Redde Northgate

Preliminary Results | Audio Webcast

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Transcript

Presenters:
Martin Ward, CEO
Philip Vincent, CFO

Martin Ward: Morning, everyone. Thank you for coming. I'm Martin Ward, Chief Executive of Redde Northgate, and joining me today is Philip Vincent, CFO. The agenda is shown on page three and follows a familiar format. I will start with the overview of our results, Phillip will cover the financial review, and I will come back and provide a business update before we close with Q&As.

Page 5. This has been a fantastic year for the business with continued top and bottom line growth being delivered through strong demand for our services. These results reflect our position in the market where our platform delivers large-scale efficiencies and price leverage that brings about cost and service benefits.

In a busy year, which has included positioning for growth, the financial results have excelled and it was good to see that ROCE, which is a key measure, further improving and we've maintained a strong balance sheet with low debt leverage. The outcome of these results is that we can propose an increase in the final dividends with shareholders with a 14% uplift.

Page 6. My first comment is to say that the business feels very different from the standalone pre-merger position. There's a lot more going on and our services platform is gaining significant traction. The market is beginning to polarise towards firms that can offer a broader reach across the vehicle life cycle, benefiting from single-source services, leveraging efficiencies, and providing a great customer service. And what we are seeing is a lot of positives in what has been a challenging global environment.

Against the backdrop of supply scarcity, we grew our fleet and maintained utilisation levels. The contract wins previously announced are all live and contributing at or above run rate. And reflecting the strength of the pipeline, we have secured a new multi-year services contract with a blue chip leasing company, which commences this year.

Margins have broadly been maintained and we see this continuing, based on underlying actions to manage inflation. We have seen more take up of insurer protocol agreements this year, which means prompter cash settlement and reduced frictional costs.

Our additional services across the group are starting to build scale. For example, our EV charging point installations, which number close to 7,000 this year and 12,000 since we acquired charged EV in July '21, is well-positioned in a growing market.

And if we look at our strategic progress delivered under our Focus, Drive, and Broaden pillars, the integrated mobility platform has grown in capabilities and is now delivering more volume of services. Since the merger in 2020, we have completed six acquisitions in the UK, including FridgeXpress in May this year, and we continue to look for opportunities that create long-term value.

We have made good progress on ESG, which is an integral part of our strategic goals. And this year, we have established a new group committee to provide guidance and support for the business to achieve our long and short-term targets, which have been set out in our announcements and reports.

And under our Broaden pillar, we've also sought organic growth by developing new propositions, with an example being in our Spanish business, which is delivering on the previously announced B2B contracts and building new revenue lines through open workshops.

Additionally, supporting our long-term EV plans, Spain has entered into a commercial partnership with Iberdrola, which is a global leader in renewable energy, with a customer package offering EV charging points, green energy supply, and fleet consulting, all included in our rental agreements. My final comments on the overview is to say thank you to all my colleagues for supporting the results this year. This has been a real achievement and, as shareholders, they will now benefit from their efforts.

So thank you. I will hand you over to Philip.

Philip Vincent: **Page 8.** Thank you, Martin, and good morning, everyone, and I'm pleased to be here this morning to present another set of very good results. I will start with the headlines. So underlying revenues, excluding vehicle sales of £1.3 billion, were 22% higher than the prior year with growth across the businesses.

Earnings before interest and tax increased just under 13% to £189.2 million. And with additional interest cost, underlying profit before tax grew just under 10% to a record £165.9 million. Underlying earnings per share increased 9.5% to 55.6 pence in line with the increase in PBT and benefiting from the share buyback program, reducing share count by 7%.

Return on capital employed increased 20 basis points to 14.1%, benefiting from underlying profitability and disposal profits. And this year, I've moved divisional slides to the appendices, but I will cover the divisional points as we go through the next few slides.

Page 9. Looking at revenue, rental revenues grew 8.4% year-on-year. In Spain, had better access to new vehicles, helped average vehicles on hire grow, 6.2%, and pricing was carefully managed, resulting in rental revenues growing 14.6% or £32.1 million. In the UK and Ireland, vehicle supply remained difficult.

