Chief Executive's review

Focussed on our strategic objectives

Kevin Bradshaw
Chief Executive Officer

Market and opportunities

There are approximately 8 million Light Commercial Vehicles (LCVs) on the roads in Northgate's two territories. The rental and term hire segments present the greatest opportunities for future growth within the LCV sector, driven by the major structural shift in the market from vehicle ownership to 'usership'.

Customers are increasingly attracted to a rental proposition that avoids the high initial capital outlay of vehicle ownership and brings them certainty of future cash outflows. In addition, the benefit of third party vehicle supply and management delivers lower total ownership costs to customers versus direct ownership.

Northgate is evolving its fleet solutions to offer customers a comprehensive range of complementary services including fleet management, telematics and accident management. This evolution increases the attractiveness of LCV rental solutions to our customers, and in return will allow Northgate to participate in the higher returns these technology-led services offer.

Group performance

During 2019 we continued to strengthen the Group's foundations and execute on our strategy to deliver long-term sustainable growth in revenues, profits and shareholder returns.

Total revenues grew 6.2% to £745.5m (2018: £701.7m) driven by our selective penetration into the rental markets through our attractive minimum-term proposition. Group statutory operating profit of £75.5m grew 17.8%, with underlying operating profit growth of 11.5% to £76.2m (2018: £68.3m), driven by growth in rental profits partially offset by lower disposal profits reflecting the transition to longer vehicle holding periods following implementation of the fleet optimisation policy. Operating profit growth included a net £15.3m benefit following the changes to depreciation rates at the start of the year, being a £20.2m benefit in rental profit offset by a £4.9m unwind through disposal profits. Underlying earnings per share grew 11.2% to 38.7p (2018: 34.8p), with the net benefit of the depreciation changes representing 9.7p of the earnings per share increase. Statutory earnings per share of 38.6p increased from 32.4p in the prior year.

Free cash flow improvement was delivered from growth in the business and significantly lower total capex, reflecting lower growth in our fleet alongside the benefits of our fleet optimisation policy. Steady state cash generation grew 7.3% to £67.1m, reflecting improved cash generation from our rental operations alongside investment in attractive minimum-term growth opportunities. Year end net debt of £436.9m is flat versus the prior year, giving leverage of 1.64x at the year end, within our target range of 1.5x to 2.5x.

ROCE in FY 2019 improved 20 bps to 7.7%, reflecting the strategic progress made during the year and was impacted by reduced disposal profits following the transition to a more aged fleet, by strong minimum-term growth in VOH, and from capital employed increasing ahead of the profit from those growth vehicles.

For the year ended 30 April 2019, we are proposing a final dividend of 12.1p (2018: 11.6p) which, together with the interim dividend of 6.2p (2018: 6.1p), gives a full year dividend of 18.3p (2018: 17.7p), an increase of 0.6p or 3.4% on 2018. If approved by Shareholders, the final dividend will be paid on 27 September 2019 to Shareholders on the register on 16 August 2019. The proposed dividend increase reflects the strong performance of FY 2019 and the Board's confidence in the strategy initiatives in place to deliver increasing profits and distributions to shareholders going forward.

Our capital management framework remains consistent, delivering attractive returns to shareholders via our progressive dividend policy whilst maintaining a dividend cover of 2.0x – 3.0x. We continue to invest in the business and explore core bolt-ons, supported by established facilities and free cash flow. All of this done whilst maintaining balance sheet leverage within our stated range of 1.5x to 2.5x.

Four part strategy

Northgate exists to provide expert, easy and responsible vehicle rental. Behind this purpose are four principal market objectives through which we will leverage our strong market positions and competitive advantages to deliver strong growth and attractive returns:

1. Defend and grow our share of flexible rental markets;

2. Selectively gain share in minimum-term markets;

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

4. Optimise and increase participation in the disposals market.

Q&A

Chief Executive's Q&A

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What are you doing to improve margins?
Margin improvement has been a significant area of focus in the year, particularly in UK& Ireland where we have delivered sequential improvements in each half of the year. We have been more disciplined about passing on input price increases and have more closely linked pricing to the usage of a vehicle. We've also improved cost control in key areas such as utilisation of vehicles and maintenance. In Spain, we have experienced significant pricing pressure as more competitors have entered the flexible rental marketplace. We are now being more selective in our target customers, mainly focusing on the SME market where our business model and proposition allows us to defend our pricing.

How do you protect your position in the market?
We continue to believe that our scale, network coverage and customer proposition offers the best available service to our customers.

