

**NORTHGATE**

Q3 Trading Update &  
Fleet Optimisation  
Strategy

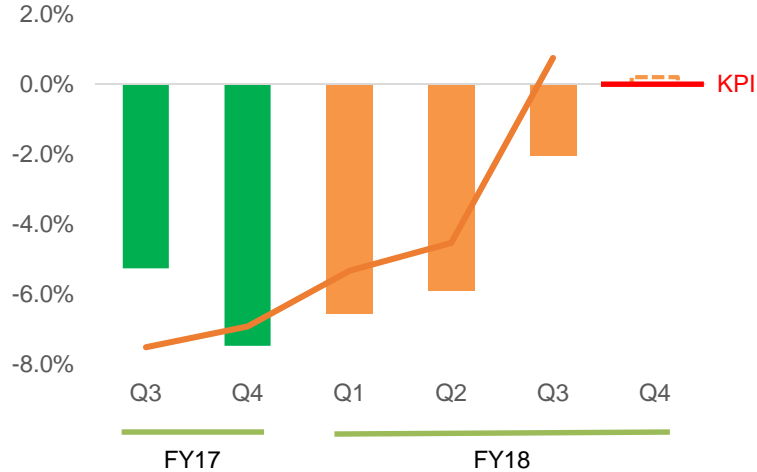
22nd February 2018



In the UK, closing VOH is now in growth and management are confident of meeting the Q4 KPI. In Spain, VOH has grown strongly and is expected to significantly outperform the Q4 KPI.

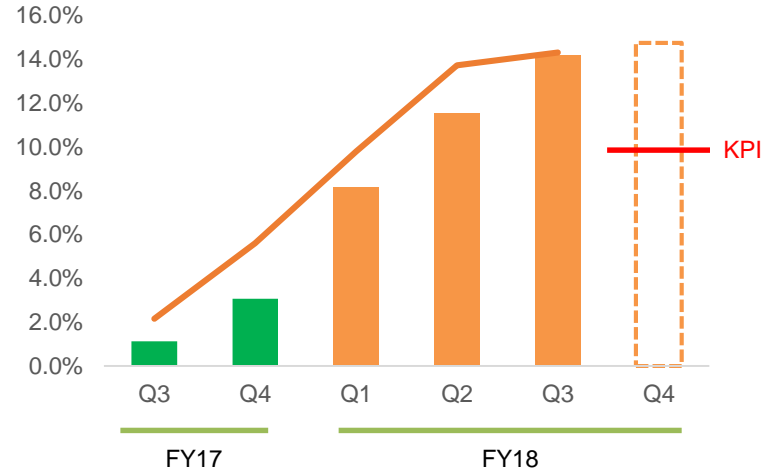
### UK – VOH Growth by Quarter

Average VOH  
(Qtr/Qtr Prior Year)



### Spain – VOH Growth by Quarter

Average VOH  
(Qtr/Qtr Prior Year)

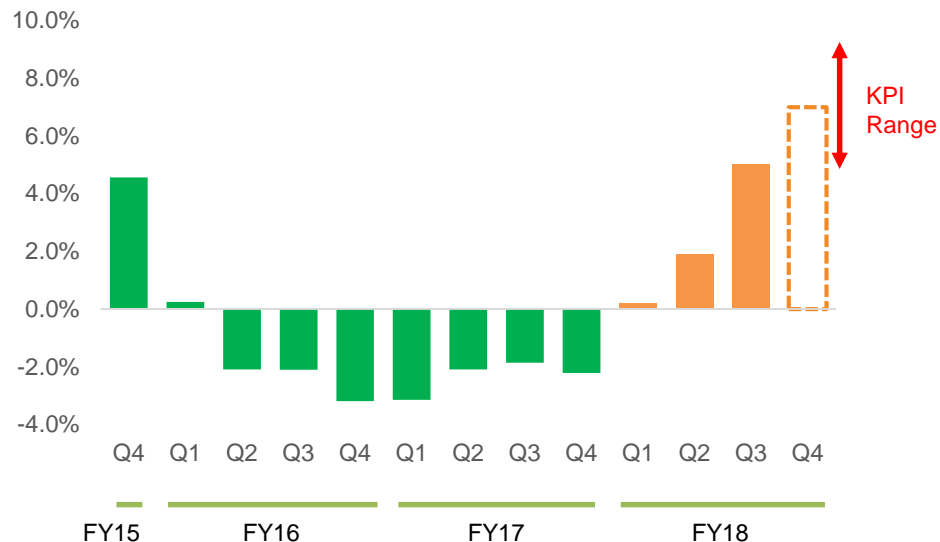


■ Avg. VOH Qtr vs. PY Qtr    
 — Closing VOH vs. PY Qtr    
 - - - Forecast Q4 Avg VOH

Quarterly average VOH growth for the Group reached 5.0% in Q3. Further growth is anticipated and Q4 is expected to perform well within the committed KPI range.