And whilst we're announcing some improvements in supply, average VOH for FY 23 reduced 2.6% year-on-year. Product extension and carefully managed pricing still enabled revenues to grow 6.1% or £15.1 million. Vehicle sales revenue of £152.9 million was £3 million higher than the prior year with growth in Spain as new vehicle supply improved, which enabled replacing of the fleet.

This was offset by a reduction in the UK and Ireland as the continued restrictions in new vehicle supply and strong rental demand have reduced vehicles available for sale.

Claims and services revenue grew 37% or £196 million with the ramping up of new contract wins contributing around 40% of this growth. And you will see in the prelims that Redde now has a revenue line for vehicle sales. So since March of this year, the cars from Redde and are now sold through Van Monster. And this revenue is excluded from underlying revenue and the EBIT margin calculation for Redde.

Page 10. This chart bridges prior years underlying PBT of £151.3 million to £165.9 million this year. And group rental volumes across UK and Ireland and Spain contributed £9.1 million of additional PBT. We have experienced cost inflation across the businesses and this has been effectively managed by improving procurement practices and careful management of pricing and extending products and services for customers. And as a result, Spain's rental margin of 18.5% was one percentage point higher than last year and rental margin in UK and Ireland decreased slightly from 15.3% to 15.1%, in line with our medium-term margin expectations.

Disposal profits decreased seven million in the UK and Ireland, with the continued restrictions in vehicle supply, and increased 8.4 million in Spain, where access to new vehicles has improved significantly in the year. In total, we sold 18,200 vehicles in the year, which is 9.6 higher than prior year.

Whilst residual values continue to decrease, they do remain very high, but remember, the relationship between residual values and PPU is not linear, as the PPU depends on a number of variables. These include the type, age, and condition of the vehicle and how they differ from initial expectations when the depreciation rates are set.

The increase in Redde volumes from existing and new contracts contributed an additional £12.3 million of profit and Redde's EBIT margin at 6.4% was impacted by the mix effect of some new business wins, which continue to bring scale to the platform we've created. And the increase in interest in corporate costs reduced profit by £8.7 million, with interest costs increasing £6.7 million due to higher average level of debt and increase in rates.

Now, we've been sheltered significantly by rising interest rates due to 62% of debt being fixed, mostly at 1.3%. Now, as we grow and draw more debt, this will be at a floating rate, which is currently 6.5%, reflecting the latest rise in the base rate. So our average cost of borrowing will rise in FY 24 and currently would be around 3.5%. If we exclude all disposal profits from both periods, underlying profit before tax increased 13%, continuing to demonstrate the underlying growth of the business.

Page 11. Let's take a look at cashflow. Underlying EBITDA, £412.2 million, was £45.5 million higher than prior year, driven by the underlying performance of the business. And steady state cash generation, while strong at £191.5 million, was £24.9 million lower than the prior year, as we have been replacing the fleet as vehicle supply improves. Growth CapEx of £122.6 million reflects the growth in the Redde and the Spanish fleets to meet demand. And we spent £10 million on acquisitions in the year and free cashflow was £4.5 million.

Now, I want to provide you with a little bit more detail on the fleet and CapEx spend. So due to the disruption in the supply of new vehicles, we have been unable to rotate the fleet as quickly as we have previously. Now, we have seen a significant improvement in vehicle supply in Spain in the last year and we are now starting to see some improvement in the UK and Ireland.

The average age of the Northgate fleet in the UK is now 36 months, which is 10 months higher than two years ago. And in Spain, the average age is 33 months, which is seven months higher than two years ago. And as we move into FY 24, we expect the vehicle supply to continue to improve and this will enable us to rotate the fleet and we would expect fleet aging to decrease.

We're not expecting this rotation to happen rapidly, and it'll be a different pace in Spain than it is in the UK and Ireland, and we do not expect to see a huge increase in CapEx spend as a result of this rotation. Any CapEx spend is going to be subject to the availability of the supply of vehicles, but everything else being equal, I would expect our CapEx spend to be single-digit percentages higher in FY 24.

And remember that we very tightly control the spend, which we demonstrated during COVID when we turned off CapEx and the business generated cash very quickly, and we would not expect this improved supply to significantly impact residual values in the short term and residual values are likely to remain strong in all our markets.