Within the UK & Ireland we have seen some consolidation as competitors seek the scale to match our business model. We are also seeing increased competition, both from daily rental suppliers, and from contract hire and leasing operators. In response we have continued to develop and promote a full range of propositions to cover all our customers' needs. We use our LCV expertise, specialisation and scale to be more flexible than anyone else, which is what our customers are looking for.

In Spain, the market is becoming more competitive as companies offering long-term rental for large corporates move their proposition into our space. We are responding by focusing more on the SME market, which is where our proposition is best suited to customer needs.

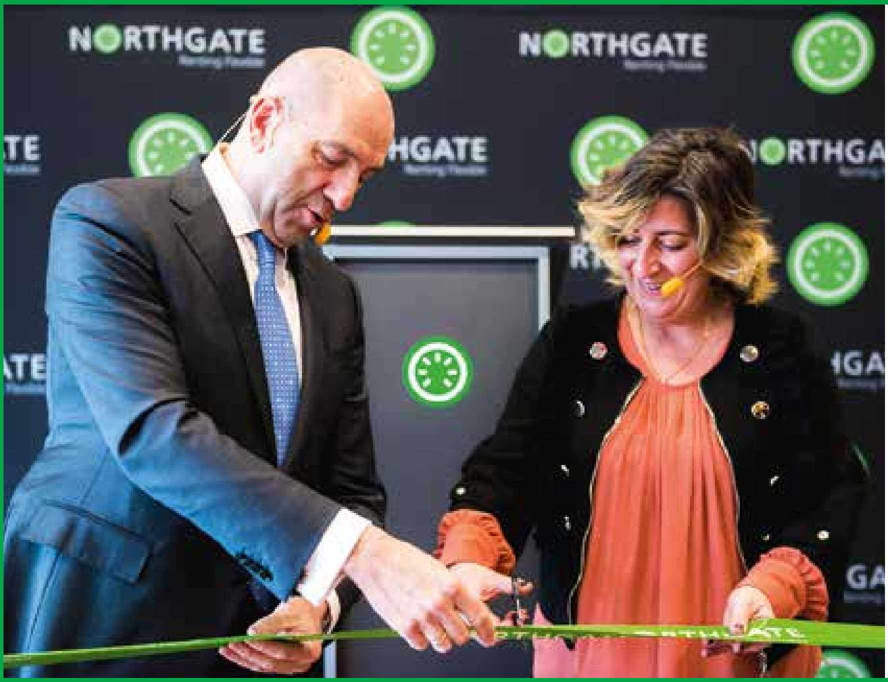
Are you beginning to see the benefits of your investment in technology and systems?
The process of implementing more sophisticated asset-management and rental-management systems is underway and we are pleased with the progress made so far. The introduction of the new system will deliver benefits over the next few years across almost every aspect of our business.

In the coming months, we will start to introduce new technology programmes such as dealer management for vehicle sales, simplified communication systems and an improved CRM database. These will deliver a number of benefits over the coming months, but the big step change will be to our core asset management and rental system.

What impact are you seeing from the changes in regulations for diesel engines?
We continue to maintain a modern fleet therefore virtually all Northgate vehicles comply with the latest Euro 5 or Euro 6 emissions standards. As low emission zones areas increase, we have a competitive advantage over operators with older fleets.

The diesel market for commercial vehicles remains robust in the UK – making up 99% of new LCV registrations, mainly because alternative fuel vehicles do not deliver an adequate combination of fuel economy and payload to operators. In Spain, our car purchases are now mainly petrol, with hybrid, LPG and electric vehicles making about 1.5% of the fleet. There is still a significant premium to the purchase cost of electric LCV's, and challenges remain regarding infrastructure for charging and reductions in payload. However, we are committed to staying at the forefront of electrical and low-emission penetration into the market, working with OEMs to ensure we have as full an allocation as possible of these vehicle types for customers.

What effect is Brexit having on your business?
The greatest risk would be a disruption to the supply of new vehicles and vehicle components imported into the UK from the EU, including additional import costs which may be imposed. Around 90% of vehicles purchased in the UK from OEMs are imported from the EU, valued at approximately £220 million per annum. Assurances have been sought from these OEMs, who are confident that there will be no material long-term disruption. Any potential short-term supply disruption can also be mitigated, by slowing the rate of vehicle de-fleets in order to maintain vehicle availability for customers. Components for vehicles manufactured in the UK are also imported from the EU. However, normal OEM stock levels are considered to be sufficient to address any potential short-term supply issues. The introduction of import costs could create some margin pressure in the short-term. However, we believe that in the longer-term, we will be able to pass through to end-users any significant additional costs that might be imposed on imported vehicles. A potential upside in the event of supply disruptions or higher purchase costs, would be the likely increase in rental demand and stronger residual values that would result. Less than 5% of our UK employees do not possess a UK passport, so any change to the status of EU citizens in the UK will not have a material effect on the company's operations.



