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Northgate plc Preliminary results 30 April 2003

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Welcome to our Preliminary Results announcement for the year ended 30 April 2003

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Steve Smith
CEO

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For those who have not met me before my name is Steve Smith (CEO).

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Agenda

- Welcome and introduction
- Review of five year strategy for growth
- Operational and financial review – 30 April 2003
- Future strategy - 2006

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As you are aware we are reporting on the 4th year of our 5-year Strategy for Growth that we announced in 1999.

We are also taking this opportunity to give you an insight into our future strategy for the period to April 2006. This presentation will, therefore, be in three parts:

1.Reviewing the 5 year Strategy for Growth – and the progress that we have achieved to date

2.Operational and Financial Review of the year to 30 April 2003

3.Future Strategy to 2006

You will see when we review the first item that we have achieved the major objectives of the Strategy for Growth within four years instead of five. We have decided, therefore, to communicate a Future Strategy to cover the three years to 2006. Why three years?

1) it ties in with our time period to obtain 100% ownership of Fualsa;

2) it is a sensible time frame for us to further develop our UK rental business;

and 3) it should be sufficient time for us to establish our non-rental products as the third leg of our business.

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What did we say we would do

- Double the size of the business
- Our internal measure was EPS
- Our plan to achieve this involved:
  - 40 hire companies
  - 60 branches
  - 50,000 vehicle fleet

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The Plan was formulated around network and fleet growth, with it being anticipated that 40 hire companies would have fleets approaching 1,000 vehicles - and 60 branches would have fleets of 200 vehicles each.

The two headline numbers in the plan therefore were a fleet of 50,000 vehicles and a network of 100 locations – but our internal objective was to double earnings per share.

Experience has shown that we have achieved more vehicles per location in both hire companies and branches.

This has led to the net profit per vehicle also being higher than originally planned – as a lower amount of overhead has had to be absorbed per vehicle.

Each year has demonstrated that the objective of growing the network has been achieved so that we close 2003 with 70 locations being 36 hire companies and 34 branches and a good geographic coverage of the whole of the UK.

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How we said we would do it

- Hire company/branch
  - new concept
- Development of regional structure
- Appointment of fleet director
- Promotion of NORFLEX® brand

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In order to deliver the plan certain changes were required to the infrastructure of the Group. The major one related to implementing the concept of a hub and spoke structure for hire companies and associated branches. This change required IT and business process changes. It has also been the main driver for the fleet growth that we have achieved since 1999, by allowing us to significantly expand our geographic coverage and to serve areas where there was not the industrial infrastructure to support a vehicle hire fleet of 1000 plus units.

To manage the enlarged Group a regional management structure was introduced and again this change management process has been successful with the four Regional Directors being in situ now for the last four years. The vast majority of the regional teams are also original appointments and this stability and consistency has helped us manage the significant growth in the business over the period of the plan.

With regards to management, one of the key appointments that was made very early in the Plan was that of Fleet Director. Through this appointment we acquired greater professionalism and expertise in managing the purchase and disposal of our vehicles and have initiated a number of changes in the way we buy and sell vehicles, for example we buy from a much wider spread of manufacturers and the Norcom business has been successful in achieving better margins for selective disposals.

Finally, the NORFLEX brand and the flexibility that it can provide to customers has been successfully communicated to the market place – and this has

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Strategy for growth
The market

	1999	2003
• LCV market size	2 million	2.4 million
• Rental market	160,000	225,000
• Rental penetration	8%	9.5%

- Growth from customer conversion
- Additional 1% penetration = 24,000 ‘new’ vehicles

Data source: Datamonitor/ Dept. of Transport/SMMT

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In setting out to grow the fleet and the network one of the underlying assumptions was that much of the growth would be generated by new customers to the rental product. As the general trend to outsourcing services continued we believed that this trend would also remain strong for vehicle procurement.