Page 12. The business remains very well-financed with a strong balance sheet to fund growth. In the year, we have extended our core bank facilities by 12 months to 2026 and 62% of our debt at the year end was fixed, the majority at 1.3%, and our average cost of borrowing at the year end was 3.1%. We continue to operate with very comfortable headroom on all of our governance and year end leverage is 1.5 times, well within our policy of one to two times.

The chart on the bottom bridges our net debt as of April last year to April this year, and our net debt closed at£ 694.4 million with ample headroom of £290 million on our facilities. We generated steady state cash of £256.6 million, excluding lease payments. £122.6 million was invested to grow the fleets in Spain and ready to meet demand. £10 million was spent on acquisitions and we returned £105.2 million to shareholders in the form of dividends and share buyback.

You can see in the top right-hand chart that since the merger, we have now returned £121 million dividends, we've invested £41.5 million acquisitions extending the products and services of our platform, and returned to further £60 million to shareholders through the share buyback.

We've now completed six acquisitions since the merger and during the year we acquired Blakedale, and just after the year-end, we completed the acquisition of FridgeXpress, extending the range of products and services we offer and broadening the sectors we operate in.

Finally, our funding enables us to continue to invest in our fleet and execute on acquisitions as they arise in line with the disciplined approach to our capital allocation model. Now I'm going to hand you back to Martin for the business update.

Martin Ward: **Page 14.** Thank you, Phillip. We'll just have a deeper dive into the business update. At the interims, we've focused on three key areas which defined our market environment. So I'll just touch on them first. The market, we've said demand for our services across the markets has remained resilient, particularly with larger customers. Telecoms, broadband and infrastructure sectors have remained robust and as an overall temperature test, any rental availability in the fleet is quickly taken up.

And we have seen growing interest in additional value added services like telematics and onboard cameras. Our customers are seeking to gain efficiencies running their fleets. As we commented on at the interims, the logistics sector, particularly the last mile delivery, has seen further weakness through the second half of our year. But this has stabilised more recently. Traffic volumes have plateaued in the 90 to 95% range, and this feels like a new norm when we compare to pre-COVID.

Our read around the market is that businesses have tightened up on homeworking, albeit hybrid working is still the dominant model and doesn't feel like this is going to change in the near term. And that has a relationship with mobility in the market.

There's been a lot of wider commentary on inflation around insurance claims. We see this in terms of repair costs as capacity and supply chain challenges increase the cost of fixing a vehicle. And we don't see this materially changing in the short term. However, the leverage from our platform provides benefits for our customers from our scale and from our capacity.

If we look at the fleet, so the market for new suppliers, Phillip touched upon, is different by geography and by vehicle type. In the UK and Ireland, visibility on forward orders for LCV has improved, although certainty on short-term supply is still problematic.

With right-hand drive vehicles considered a bespoke order for European manufacturers. Cars are generally easier to source and we have no issue satisfying our need for these. In Spain, LCVs and cars are generally available and that's against the backdrop of strong market demand for new supply; and there's always new pockets of supply that come up from canceled orders or redistribution deals.

As part of our future supply, we are looking further afield as new technology brings about competitive supply. As Phillip mentioned, residual values on used vehicles are still high compared to historical data, and this is also the case in Spain despite new supply being available. We expect these to fall back as the year progresses. Although, as we have commentated before, the under supply of vehicles to 2020 and 2022 will take some time to catch up. Our EV and hybrid vehicles continue to broadly match the UK car park, which is reflective of demand.

If we look at the customers, we've got a diverse nature in the customer base across our mobility platform. And this is a clear strength. We've got broad sector exposure and this provides high level of trading confidence and resilience. On an ongoing basis, there hasn't been any material change to our sector exposures, and we have continued to rotate any fleet returns to higher margin sectors.

Page 15. This infographic shows how our services and capabilities play out to a wide community of end users and how it caters for a differentiated customer proposition. It follows the ‘cogs’ chart we showed you at the interim presentation, which illustrated the breadth and connectivity of our service offering.