### Group Average VOH Growth

Group Average VOH  
(Qtr/Qtr Prior Year)



■ Avg. VOH Qtr vs. PY Qtr   
 ■ Closing VOH vs. PY Qtr   
  Forecast Q4 Avg VOH

- » Continued strong growth in Spain 14.2% (Q3 vs Q3 PY)
- » UK further improved to -2% (Q3 vs Q3 PY) but with closing VOH now in growth of 0.7% (Q3 vs Q3 PY)

**Marginal ROCE on all new and redeployed capital is strongly ahead of WACC. Group rental margins improved modestly in Q3 driven by Spain.**

### **Marginal ROCE <sup>(1)</sup> – New and Redeployed Capital**

#### *Spain*

- » Capital largely to service growth
- » Growth<sup>(2)</sup> in closing VOH: 1,302 Flex vehicles, 3,984 Fixed Term vehicles
- » Marginal ROCE across all new growth is in the low to mid 20% range

#### *UK*

- » Capital largely being redeployed
- » Margin analysis covers<sup>(3)</sup>
  - » 2,637 vehicles (renegotiated)
  - » 5,683 additional vehicles for existing customers
  - » 1,714 vehicles for new customers
- » Marginal ROCE across new and renegotiated vehicles is in the mid 20% range

### **Q3 Movement in Rental Margin**

- » Spain increased by 3.3% pts
  - » Volume growth delivering operational leverage
- » UK declined by 1.3% pts
  - » Q3 volumes remained slightly below prior year
  - » Pricing continues to be adjusted to be market competitive
  - » Q4 margin expected to reduce further
- » Group rental margin increased by 0.4% pts

*Note* (1) Marginal ROCE = Contribution after variable costs/capital employed at purchase cost

(2) Gross growth, excludes returns, May 17 to January 18

(3) May 17 to Dec 17

**Holding periods should be extended to maximise cash returns on fleet investment. The historical approach to disposals has not led to the maximisation of long term shareholder value.**

## Optimal Holding Periods

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- » Approach
  - » Scope included UK, Spain & Ireland
  - » Analysis of whole life cash flows on vehicle derivatives covering over 40% of the fleet
  - » Led by country operational teams utilising a common approach
- » Conclusions
  - » UK optimal holding period ranges by derivative from c. 42-48 months vs 39 months (H1 disposal age)
  - » Spain the optimal period ranges from c. 44-48 months vs 41 months (H1 disposal age).

## Fleet & Disposals Profile

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- » Approach
  - » Asset by asset review of age and mileage across 97,500 vehicles in the UK, Spain & Ireland
  - » Analysis of the composition of 'disposals profits' in recent years including volume, age and PPU (excluding impact of depreciation unwind)
- » Conclusions
  - » Disposals in UK & Spain have comprised ever higher volumes of ever younger vehicles at ever lower PPU
  - » Vehicles have been sold at ages below those which optimise cash returns

**The new fleet optimisation strategy maximises cash returns and creates a more efficient capital base for the business. Operational cash generation and EBITDA are not affected. FY18 PBT is, however, expected to reduce by c.25% versus the £75million reported in prior year**

### **Fleet Optimisation Strategy**

- » Key Operational Actions
  - » Vehicles de-fleeted only when cash returns are optimised (unless constrained by operational factors)
  - » Minority of vehicles can be rotated faster
  - » Purchases reduced to manage utilisation
  - » Applied immediately across all territories
  - » Disposal volumes significantly lower than anticipated in Q4 FY18 and H1 FY19
- » Depreciation Policy
  - » PPUs are expected to increase as a result of fleet optimisation & retail mix
  - » Rates to be reviewed at year end

### **Financial Impact**

- » P&L
  - » No impact on operational cash generation or EBITDA this year or moving forwards
  - » FY18 PBT expected to be c.25% lower than the £75million underlying PBT of last year
- » Balance Sheet & Cashflow
  - » Improved short term outlook for CAPEX & debt
  - » More efficient capital base; Net Book Values reduce
  - » Leverage covenant improved

## Outlook

- » UK
  - » Improving trend in VOH to continue through the year end and into FY19
  - » Rental margins expected to remain challenging through Q4 and into FY19
- » Spain
  - » Strong growth in VOH to continue as fixed term products gain market share and substitute for ownership
  - » Investor call to be scheduled in next few weeks
- » Fleet optimisation strategy
  - » Delivers a more efficient capital base to realise enhanced cash returns
  - » No impact on EBITDA or operational cash generation
  - » FY18 PBT c.25% lower than FY17 PBT £75m
  - » Impact on FY19 PBT (including any depreciation rate change) to be communicated at year end
- » No change anticipated to current progressive dividend policy

## Appendix: Any change in disposal strategy or depreciation rate does not impact EBITDA

X	<b>EBITDA</b> (Earnings Before Interest, Tax, Depreciation and Amortisation)
(X)	Depreciation of tangible assets
X	<b>EBIT</b> (Earnings Before Interest and Tax, also called Operating Profit)
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X	<b>Sales Proceeds</b>
(X)	Net book value
X	<b>Disposal Profit/PPU</b>



» PPU is a Non-GAAP measure used to describe the adjustment in depreciation charge made in the year for vehicles sold at an amount different to their net book value at the date of sale (net of attributable selling costs), divided by the number of vehicles sold