It is difficult to obtain accurate data on the size of the parc but using a Datamonitor report and SMMT research we believe that the best estimate for 1999 is a total LCV market of 2m units of which 160,000 vehicles were hired/leased. This represents 8% penetration. Using the same data service we estimate that this has now grown to just under 10%. Thus the market has grown by 60 – 70,000 vehicles since 1999 and we have been both a major beneficiary and a leading contributor to this growth.

The exciting aspect is that going forward every 1% growth in this penetration generates c24,000 vehicles into the market.

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Europe

- Europe did not feature in the five-year plan

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Three years into the Strategy for Growth we commenced a review of the European market place. Whilst we believe there is still plenty of opportunity for growth in the UK, the European market could offer us growth rates similar to those achieved in the UK 4-5 years ago.

Our investigations into the European rental market showed that it was broadly where the UK was 8-10 years ago with rental penetration at c4%.

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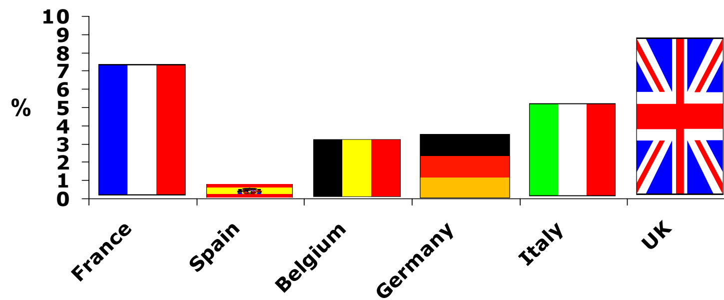
Europe

4% Penetration of Leasing and Rental in Total LCV Parc (2000)



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Looking at the individual countries – there are clearly some variations to this average 4% rental penetration across Europe with France being at the higher end and Spain with a rental market of c40-50,000 units out of a total parc of 3.3m – being at only just over 1% - the least mature but most rapidly growing.

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Spanish market

- Spanish market – 1% penetration
- Construction sector bias
- EU investment €18bn (1999 – 2001)
- Further EU investment €20bn up to 2006

Data source: Datamonitor

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The Spanish market with its low rental penetration level clearly offers the greatest potential for growth.

The market has a heavy bias towards construction since EU investment for infrastructure has been substantial during the last few years and looks set to continue in the medium term. This should provide an immediate opportunity to continue to grow the business.

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Fualsa

- Private Company
- Established - 1981
- Fleet size – 10,000 (July 2002)
- Best fit:
  - Culture
  - Size
  - Operations
  - Opportunity

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After extensive research in a number of countries, we were fortunate enough to be introduced to the Fualsa business by one of our non-executive directors. The business head-quartered in Madrid had been established in 1981, and is strikingly similar to Northgate – in terms of process – philosophy and culture. After a number of months negotiating, an initial investment was made in July 2002.

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Fualsa
Acquisition structure

- Consideration

	Equity	Max consideration
	%	€M
July 2002	40	15.4
May 2004	40	22.3
May 2006	20	14.9

- Option mechanism
  - PAT x 8.5 multiple based on average calendar year profits for two preceding years to option date

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The Fualsa deal was constructed on a cautious basis since this was our first venture into Europe. Initial consideration was for 40% of share capital in July 2002 with options to acquire a further 40% of business in May 2004 and the remaining 20% in May 2006. Once we exercise the first option we are obliged to exercise the second one.

The option price is a formula based on 8.5 times earnings on the average profits for the two years preceding the option date. For example, May 2004 option would be based on average profits of December 2002 and 2003 year-ends.

The option prices are capped at €22.3m for the 40% in May 04 and €14.9m for the 20% in May 06.

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Fualsa

- Fleet
  - Growth: 20% in ten months
  - Current fleet: 12,000
- New locations
  - Barcelona
  - Malaga
- Total locations: 8
- Contribution – April 2003
  - £1.97m (pre goodwill)

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We are delighted with our first 10 months with 20% fleet growth to 12,000 vehicles, the extension of the network to 8 hire sites with new locations in Barcelona and Malaga; moves to larger premises in Seville and a contribution to our results, before financing the costs of the consideration and pre goodwill, of almost £2m.