We wanted to share what we see to be the strengths of the platform from the customer's perspective. As a customer, you can access our integrated mobility platform in the most appropriate way, with 24/7 digital access in many areas. For example, customers interact by voice through our contact centers, through portals, apps, and web services, in our rental branches, at our network of body shops, our mobile servicing vans through dedicated account managers or digitally through live chat.

Our digital strategic plan is aimed at building the capability for our businesses to connect with each other so that the platform becomes an integrated service, fully digital and accessible, which will offer more process inefficiencies.

Slide 16. Our customers have been very supportive in taking a broader range of products and services from the platform. We developed, from a standing start, our EV consulting program, which involves running open days in Spain and the UK with live demonstrations of EV vans and cars to engage customers with the technology so they can assess the capabilities of an EV fleet and plan their transition. We have made digital the standard when onboarding new customers with embedded technology driven services forming part of how we transact.

The automotive sector is clearly going through significant innovation and technology transition, whether in the vehicles themselves or how we engage with them. After all, an EV vehicle is a connected vehicle which can change the supply chain dynamics. We are also reviewing emerging innovations such as urban and micro-mobility and creating new relationships with emergent supply chains in order to provide more flexibility to customers as they arise.

M&A has clearly augmented our customer base with a broader range of new customers joining the Redde Northgate group and our focus on people has helped promote a real sense of unity across the group where we share our vision and ambitions. We are building a future talent pool by investing in our apprenticeship scheme that currently numbers over 170 apprentices in the UK.

We have developed a best in class L&D programme to train our people in a number of areas of technical skills, and we have an accredited training facility to support new EV technologies. Working with our employee engagement forum, we get valuable feedback on what drives and motivates our people. And in what has been a difficult time for many with the cost of living pressures, we have provided two special one-off payments to our colleagues most affected. We have seen the benefits of this through strong retention levels in a change in market.

Slide 17, as Phillip said, it's been a very successful year for our claims businesses, which have seen a more normalised trading period post-COVID. These contracts are delivering at or above expected run rates and they're multi-year service contracts. And as I mentioned in the overview, the business has won a multi-year service contract with a blue chip leasing company, which will support a further 100 to 150 million of contract lifetime revenue. It's one of the biggest fleets in the UK and we'll be going live later this year.

Page 18, please. We've touched on our two recent acquisitions which have added specialist capabilities. So I will just deal with these lightly. Blakedale, which you can see a picture of one their vehicles there on the left we completed on last summer. It provides a range of specialist traffic management vehicles, including the 18 tonne Workforce Protection Unit, which are typically seen on motorways. Since we acquired the business, we've grown the fleet by over 30% to over 450 vehicles and grown the customer base by 28%. The growth has come from a combination of cross selling and as a result of bringing the strong balance sheet to the business.

And just after the period closed in May, we acquired FridgeXpress, which provides temperature controlled vehicles to a range of customers, particularly food and pharmaceutical companies. This will add circa 600 vehicles into the fleet, and we see the potential to grow the business further given there is a good pipeline of orders. Both these businesses were earnings enhancing from ownership and will deliver good upside to Redde Northgate.

More generally on M&A, we continue to see many opportunities across our desk, and we pursue those that we feel have a good strategic and value fit, and we are not limited to M&A in the UK, Spain is also in a good position to capitalise on growth opportunities.

Page 19. Our EV transition to support customers is running at high levels for replacement cars, and we offer a wide selection of models. EV vans have some way to go to be able to offer fully utilised workhorse capabilities. The open days that I touched on earlier is a great way for customers to get close up and familiar with an EV fleet. These are generally well attended with demonstrations or trials offered as part of the transition program.

We are exploring other mobility solutions that are less mainstream, but nonetheless relevant to a changing environment such as urban mobility, which will be required to meet more stringent rules in ULEZ. An example of driving other revenues is our Spanish workshops, which were opened up to cater for non-Redde Northgate customers who were looking for service, maintenance and repair, and we have seen this revenue line growing. Telematics and onboard cameras for commercial fleets have grown circa 10%, and we now have over 10,000 external live units in operation.

