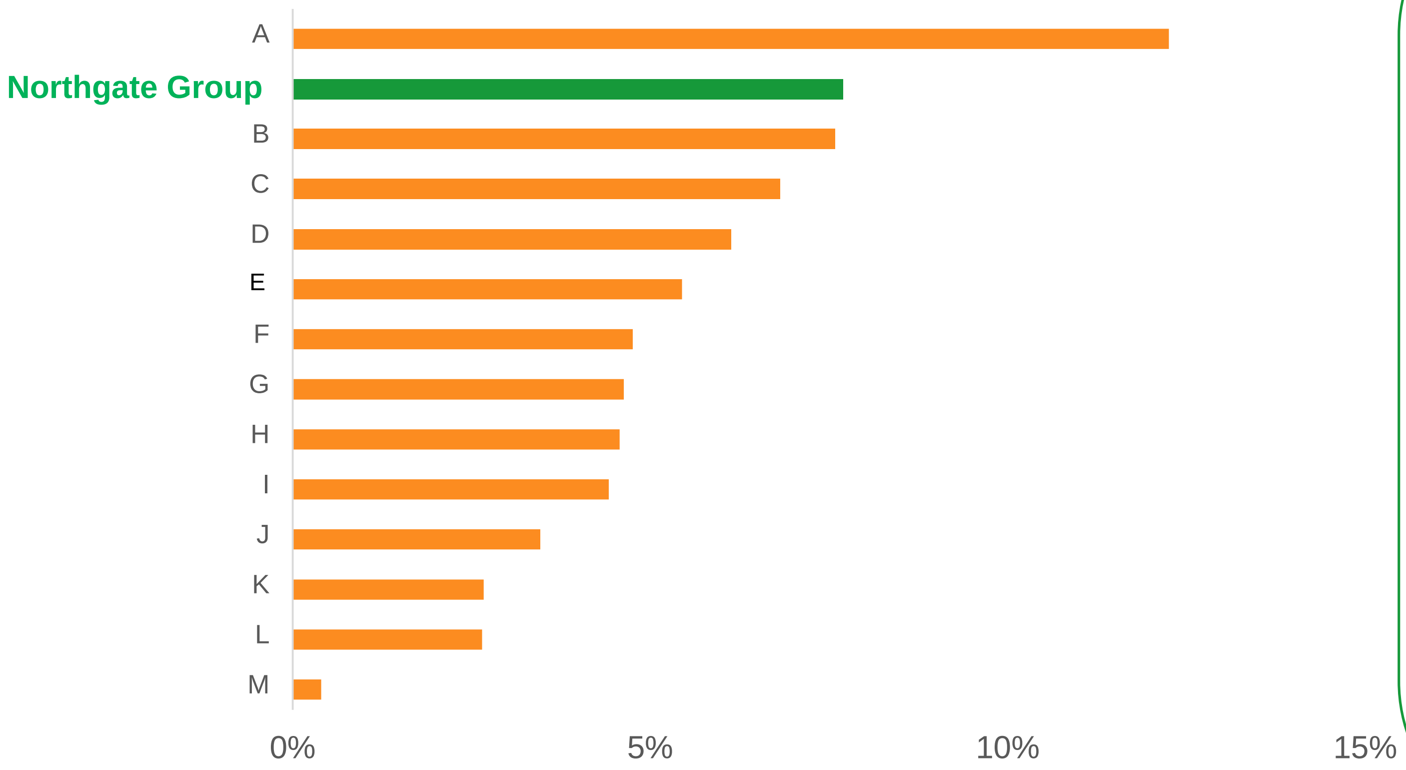
While Northgate has the opportunity to increase ROCE, the flexible and term-hire market operates at mid single digit returns

Flexible and term-hire competitor[1] ROCE%



- Northgate's ROCE opportunities in our core business:
  - UK rental margin expansion
  - Maturity of fleet optimisation
- Most competitors:
  - Apply gearing higher than Northgate, with WACC closer to their cost of debt
  - Return on equity is supported by high gearing

1. Peers represent all major flex and term vehicle hire competitors in Spain and the UK

Consequently, our strategy is evolving…..