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What we have achieved

	1999	2003	% increase
Fleet	26,600	45,000	69%
No. locations	30	70	133%
Profit before tax	£16.6m	£36.6m	120%
Earnings per share	19.1p	41.4p	117%

Investment in Fualsa

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As I outlined at the beginning of this presentation we have achieved our objective of doubling the Group's profits from 1999 to 2003. We have established a management structure in the UK to sustain further growth and we have commenced our investment in Europe.

Before moving on I think it is worthwhile re-stating what has made the business successful and enabled the targets set in the plan to be met in full, since these factors are not only core to our current success but equally fundamental to the future prosperity of the business and therefore central to the thought process which has produced the plan for the next 3 years.

We have, in NORFLEX, a product the market has clearly demonstrated it wants;

We have, with our individually branded hire companies, the right structure to support the business and the culture on which it thrives;

We have the right people – both running the hire companies and in support roles in the Centre; and

As a management, we focus intensely on the key performance measures, such as utilisation, that drive the business forward. It is not rocket science – it is about doing 1,000s of small things better than the competition and better than the previous year.

That leaves us to look to the future, but before we do that Phil and Ged will review the year that we are reporting on i.e. April 2003.

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Phil Moorhouse

Managing Director
UK Rental

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For those of you who aren't aware I changed my role from Group Finance Director to the current role, announced at the interim results stage and after a month or two handover became fully involved in the job from the beginning of March.

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Key points
Year to 30 April 2003

- Network of 70 locations
- Year on year fleet growth + 11%
- Pre-tax profit + 15.5%
- Earnings per share +15.6%

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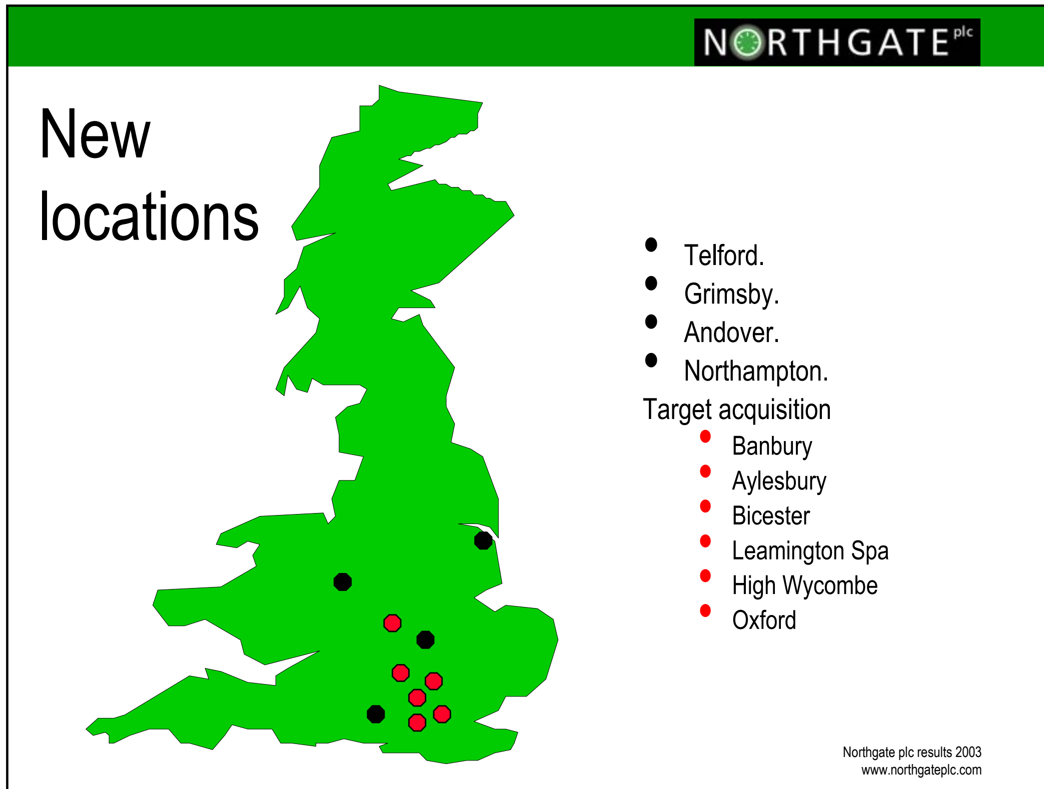
The key points from the period are:

•A network of 70 locations established
•Fleet growth including acquisitions of 11%
•Over fifteen percent increase in pre tax profits
•A similar increase of over 15% in Earnings per Share



The network increased by 10 locations, and as anticipated comprised mainly branch locations.

The acquisition of Target Vehicle Hire gave us a strong brand and geographic coverage in the M40 corridor. Operations we may well have subsequently opened as Greenfield sites. Target is a business strong in cash/retail hire and may well provide some expertise we can tap into across the Group.

Interestingly enough, we have been approached by Target over many years, but their valuation never matched ours. Maybe their more realistic view reflects the market and presents an opportunity for further acquisitions at sensible prices.

During the year, we undertook some business consolidation in the North East with 3 companies merged into 1, completed in February this will reduce costs and improve efficiencies. If there are any other appropriate opportunities we will take them.

We continue with the roll-out programme with sites nearing completion for:

- Gatwick
- Newport
- Aldershot
- Wakefield

We now have 28 locations that have been open less than two years, with an investment in costs disproportionate to fleet size in the early years of operation.

UK Turnover

- Turnover + 22%
- Hire Revenue + 16%
- Used vehicle sales + 38%

Looking at total Group revenues, (excluding Fualsa) this increased by 22% including a 38% increase in turnover from used vehicle sales and a 16% increase in rental revenues.

As you know, margins on used vehicles are by definition low, which has an impact on % margin. The underlying hire company margin has declined principally as a result, mentioned earlier, of additional costs of supporting expansion. As we put additional volumes through this expanded network we would expect to see improving margins.

A brief mention for VSL, launched 1st of May, although most products are in their infancy we are having some good initial interest. Telematics units for example are over 750, so we are confident this area can make a contribution.

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Hire revenue
Fleet

- Average fleet growth +14.4%
- Acquisitions +1300 vehicles

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Looking at the elements behind hire revenue, shows average fleet growth of over 14%. The Target and KW Sadler acquisitions were included in that average and represented 1300 vehicles in total.

As reported in our pre-close statement, the fleet declined in January and February as we focused on maintaining utilisation in a period of general uncertainty, with the fleet closing at 45,000 vehicles.

Hire rates

- Low inflation
- Low interest rates
- Static hire rates
- Competition

Hire rates remain static, again a mixture of some price increases offset by some aggressive pricing in the “known renters” market by some of our competitors.

Our view is that significant front end customer pricing improvements will be modest, particularly against an economic background of low inflation and low interest rates.

We do however get the benefit of that lower interest cost in profits and net margin.

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Utilisation

- Sites under two years old 85.1%
- Sites over two years old 90.3%
- Total 90.0%

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As always we are pleased to report utilisation of 90%. As you know we don't guarantee fleet size, but we do guarantee utilisation. The focus on this KPI led us to reduce our fleet during January and February.

Immature sites achieved an average of 88.1% and more matures sites over 90.3%.

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Gerard Murray
Group Finance Director

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As Phil has already reviewed the key operational issues impacting 2003 I am going to restrict my comments to more detailed financial issues. Starting first with the headline PBT.

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Financial summary: 30 April

	2003	2002
PBT	36.6	31.7
Exceptional income		
-Property profits	(0.7)	-
-Investment income	(0.2)	-
Exceptional costs		
-Goodwill	0.6	-
-Reorganisation	0.3	
Underlying PBT	36.6	31.7

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The current year PBT results include a number of exceptional costs and income that did not exist in the prior period. Looking first at income – the Group sold a property in Newcastle following the consolidation of three hire companies into one. This property disposal generated £736k of profit. The Group also received £230k of dividends from its investment in an offshore company that has longstanding interests in South Africa that are in the course of being disposed of. Hence almost £1m of non-recurring income – only the property profits have been disclosed as an exceptional item per FRS3. The investment income is netted off interest costs.