Finally, if we look at the outlook on **page 20**, the new financial year has got off to a great start. Demand remains strong across our markets, and contracted services provide a high level of certainty on revenues. The leasing contract win will provide more impetus to growth, and our healthy pipeline offers more opportunity to build for outer years. So with the leverage and efficiency gains from our platform, our broad customer base, and multi-year service contracts together with a strong balance sheet, this all supports a very strong and resilient position. Thank you.

We'll now take questions.

Q&A

Joe Spooner (HSBC):

Can you talk a little bit more about Redde? It's put on quite a lot of revenue, £195 million at the revenue line, but profits, the drop through to profits, those only increased about £13 million. Obviously there were moving parts in terms of investment, but can you just kind of flesh that out in terms of why that drop through wasn't quite as strong as maybe you would've expected?

Martin Ward: I'm not sure I would fully follow that, because I think the drop through probably was in line with what we expected, Joe, in terms of where the EBIT margin is. I think we said at the interims, and I'll say it again just for clarity as well, the platform offers a broad range of services, so we can't just go like-for-like across everything that the business has had previously.

What we do is we look at a cohort; so who's the partner, who's the customer bringing in the services, what do they want across the platform and how does that play out as you deliver efficiencies, cost benefits, and so on. So that's the cohort. We look at the return from the cohort and then it's segmented into the segments that we have for reporting.

I'd have said at the margin drop through is probably in line with what we would expect from the services that are taken because as I say, there are multi-services across the platform, not just the singular services that we might have seen before supporting the historical margins.

David Brockton (Numis):

Can I ask two as well on the Redde business. Just in terms of the new multi-year contract that you've won in the current year. Could you just talk about how that developed? Was that a sort of natural point in their tender? Was that a sort of an active cross sell within the business? And then secondly, because it was an existing Northgate customer, can you just talk about the opportunity within the existing Northgate customer base for similar sized opportunities going forwards, please.

Martin Ward: The evolution of the leasing contract - it hadn't been outsourced previously, so it's been in house 30 years plus. It's not something that came out of the market to tender the process in that sense. This is a drive to leverage the benefits of scale and capacity in the market, and we're providing that.

The platform is something new. We've developed this platform and I think when we get more traction in terms of that visibility across the market, we see this type of contract fit in very, very well with what we do. And, as I say, it is driving the conversations, it's driving the possible outline. So this is a full cross outsourced into the platform, deliver multiple sets of services.

In terms of the sort of relationship with Northgate, it's a different side of the firm that had a relationship, a longstanding relationship, with Northgate, but it gave familiarity to the group as well. So we're in a strong position to demonstrate our service capability and our culture effectively.

On the Northgate customer base, we've had a lot of cross-sell opportunities that have gone into fleet management, accident management services, replacement vehicle services. We've seen a good uptake in that. I think there was a significant growth number, which I recall off the top of my head, but significant growth number that we've seen. You do get large customers that want that fleet management extra management service, but this isn't that type of customer that came from there. It's a completely different service which fitted into the Redde type of businesses.

Philip Vincent: Fleet management grew 150% year on year.

Andrew Nussey (Peel Hunt):

Good morning. I've actually got three. If we could start off, can you just remind us around the protocol arrangements within Redde and is that sort of shift to 60% likely remain permanent? Secondly, are you facing your own challenges in meeting customer expectations in terms of repair times because of the pressures within the supply chain availability, et cetera?

And thirdly, definitely one for Phillip, I think, in terms of the CapEx outlook, can you just help us a little bit, you've got an aging fleet, obviously, particularly in the UK a requirement to sort of refresh that. Obviously rising new vehicle prices and presumably you're getting less because of older fleet. Just I'm just slightly mindful if you look out to sort of FY 25, FY 26, there could be a bit of a CapEx bump in the UK particularly.

Martin Ward: Okay, Andrew, I'll pick up the first two then and let Phillip have the last. On the sort of protocol shift, at our peak we've been at 75% protocol historically. These are arrangements with insurance companies which offer a discount effectively. So you take out the frictional costs of dealing with incidents and accidents and you get prompter cash settlement, it's ticked up - 60% as you say in this period.

We would expect to see more insurers want to come into protocol because it offers them a cost efficiency for efficient, fast, prompt settlement. The longer a claim goes on to be settled, the more it costs frictionally for both parties. We take those benefits, we mutually wrap them up and we divide that in terms of some form of discount. Yes, I would expect it to grow, they do fluctuate in and out, but I think the market environment supports more towards protocol.