A flagship site for Madrid

A highlight of the year was our opening of a new flagship site for retail sales in Los Olivos, Getafe, Madrid, close to our Spanish head office.

Los Olivos offers 2,000 sq m of showroom and 4,000 sq m of workshop as well as office space and extensive outdoor parking, together making an area of more than 15,000 sq m, all equipped with the latest technology.

Serving local, national and international companies in the area, customers can view and test drive a wide-ranging fleet covering LCV, vans, cars, off-road vehicles and, importantly in the Madrid metropolitan area, high energy efficiency vehicles such as Liquified petroleum gas and electric.

The flagship branch consolidates our position as leader in the Spanish market for flexible rental solutions and LCV sales.

Chief Executive's review continued

The strategy above has evolved to include the broadening of Northgate's provision of fleet solutions through the development of capital-light services in attractive and complementary markets. Northgate already provides a number of complementary services in the wider B2B vehicle rental landscape such as fleet and accident management solutions, and we expect to grow our participation in these attractive areas to support and drive future growth in our core business operations.

Delivery of the above market objectives draws on Northgate's many competitive strengths, which include:

Our strong brand, reputation and relationships in the LCV market;

The breadth and depth of our operational experience and expertise;

Our strong coverage capability in both territories, we offer national coverage capability as well as a presence in local markets through our nation-wide network of rental depots, service workshops and sales;

Our purchasing scale and strong relationships with vehicle manufacturers; and

Our strong balance sheet and cash flows and our disciplined approach to capital deployment.

Management of the vehicle fleet

In the prior year we made the decision to increase vehicle holding periods in all territories, to give a more efficient capital base and drive stronger cash returns and higher ROCE. The transition to this fleet optimisation policy continued during this year, which led to a lower number of vehicle sales with a corresponding reduction in replacement vehicles purchased. Consequently, the revenue and profits from disposals, capex, and net debt levels were all lower than they would have been under the previous policy whilst the fleet was transitioning to this older ageing.

Attractive growth in minimum-term

Average VOH growth in the year was driven by growth in our minimum-term product across both our markets, this will provide increasing visibility of our rental revenue and earnings. We have applied increased selectivity to minimum-term growth as the year progressed, seeing good opportunities for attractive growth in the UK & Ireland, and strong benefits of providing a bundled fleet solution to our customers in Spain.

Investment case
The Northgate equity story

1 Market

We operate in attractive and profitable markets, which are growing as customers shift from ownership of vehicles to rental.

2 Proposition

Our market-leading and differentiated product propositions in flexible and minimum-term rental are more customer friendly than the competition's.

3 Scale

We benefit from economies of scale in purchasing, while our national networks of depots enable us to offer the highest levels of service.

4 Earnings

Our turnaround is starting to take effect, and underlying earnings have strong growth potential.

5 Returns

We have a progressive dividend policy and continue to grow our dividend, providing sustainable returns to investors.

6 Financial

We have a strong balance sheet which continues to grow in value, demonstrating our underlying financial resilience.

UK & Ireland 2019 performance

UK & Ireland

Year ended 30 April	2019 ('000)	2018 ('000)	Change %
KPI			
Average VOH	**48.4**	43.5	11.3%
Closing VOH	**47.1**	45.5	3.4%
Vehicles purchased (incl. acquired)	**15.7**	23.4	(32.9%)
Vehicles sold	**21.0**	21.0	–
Profit per Unit (PPU) £	**512**	457	12.0%
Closing fleet size (incl. acquired)	**54.6**	56.7	(3.7%)
Average utilisation %	**88%**	87%	1 ppt
Average fleet age at year-end (mo.)	**21**	21	–

Year ended 30 April	2019 £m	2018 £m	Change %
Profit & loss (Underlying)			
Revenue – vehicle hire	**315.6**	**283.5**	11.3%
Revenue – vehicle sales	**166.5**	**156.9**	6.1%
Total revenue	**482.0**	**440.5**	9.4%
Rental profit	**24.6**	**23.5**	4.8%
Rental Margin %	**7.8%**	**8.3%**	(0.5 ppt)
Disposals profit	**10.8**	**9.6**	12.0%
Operating profit	**35.4**	**33.1**	6.9%
ROCE %	**6.4%**	**6.4%**	–

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Rental business

Rental revenue in the UK & Ireland in 2019 increased by 11.3% over the prior year to £315.6m (2018: £283.5m), driven by average VOH growth of 11.3%. Following the return to growth of year-on-year VOH in late 2018, momentum has remained strong throughout 2019, resulting in VOH of 47,100 at the end of the year, 3.4% higher than the prior year.