On the costs side – given the investment in Fualsa, Target Vehicle Rental and KW Sadler, there has been a £581k goodwill charge. Of the total charge £345k is non recurring because it relates to goodwill written off immediately since the acquired fleet was decanted into existing hire companies. The recurring goodwill for the business relating to Fualsa and Target is £0.3m per annum. As we flagged at the half-year – and as any of those who have visited us in Darlington can see – we have relocated our CRO operation from Birmingham to Darlington. One-off costs associated with the move are £0.3m. The business has now relocated but does not take occupancy of its new facility until August.

So we have £900k of exceptional income matched by £900k of exceptional cost – although the £0.3m goodwill charge will be the only recurring element within these items.

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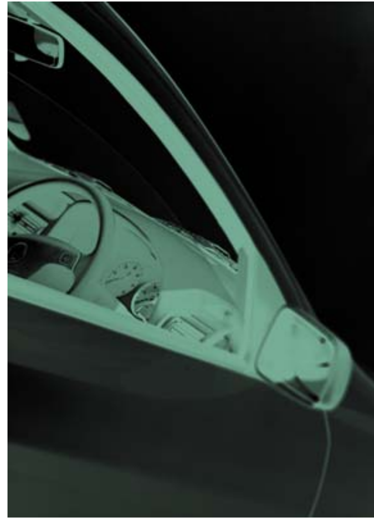
Financial highlights

- Profit before tax
  - +15.5%
- Earnings per share
  - +15.6%
- Interest cover
  - 3.4 times
- Dividend cover
  - 2.6 times



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Having established that the headline PBT and the underlying PBT are one and the same we can now review the main messages which comprise:

PBT + 15.5%

EPS + 15.6%

Interest cover – 3.4 times

Dividend cover – 2.6 times

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Operating margins

- Operating margin 14.3% (2002 16.2%)
- NVS turnover +38%
- Central Reservations reorganisation
- Insurance premiums
- New branch openings
- Goodwill

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Phil has already touched on the fact that the reporting operating margins are down year on year. I want to examine some of the reasons why. The biggest factor relates to Northgate Vehicle Sales (NVS) activity which is the lowest margin element of our turnover. Sales have increased by 38% - the impact is to dilute overall margin by 0.5%. Within the hire companies the CRO costs referred to previously will have been absorbed along with a £400k increase in insurance premiums. Both issues were flagged at our interim results. The operating margin comparison also includes £384k of goodwill amortisation in 2003. Hence over £1m of costs in 2003 not evident in 2002. When combined with the investment in new branch openings over the last couple of years this explains the dilution in margins experienced during the current year. Going forward we believe that the fleet growth that we will generate from this investment in our network will reverse this short term dilution in margin.

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Fualsa

- Joint venture
- £1.97m contribution (pre goodwill)
- Fleet growth 20%
- Net assets £19m
- Net debt £65m
- Tax rate 25%

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This is the first year that Fualsa has been included in our consolidated results. We have already covered the background to the acquisition and I will review the results for the first ten months here.

Firstly you are probably aware that whilst we only hold 40% of the equity we account for the business as a joint venture because we have joint management control.

We are delighted to report a £1.97m contribution for the ten month period. This has been fuelled by 20% growth in the fleet since July 2002. Spain, as we have already highlighted, is benefiting from significant infrastructure investment and we are a main supplier into that sector. Our challenge is to diversify in the future as we have already managed in the UK – into other sectors.

The balance sheet at April is showing £19m of net assets and £65m of debt. The debt has increased to fund the fleet growth. We are confident that we can service this debt more cost effectively once we have 80% of ownership.

We mentioned in the statement that the tax rate is 25% - below the standard 35% charge in Spain. This is wholly due to tax reliefs that are available to the business on environmentally friendly engines and on reinvestment relief.