1. Defend and grow share in flexible hire

- Focus on UK market share gain, c.25% today
  - organic growth at attractive returns
  - bolt-ons
- Defend market share in Spain, c.50% today
- Cost focus in both markets, enabled by technology

2. Selectively gain share in minimum-term hire

- Capture structural shift to usership
- UK - SME focus
- Spain - bundle with flex
- Maintain discipline on marginal returns
- Cost focus in both markets, enabled by technology

3. Broaden our provision of 'capital-light' fleet solutions

- Monetise 'capital-light' services where we already have strong capabilities e.g.
  - service & maintenance
  - fleet management
  - accident management
- Explore bolt-on acquisition opportunities in these markets

4. Optimise and increase participation in the disposals market

- Optimise current Van Monster operations
- Continue to build scale of in-house e-auction sales platform to support third party vehicle sales

…. with an increased focus on 'capital-light' service solutions

	Start of life	In life	End of life
Core Business	Rental	Rental	1. Sales: Used Vehicles — 20%
	Term Rental	Term Rental	
Key services & solutions: Some in-house provision		2. Fleet Management[1] — 10%	
		3. Accident Management & Related Solutions — 25%	
		4. Service, Maintenance & Repair Solutions — 10-15%	
	5. Logistics Solutions — 15%	5. Logistics Solutions	5. Logistics Solutions
Other services: currently outsourced	6. Sales: New vehicles — 10%; 7. Fit Out/ Conversion — 20%	8. Telematics, Fleet Management Systems & Related Solutions — 20%	10. Salvage — 30%
		9. Parts Supply — 10%	
Services not used today	11. Leasing — 3%	11. Leasing	

KEY
- Orange: >10% higher ROCE than Northgate UK
- Blue: <10% higher ROCE than Northgate UK
- Grey: ROCE below Northgate UK
- Green ring: Average ROCE

1.Includes Fuel Cards – not done in-house by Northgate and excluded from ROCE
2.Source: Company Reports, BvD, Capital IQ, OC&C analysis
3.Simplified, ROCE Rounded to Nearest 5% where greater than 5%

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Our capital allocation priorities are clear

Cash flow | **Approach**

Steady state cash generation

1 **Core business**

Maximise profitability and capital efficiency

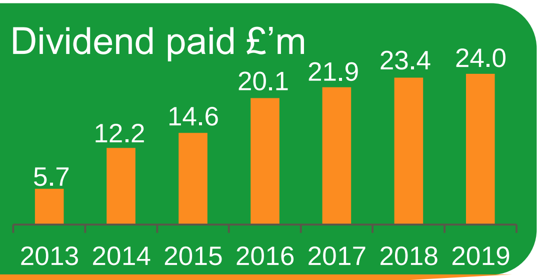
Maximise EBITDA less net replacement capex

Deploy organic growth capex

Capital allocation

2 **Dividend**

Maintain existing dividend policy



3 **Growth**

Core bolt-ons

Capital-light opportunities

Underpinned by efficient management of debt

Maintain leverage within 1.5x – 2.5x range

We remain focused on maximising shareholder value

- UK & Ireland
  - strong opportunity for rental margin expansion
  - attractive minimum-term growth
- Spain
  - selective minimum-term growth to complement strong flexible hire proposition
- Maximise steady state cash flow to support progressive dividend
  - maximise EBITDA margin %
  - minimise net replacement capex
- Drive higher ROCE
  - increase core Group rental margins
  - broaden our provision of capital-light fleet solutions and disposal services

We remain focused on maximising shareholder value

- Current share price trades at a significant discount to net asset value
- Board and management focused on addressing significant valuation discount
- New Chairman, as you would expect, will focus on this as a priority alongside Board and management
- Well advanced search, exceptionally strong shortlist