Customer expectations for repair: I mean that is a job to manage customer expectations. Clearly there has been supply challenges globally around parts and in some instances labour shortages. But we manage that expectation. We sort of know what our cycle times look like. And insurers have done a very good job with their customer base, sort of managing their expectation.

Capacity for repair in the market is scarce. There's over 4.2 million repairs undertaken in the UK alone. And having trained technical people that can work on the modern vehicles and particular EV vehicles, getting the parts, getting that sort of capacity booked has been a challenge. We've got a very large body shop network, we've got an independent network, so we can place a lot of work in the market and we have some good relationships and we've been able to do that. So I think we've fared better than the market more generally.

Andrew Nussey: Can I just add, is there a sort of service level that you have with your major insurers that if you don't reach that service level or timeframe then you are subject to some form of penalty?

Martin Ward: We have service levels, absolutely. And what we say is we work in partnership with our partners. If there are any macro challenges that affect the whole market, that's taken into consideration. I mean, we like to perform above what the expectation is and we like to delight the customers and sort of provide that capacity. I think when we compare it to benchmark against the wider market, we are repairing vehicles much quicker than the more general market through our own insourced body shop network.

Philip Vincent: Andrew, going on to your last question on CapEx spend, I've always said it's quite difficult for us to forecast CapEx spend. It's our biggest spend obviously going through from a cash perspective, completely dependent upon the availability of vehicle supply. I mentioned earlier that what we're seeing is vehicle supply is different in Spain and the UK.

As we start to rotate the fleet and spend on CapEx, we won't be spending in both sectors at the same time, at the same speed. It's likely we're going to be spending quicker, earlier in Spain and slightly later in the UK. In Spain, the aging of the fleet currently, I'd say it's probably at a peak and we would expect that to start to come down this year. UK is almost at its peak in terms of aging may go up another month or two in the year ahead.

But no, we're not expecting a wall of cash at all. I mentioned earlier we tightly control that CapEx spend. So Martin and I, for example, in the UK sign off on every vehicle we purchase every single week - we have very tight control. We can turn that up or down depending on what we're seeing with vehicle supply. As vehicle supply improves, you have two impacts. One, we would expect pricing to get keener and our ability to negotiate pricing better with the OEMs. And at the other end you've probably got an impact on residual values.

So it's all what happens to our total holding cost in that period. And the other element to that as well, is obviously we still have contract higher, which we continue to utilise. It's 9% of our fleet of the year end, so moved up a little bit from the prior year and that obviously limits the cash outflow. We've got a number of measures we can use to manage how much cash is going out the door each year on purchasing CapEx.

James Zaremba (Barclays):

Three questions please. Firstly on Redde and the strong pipeline, could you comment on how much of this is customers new to outsource versus wins from competitors? And then again on Redde and the kind of repair lead times, how much longer are average hire lengths today versus pre-pandemic and with this fully revert over the medium term, or is there any kind of structural change? Then lastly, back on the fleet, can you discuss in the UK how improving availability could drive the top line over the next few years via higher rental pricing? And what is the rough increase in average vehicle price today versus pre-pandemic? Thanks.

Martin Ward: On the pipeline it's across the business, not just Redde, but it's generally a mix of... Well it'll be mainly contracts that are already in the market that would be coming up and leaning into the platform of services from their silo position. So what we're seeing is that supply chain directors are having conversations about saying what does it look like? What's the benefit of pulling these services together? How does that leverage from a customer perspective, how does it leverage from a commercial perspective and how would you manage that on this sort of large scale basis?

Those are healthy conversations because typically procurement would've siloed and bought sort of individually. So that's the type of conversation that we're having in the market. And these contracts, as you know, they're changing, they are revenue changing. Some of these very big contracts are very, very significant. And if you secure them on a multi-year, three, five year basis, you know can pretty much underpin your revenues off the back of that in terms of services.