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Financial issues

- Residuals
- Interest costs
- Foreign currency
- Bad debts

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I am now going to consider some of the key financial issues that impact our business model – comprising:

- residual values
- interest costs
- FX exposure
- Bad debts

So starting with residuals first

Financial issues
Residuals

- Volumes increased by 43%
- Market remains steady
- Additional sales location at Banbury

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The market remains good and residual sales are profitable. We aim to keep in balance over the long term (i.e. +/- £100 per unit), currently we are on the right side and the outlook remains positive having started this financial year well.

As we have said before, the commercial market is not as volatile as the car market and in addition the initiatives we have taken in the management of disposals gives us confidence going forward.

Given the increase in the size of the fleet and the substantial increase in volumes of disposals we are looking to increase our physical capacity - possibly a larger location South East based, but will not represent a significant capital cost.

Financial issues
Interest costs

- Total interest costs up by £1.6m
- Share of joint venture interest £0.8m
- Post year end derivatives
  - £45m swaps – 4%
  - £55m collars – 3.15% - 5.5%
- All new contracts on 5 year term

Total interest costs have increased by £1.6m, £0.8m relating to the Group's share of joint venture interest costs. The balance relates to funding the increase in the fleet, and the consideration of the Fualsa and Target acquisitions.

We have conducted a review of our interest rate exposure and concluded that given the decline in rates during recent years we should consider putting in place derivatives to manage our exposure in this lower rate regime.

Consequently since the year-end we have put in place the following arrangements:

£45m 4% swaps (5 years)

£55m 3.15% - 5.5% collars (5 years)

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Financial issues
Foreign currency

- Potential Euro consideration €37m
- Outflows:

May 2004	€22m
May 2006	€15m
Total	**€37m**

- No hedges in place
- Cash outflows backed by Euro assets

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The Group has options to acquire the remaining share capital in Fualsa in May 2004 and May 2006. These options have to be discharged in Euros.

Any cash outflow will however be matched by assets denominated in Euros. Whilst we may have considered hedging the cashflow exchange risk at €1.50 or above, we do not propose to put any FX contracts in place during the short term assuming rates remain the same.

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Financial issues
Bad debt

- Historically
  - 0.3% - 0.7% of group turnover
- Current year
  - 0.7%
- No exceptional issues during the year

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Finally moving onto bad debt. Whilst there have been mixed signals in the economy during the last 18 months we have not noticed any significant change in our bad debt experience. Historically we have incurred bad debts based on a range of 0.3% to 0.7% on Group turnover. This year's experience is in line with the past at 0.7% albeit at the top end of the scale.

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Capital employed

- Fleet
- Debtors
- Stocks

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Turning now to look at some balance sheet issues. The nbv of the fleet is up by £41m and the cash flow impact of this is £121m – compared to £104m in prior period. Debtors have remained stable during the period at around 45 days turnover. We have had a c£4m benefit in creditors right on the year end date – whereby a large vehicle purchase exercise remained unpaid. This benefit reversed in the first month of the new financial year. Otherwise working capital was fairly neutral during the period.

Funding

- Borrowings
  - £268m (2002 - £233m)
- Facilities of
  - >£450m
- Interest cover
  - 3.4 times
- Limited covenants

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The Group has made a £10.2m investment in Fualsa - £4.5m investment in UK businesses – acquired debt from these UK businesses of c£11.5m – serviced an increase the UK fleet and after all of this gearing has only increased by 5%.

The net borrowings at year-end were £268m – an increase of £36m compared to the prior year. Interest cover improved slightly to 3.4 times.

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Summary

	2003	2002	
PBT	**£36.6m**	£31.7m	**+15.5%**
EPS	**41.4p**	35.8p	**+15.6%**
Dividend	**16.0p**	15.0p	**+6.7%**

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So back to the summary where we can see that the figures for 2003 show a solid performance for the year.

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Steve Smith
CEO

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That concludes our presentation on past and present and leaves me to deal only with the future.