This strength in UK & Ireland rental revenues was driven by successful execution of the rental strategy, supported by the self-help actions identified through our strategic review. Lead generation from our marketing function has increased substantially during the year, particularly from our telesales capabilities and new digital marketing programme. In addition, Northgate successfully integrated 1,600 ex-TOM vehicles into VOH during the first quarter of 2019.

Price rises introduced to certain flexible hire products at the beginning of the year paved the way for further regular rate increases across our full range of rental products. These price adjustments have been very well planned, communicated and executed, and we have not seen an apparent adverse customer churn resulting from these changes. Year-on-year average hire rates returned to growth in the final quarter of the year, following a more proactive approach to managing revenues during the year. We are confident we will be able to continue to reflect the structural cost increases faced by the business through regular adjustments to our hire rates going forward.

At the year end, Northgate's compelling minimum-term proposition accounted for around 24% of average VOH, compared to 11% at the start of the year. The average term of these contracts is approximately three years, representing a significant improvement in the visibility of rental revenue and earnings, as well as lower transactional costs.

The 2019 UK & Ireland rental margin benefitted by approximately £4.8m from the changes in depreciation rates introduced on 1 May 2018. The rental margin has delivered sequential improvement for the past three half year periods, increasing from 6.0% in H2 2018, to 7.1% in H1 2019 and 8.5% in H2 2019. This improvement reflects the more competitive pricing introduced to the market as well as the execution of our strategic priorities. The overall 2019 rental margin of 7.8% decreased by 0.5 ppts versus the prior year.

The net impact of the higher VOH and lower rental margins was a 4.8% increase in UK & Ireland rental profits to £24.6m (2018: £23.5m)

Management of fleet and vehicle sales

The total UK & Ireland year end fleet size of 54,600 vehicles decreased from 56,700 in the prior year. 15,700 vehicles were purchased during the year and approximately 17,800 vehicles were de-fleeted, including 1,800 ex-TOM vehicles.

A total of 21,000 vehicles were sold in UK & Ireland during the year, including third-party vehicles purchased for resale and sales from stock. Our Van Monster operations achieved strong sales, especially in the retail channel, in addition to robust residual values in the market.

Disposal profits of £10.8m (2018: £9.6m) increased 12.0% over the prior year, driven by a c.12% increase in the average profit per unit (PPU) on disposals to £512 (2018: £457). Disposal profits were reduced by approximately £0.7m relating to the unwind of the depreciation rate changes.

Operating profit and ROCE

Underlying operating profit of £35.4m grew 6.9% over the prior year (2018: £33.1m) including a £4.1m net benefit from lower depreciation and the associated unwind through disposal profits.

The return on capital employed in the UK & Ireland was 6.4% (2018: 6.4%) reflecting both the increase in operating profit and the increase in capital employed resulting from attractive growth in minimum-term VOH.

Capex and cash flow

Year ended 30 April	2019 £m	2018 £m	Change %
EBITDA	**151.8**	135.8	11.8%
Net Replacement Capex	**(122.8)**	(105.4)	(16.5%)
EBITDA less Net Replacement Capex	**29.0**	30.4	(4.5%)
Growth Capex (incl. inorganic)	**(21.0)**	(53.1)	(60.5%)

EBITDA increased by 11.8% to £151.8m (2018: £135.8m) due to higher rental and disposal profits.

Net replacement capex in the year was £122.8m, 16.5% higher than in 2018, driven by OEM price inflation, strong VOH growth and expansion of our minimum-term product, offset by the benefit of vehicle ageing.

EBITDA less net replacement capex reduced by 4.5% in 2019 to £29.0m (2018: £30.4 million) reflecting higher EBITDA more than offsetting higher replacement capex in the year. Investment to grow the fleet was £21.0m, including approximately £1.6m partial cost of the TOM acquired vehicles.

Chief Executive's review continued

Spain 2019 performance

Spain

Year ended 30 April	2019 ('000)	2018 ('000)	Change %
KPI			
Average VOH	**44.8**	40.3	10.9%
Closing VOH	**46.0**	42.7	7.5%
Vehicles purchased	**13.9**	18.9	(26.5%)
Vehicles sold	**11.6**	13.0	(10.8%)
PPU €	**626**	871	(28.1%)
Closing fleet size	**51.1**	48.0	6.5%
Average utilisation %	**91%**	91%	–
Average fleet age at year-end (mo.)	**20**	19	1 mo.