People talk about whether this business is cyclical, I mean I would say the insurance is a compulsory purchase. People and businesses generally need that mobility to undertake what they do. As we've seen through COVID, post-COVID, people get back on the roads very, very quickly and that sort of underpins the incidents and transactions that we undertake; so I would say it's more that.

Your second question in terms of repair lead times and sort of a hire length. So yes, you get a bit of a tailwind when repairs are taking longer because you've got replacement cars out there, customers are therefore in your hire for longer. We've seen that peak and now it's starting to improve.

We want to get to a place where we see that as being a sustainable position. We do everything we can to get the repair through in a good cycle time to get customers back into their own vehicles. So it's not going to suddenly drop off or anything like that, it's just going to be a gradual change as the market and the environment improves for supply parts and repair time cycles. And on fleet and sort of availability on the revenues.

Philip Vincent: In the UK, you saw our top line revenue grew 6.1% and that's despite average VOH going backwards 2.6% because we didn't have enough vehicles. So look, we'll continue to carefully price and we say it's carefully pricing because we're conscious we can't put all the pricing through to the customers. Customers have choice. They can go and procure us where, not only on price but on the level of service we offer as well. Both of those are the top of a list of things we're focused on, but also we look to extend the products and services we can sell to those customers as well. And that's also helping that top line. It's not all about fleet, but as we said, demand is in excess of what we can meet at the moment because of vehicle supply. So there's an opportunity to grow more as that vehicle supply comes back.

And on pricing, we don't talk specifically to pricing, but I can talk in general in the market historically when volumes were there from the OEMs, generally you'd make a commitment in terms of volume as a buyer of those vehicles and you would agree a discount because of that. And then the OEM would commit to supply that to you and you could procure above that as well.

Clearly, as we've gone through COVID and supply has been disrupted, those kind of bulk agreements you agree at the beginning year and that pricing you agree at the beginning of the year has gone away and you're buying much more sort of on a spot pricing. There's less certainty and clearly pricing has gone up. But we would hope that over time we'd normalise and we'd get more back towards higher volumes and more annual commitments as we've done historically.

Martin Ward: And to add to that, the trend is that price or discounts are coming back so you can see that in the market that the move is positive on that front.

James Zaremba: Yeah, I guess just as a follow-up, I suppose there's been a lot of questions about the CapEx replacement cycle, and I suppose what I was getting at is there an earnings, I guess growth piece to it as well in that when you replace that fleet at a higher average price, that then goes to the customer and you actually have revenue growth from that?

Philip Vincent: That's right. So we have top line, but it's not just the vehicle and just the rental, it's the other products and services we're growing at the same time as we've demonstrated this year. But yes, as pricing goes up, some of that will go to the customer as well. So you will have inflation on the top line.

David Farrell (Jefferies):

I've got three questions. Firstly, if we look at kind of net debt for 2024, EBITDA roughly level, I think kind of consensus level year-on-year, you talked about CapEx being up kind of single digits. Does that leave us to the kind of one, sorry, free cash flow basically zero and then dividends on top dating to about 750, 760. Is that the right working?

Secondly, I appreciate the stability of your end markets in the UK rental space, but are you seeing any different in terms of rental lengths given the current environment?

And then, I was wondering if you could talk about the costs of having it, the older fleet in terms of maintenance costs and what perhaps that's doing to margins?

Philip Vincent: Taking the first one, just on that, yes, I think is the answer. As I say, it depends on how much CapEx week is available and how we choose to phase that both in Spain and the UK and the mix of contract hire. But the best guess at the moment will be mid-seven hundreds in terms of net debt at the end of the year.

Martin Ward: Okay, rental lengths, across the platform obviously there's different types of rental lengths. You've got the flexible rental on the vans, you've got the sort of replacement car rental. So on the replacement car rental, certainly lengths, as I was saying to James, has been higher because of the shortages in repair capacity. That's sort of starting to ease off. More general lengths across flexibility of hire in vans and commercial. That has stayed pretty constant in terms of what we've seen. And the cost of running, third question, the cost of sort of running an older fleet-

David Farrell: If the average age is 36 months, I assume they kind of have more issues with them than if it's kind of 30?