We have over the last few years had positive feedback from shareholders on our policy of communicating the broad parameters of our forward strategy and, within our financial results, reporting the progress that we have made. We therefore intend to follow a similar policy for our next strategic plan.

In March 2003 the Northgate Board approved a new 3 year Strategy for Growth for the Company based on three keys areas of the business – UK Rental, Spain and non-rental products. This period takes us to April 2006, close to the point of time when our option to acquire full control of Fualsa lapses.

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UK rental
Objectives – 2006

- Locations
  - 100
- Fleet
  - 60,000
- Utilisation
  - 90%

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The cornerstone of the business will remain UK Rental. As stated in the Operational Review in the year end report and accounts, we remain firmly of the view that the UK market is far from mature and that there remains significant potential for us to continue to grow our business.

The key areas of the plan are:

• Mature existing network – we currently have some 26 locations which have traded for less than 24 months;

• Extend the network to approximate 100 locations i.e. about 10 additional sites per annum being mainly the smaller branches;

• Acquisition of small/medium size rental companies when the opportunity arises. The structure of the rental market suggests almost 50% of the market is served by businesses operating fleets of 500 or less. We have, as you are aware, acquired 3 such businesses in the last 18 months and then a slightly larger private business, Target, last October.

Phil's appointment as UK Rental MD underpins out determination to ensure we build on our No. 1 position in the UK rental market by continuing to deliver first class service to our customers.

By April 2006 if we achieve our targets we should have a fleet size in the UK approaching 60,000 – operating at 90% utilisation of course!

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Fualsa

- Expand network to over 20 locations
- Four regional centres to support network
- Develop management to support future growth
- Marketing plan to attract other business sectors
- Develop rental product similar to NORFLEX®
- Acquire 100% of equity

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As I mentioned earlier our first step into Europe, through our investment in Fualsa, has to date been better than our expectations and we are well satisfied with the progress we have made. We believe we now have a platform for significant expansion in what is a relatively immature market.

Growth in Fualsa will be generated by:

• An extension of the network to over 20 locations, from the current 8 sites, and a resultant increase in market share;

• The development of a rental product similar to Norflex;

• The broadening of the customer base away from its current construction bias, through a marketing campaign to non-renters along the lines of the campaign we ran in the UK when we launched Norflex.

To support this growth during the Plan we will need to:

• Introduce four regional centres

• Continue the development of the infrastructure of the Company in terms of processes and systems

• Train and/or recruit suitable management to take on the responsibilities of the enlarged network

Whilst accepting we are working in a different culture, we have had experience of these areas with Northgate over the last 10 years and hopefully can use the knowledge we have gained to good effect.

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Non-rental products
Northgate Vehicle Solutions Ltd

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The third leg of our plan involves the development of non-rental products, some of which we have already launched and are shown on the slide e.g. Vehicle Insight our telematics product and Van in a Box a one stop shop particularly aimed at the owner driver market.

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Non-rental products
Opportunities

- Cross sell to existing customers
- Increase customer base

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Through the provision of these other products and services we believe there are opportunities to :

1. cross sell to Northgates existing customer base, thereby differentiating us from our competitors;
2. produce a contribution to our bottom line; and
3. increase our customer base by applying our purchasing advantages and asset management skills to other markets e.g. one of our first orders for our telematics product subsequently resulted in us hiring vehicles to the customer as well.

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The future

- UK network
- Fualsa
- Non-rental products

We know where we are going & we know how to get there

So in conclusion the successful implementation our plan will see us achieve:

1. A vehicle fleet of 60,000 in the UK and 18,000 in Spain;
2. A network of 100 locations in the UK and 20 in Spain;
3. 100% ownership of Fualsa; and
4. An established portfolio of non-rental products.

By achieving these targets we are seeking to achieve double-digit annual growth in earnings per share in each year of the plan.

We believe the road ahead is clear and we know where we are going. We look forward to continuing to take the business forward and to update you on the progress made against the targets we have set.