4. Q&A

APPENDIX

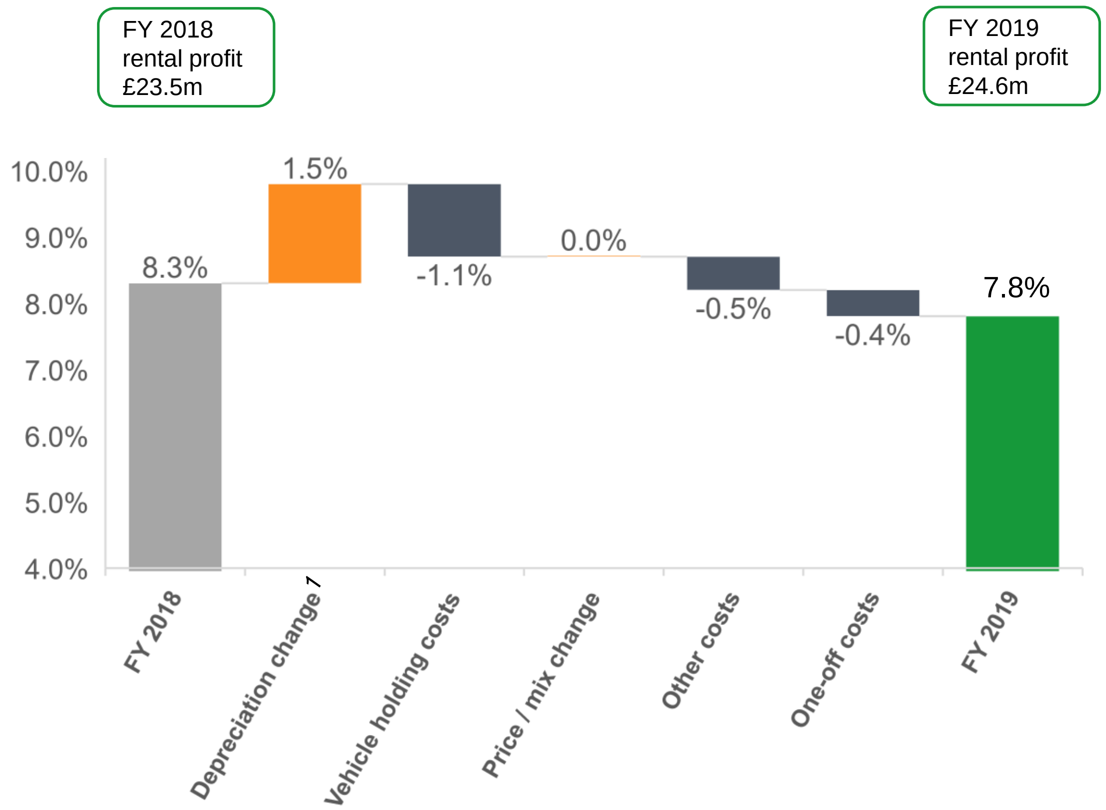
Average Vehicles on Hire

	Average Vehicles on Hire ('000)								Year on year growth %							
	FY 2018				FY 2019				FY 2018				FY 2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UK & Ireland	42.9	42.5	44.3	44.2	48.0[1]	48.3	49.8	47.5	(6.5)	(5.8)	(2.2)	2.6	12.0[1]	13.5	12.5	7.5
Spain	38.7	40.2	41.0	41.5	44.2	45.0	44.7	45.0	8.1	11.5	14.2	14.1	14.3	12.1	9.1	8.6
Group	81.6	82.7	85.3	85.7	92.2[1]	93.3	94.5	92.6	0.2	1.9	5.0	7.8	13.1[1]	12.8	10.8	8.0

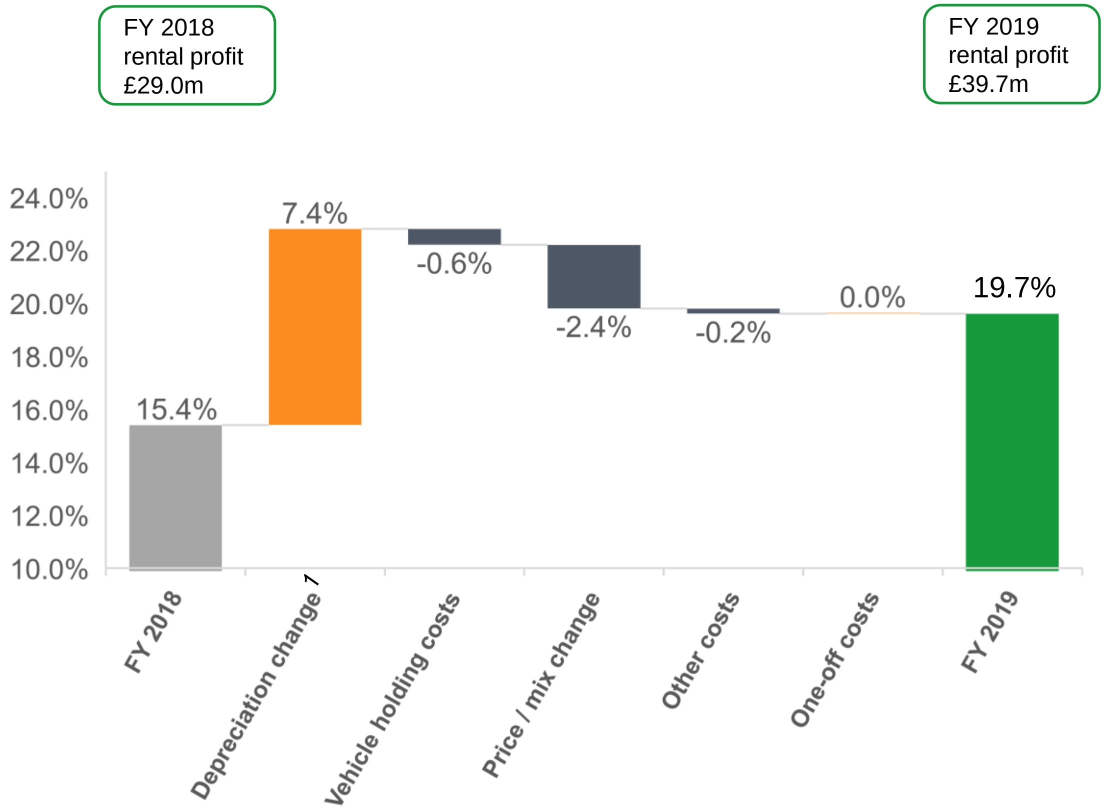
1. Includes acquisition of 1,600 vehicles from TOM, representing 3.8ppt of the 12.0% YoY growth for UK & Ireland, or 2.1ppt of the 13.1% YoY growth for the Group