Year ended 30 April	2019 £m	2018 £m	Change %
Profit & loss (Underlying)			
Revenue – vehicle hire	**202.1**	187.6	7.7%
Revenue – vehicle sales	**61.4**	73.5	(16.6%)
Total revenue	**263.4**	261.2	0.9%
Rental profit	**39.7**	29.0	37.1%
Rental margin %	**19.7%**	15.4%	4.3 ppts
Disposals profit	**6.4**	10.0	(36.3%)
Operating profit	**46.1**	39.0	18.3%
ROCE %	**10.7%**	10.0%	70 bps

Rental business

Rental revenue in Spain grew 7.7% to £202.1m (2018: £187.6m) driven by average VOH growth of 10.9% in FY 2019. At constant exchange rates the reported growth in rental revenue was 7.9%.

Strong VOH growth throughout the year was underpinned by stable macro-economic conditions, strong growth in the Spanish rental fleet and the continuing structural shift away from LCV ownership to 'usership', most notably into minimum-term hire. Northgate leveraged its leading position in the flexible rental market to support ongoing expansion into minimum-term during the year. Customers have welcomed Northgate's successful bundling of minimum-term and flexible products and cross-selling achievements have been strong.

VOH growth was also supported by ongoing vehicle diversification of flexible hire vehicles allowing us to serve new markets, with niche vehicles including refrigerated vehicles for food distribution now representing c.1.5% of Northgate's fleet. In addition, we have also increased our base of green vehicles in response to increasing anti-pollution measures and trends in sustainable mobility.

VOH growth softened in the final quarter to 8.6%, principally reflecting the strong VOH growth in the prior year. This led to closing VOH of 46,000 at the end of the year, 7.5% higher year-on-year. At the end of the year around 31% of average VOH were being supplied on minimum-term contracts.

The 2019 rental margin of 19.7% (2018: 15.4%) increased significantly year-on-year driven primarily by the 3% reduction in depreciation rates in Spain, effective 1 May 2018. Rental profits in 2019 grew 37.1% to £39.7m (2018: £29.0m) including a £15.4m benefit from the changes in depreciation rates. Alongside the depreciation benefit, the delivery of operational leverage and efficiency improvements more than offset the impacts of vehicle price inflation and the greater proportion of minimum-term contracts. Vehicle utilisation in the year remained consistent with the prior year at 91%.

Rental profits grew by 37.7% at constant exchange rates.

Management of fleet and vehicle sales

The total fleet size in Spain increased by 6.5% to 51,100 vehicles, driven by the strong growth in VOH during the year. This net increase of 3,100 vehicles comprised 13,900 vehicles purchased for the fleet less approximately 10,800 de-fleeted vehicles. The average age of the fleet at the end of the year was around one month higher than at the same time last year.

A total of 11,600 vehicles were sold in Spain during the year, 10.8% less than in the previous year. The average profit per unit (PPU) on disposals in Spain fell by more than 28% to €626 (2018: €871), reflecting the impacts of the fleet optimisation policy. As a result of the lower disposal volumes and PPU, profits from vehicle sales fell by 36.3% to £6.4m (2018: £10.0m).

Operating profit and ROCE

The growth of rental profit of £10.7m was partially offset by the £3.6m fall in disposal profits, with total operating profit increasing by £7.1m (18.3%) to £46.1m (2018: £39.0m). At constant currencies, operating profits in Spain grew 18.8%.

The return on capital employed in Spain was 10.7% (2018: 10.0%) reflecting improved operating profit and the increase in capital employed driven by the growth and mix of the fleet.

Capex and cash flow

Year ended 30 April	2019 £m	2018 £m	Change %
EBITDA	**115.1**	109.4	5.2%
Net Replacement Capex	**(78.5)**	(80.5)	2.5%
EBITDA less Net Replacement Capex	**36.6**	28.9	26.6%
Growth Capex	**(21.7)**	(72.0)	69.9%

EBITDA increased by 5.2% to £115.1m (2018: £109.4m) reflecting higher rental profits partially offset by lower disposal profits.

Net replacement capex in Spain in the year was £78.5m, 2.5% lower than in 2018, mainly due to OEM price inflation, with growth in minimum-term being offset by vehicle ageing.

EBITDA less net replacement capex grew by 26.6%, to £36.6m (2018: £28.9m), reflecting the benefit of ageing. Growth capex was £21.7m, £50.3m lower than the prior year due to lower growth in the fleet.

Kevin Bradshaw
Chief Executive Officer