Martin Ward: Yes. There's correlation there between an older vehicle and more maintenance, absolutely. But that's factored into our thinking around what's the optimum running point for a vehicle in terms of what we would have on the fleet? When there was very short scarcity, you would be hard-pressed to get a customer to give back a vehicle, but you reflect that in your commercial terms, because if people want to extend, you do affect that in your commercial terms.

Andrew said, you charge less for an older vehicle. Well, if the customer wants to retain the vehicle that we want back, they could pay either the same, they could pay a different rate, but it's reflected in the commercial terms. We factor in what the cost is to run the fleet as it sort of age.

As Philip alluded to, in Spain, intra-month it's actually coming down, it's plateau-d. But intra-month, not on a full year reported basis yet. Fleet age is coming down and we'll see that in the UK as well as new supply comes on. But we factor the costs, we've got it down to pennies in terms of understanding what it is. And that's all in our forward-thinking.

Annabel Hewson (Stifel):

Thank you. Just two questions please. First one on technicians. I know we need more. What do we do to find them? Do we build out the apprenticeship scheme? What's the investment we need to do on that side? And obviously regionally as well, is there any pressure there?

And Martin, you talked around EV and the connected vehicle and the changes that brings to supply chain dynamics. Can you give us some examples of what you've seen either as an advantage or a challenge in that side?

Martin Ward: On the technicians, yes we are; we've got a training academy that's accredited by the IMI and we put people through that training. So the apprenticeships number 170 this year. We will continue to grow that where we can; we're seeing good interest in the take-up. So we get a solid grounding in that body shops or environment in the workshop environment.

On top of that, clearly we're out in the market. We've got a lot of growth, we've got a lot of work to service. Because as I say, we have to put a lot of work out also to an independent network. We're attracting candidates; the slide I touched on people and all the things that we do, the benefits we offer as a PLC and what that looks like, everybody became a shareholder in the business. Things like that that attract people, that give them long-term sustainability in terms of being part of the business. We are recruiting people and that will continue to ramp and as I say, the apprentices will support it.

On the EV question, a connected vehicle, I think it was The Times that did an infographic a couple of years ago to say, how could that relationship change your supply dynamics in the market? So an EV connected vehicle means you can talk to the vehicle, you can talk to the person in the vehicle, you can understand what's happening in the vehicle from a diagnostics perspective, and you can guide it to a supply chain. You can guide it, you can book it in for repair, you can do lots of things that you can't do with a mechanical ICE vehicle.

So therefore it opens up the market opportunity for us because the platform is very attractive across that single life cycle, across this life cycle and all the sort of the services. We can therefore interact with new parts of the market like OEMs for example, to be able to offer that one-stop solution across all the vehicle needs. We see that as being a great opportunity to go in early and provide the platform interconnected vehicles and that's where we're angling.

Annabel Hewson: So with that, do you need to make more investment to be able to communicate with all of your facilities?

Martin Ward: Yes, so even today, vehicles that are not EV are actually connected in some way because there's a lot of data that is gathered. The market's got to decide how it deals with the sovereignty of data and everything else. And that's sort of been worked through politicians and so forth and regulators.

But no, the investment that we are talking about, about going digitally will then interact automatically with the vehicle so that when you are taking up data sources or input data, our operating systems are being populated with that. We know everything about the vehicle that we need to know, we know the services that are contracted by the driver of that vehicle in terms of what they're entitled to and how it will deploy.

And effectively through digitalisaton, we can deploy our services, so that's the investments that we're making. We haven't done this as a massive, multi-tens of millions, hundreds of million pounds IT project. We're developing the capability in stages and small bites so that we get ourselves ready to do that. And as I said, we will be able to talk more to that in the future as that program develops.

Annabel Hewson: Very clear. Thank you.

Martin Ward: All right. Well, thank you again for coming this morning. I hope the presentation was informative. I think there's a lot of good news in those numbers. I don't think there's anything there that would send up a red flag for us.

I think we've covered off very strongly our demand and our trading position, our interest rates in terms of where we are, how we're protected against that, and how we're seeing this sort of market evolve.

For us, there's a real buzz in the business. Genuinely there's a real buzz over what we've got. And as I said, we started the new year on a flying start, we see that continuing. So hopefully that message has come across loud and clear. And again, thank you.