Country rental profit and margin expansion

UK & Ireland rental profit and margin %



Spain rental profit and margin %



1. Depreciation rates reduced by 3% in Spain and Ireland, and 0.5% in UK, announced 22 March 2018 and applied prospectively from 1 May 2018

Adjusted to reported reconciliation

FY 2019 reconciliation						
	Total revenue	Operating profit	Interest	Profit before tax	Taxation	Profit after tax
Underlying FY 2019	745.5	76.2	(15.1)	61.1	(9.5)	51.6
Intangible asset amortisation[1]		(0.7)		(0.7)		(0.7)
Taxation credits[2]					0.5	0.5
Statutory FY 2019	745.5	75.5	(15.1)	60.4	(9.0)	51.4

FY 2018 reconciliation						
	Total revenue	Operating profit	Interest	Profit before tax	Taxation	Profit after tax
Underlying FY 2018	701.7	68.3	(11.3)	57.0	(10.6)	46.4
Intangible asset amortisation[1]		(1.7)		(1.7)		(1.7)
Administrative expenses[3]		(2.5)		(2.5)	0.5	(2.0)
Taxation credits[2]					0.6	0.6
Statutory FY 2018	701.7	64.1	(11.3)	52.7	(9.5)	43.2

1. Intangible asset amortisation excluded from underlying profit relates to intangible assets recognised on previous business combinations and other non-recurring items. Intangible asset amortisation excluded from underlying operating profit in FY 2019 was £709,000 (FY 2018: £1,767,000).
2. Tax credits on brand royalty charges and certain intangible asset amortisation excluded from underlying operating profit were £544,000 in FY 2019 (FY 2018: £674,000)
3. Exceptional restructuring costs of £2,499,000 were incurred in FY 2018, relating to programmes in UK and Ireland which commenced and were completed during the year. Programmes related to turnaround initiatives including senior management changes, site closures and establishment of a commercial hub.

Technical guidance and accounting changes

Tax

The long-term effective tax rate is expected to be 18 - 20%

Foreign exchange impacts

The Group is exposed to movements in the exchange rate between Euro and Sterling. To illustrate, a €0.20 movement in the rate in either direction would have resulted in the following differences for FY 2019:

2019	Reported	Stated if €0.20 increase	Stated if €0.20 decrease
Profit before tax	£60,406	£54,497	£68,843
Total equity	£563,616	£536,257	£602,378

IFRS 16 Lease Accounting

- Adopted from 1 May 2019, applied prospectively
- Operating leases will be recognised on the balance sheet as "right of use assets"
- A lease liability will be recognised on the balance sheet
- Income statement costs will be split between:
  - operating costs (depreciation of right of use asset)
  - interest expense (obligation to make lease payments)
- EBITDA will increase as lease costs will be included in the depreciation line
- EBIT will increase as some costs will be included within the interest line
- Cash flows will be re-categorised as financing payments rather than operating expenses
- Profit before tax expected to be approximately £0.5m lower in FY 2020
- Fixed assets and net debt are expected to increase by c.£48m on transition

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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

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