AA Intermediate Co Ltd - Investor Report

This is the Investor Report for the year ended 31 January 2024 which we are required to deliver pursuant to paragraph 6 of Part A of Schedule 3 of the Common Terms Agreement.

All figures in the commentary below are as per the AA Intermediate Co Limited statutory accounts, post adoption of new IFRS accountings standards such as IFRS 17, IFRS 16 and IFRS 9. We note that the ratios below and the commentary in respect of the Group's debt covenants are calculated after reversing the impact of such GAAP changes as required by the covenant documents.

General Overview

The business is focused on delivering the highest possible standards of customer service, quality products, stable and predictable revenue streams, strong operating margins and high cash generation. The Group continued to demonstrate all of these qualities in the financial year:

- Roadside members (personal and business) increased by 3% in the period – personal membership remained resilient with renewal rates of 84.7% and business membership increased by 4%

- Revenue increased by 7% from £994m in 2023 to £1,067m in 2024 driven by increasing income paid per member in both business to-consumer (B2C) and business-to-business (B2B), and expansion of our Accident Assist business, coupled with increasing customer premiums and market stabilisation following the implementation of the FCAs new General Insurance Pricing Practices (GIPP) in Insurance.

- There was a slight reduction in Adjusted EBITDA by 1% to £380m (2023: £383m) resulting from the expected reduction in Roadside trading margins due to inflationary cost pressures. During the year we have adjusted our pricing in light of these inflationary pressures. The annual renewal profile of our membership means that these pricing adjustments have not been fully recognised in year.

- Cash flow from operating activities before tax was £329m (2023: £252m)

- Total Class A Net Debt to EBITDA was 5.7x as at 31 January 2024 (2023: 5.8x).

Further information is available at www.theaacorporate.com.

Regulatory and Business Update

In December 2023, Stonepeak, a leading alternative investment firm specialising in infrastructure and real assets, entered into an agreement with majority shareholders, TowerBrook Capital Partners and Warburg Pincus, to invest £450m into The AA at an enterprise value of approximately £4bn. This investment will include a capital injection into the AA Limited Group. The Group intends to repay £180m of B3 Notes by July 2025 and further de-lever the business. Another substantial tranche of the investment from Stonepeak will be used to acquire a holding in the AA Limited group from existing shareholders. The transaction is expected to close in the first half of 2024, subject to customary closing conditions including the receipt of regulatory approvals.

During the year, the Financial Conduct Authority's (FCA) Consumer Duty regulation came into force, setting higher and clearer standards of consumer protection across financial services. The AA Intermediate Co Limited Group achieved compliance by 31st July 2023, which is when the regulation came into force.

The Group adopted IFRS 17 on 1 February 2023, which replaces IFRS 4 – Insurance Contracts. IFRS 17 was applied retrospectively as at 1 February 2022. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and reinsurance contracts. For more information, please see the AA Intermediate Co Limited annual report (https://www.theaacorporate.com.)

There have been no other new significant regulatory and business developments (including any highly publicised incidents) other than as described in the Financial Statements.

There have been no other significant announcements/publications by the government relating to Permitted Business.

The Directors who held office during the year and up to the date of signing the financial statements were as follows:

Michael Wing, Director
Tom Mackay, Chief Financial Officer

Capital Expenditure

Capital Expenditure (excluding Maintenance Capital Expenditure) in the period to 31 January 2024 was £47m.

There has been no other Capital Expenditure (excluding Maintenance Capital Expenditure) in an amount exceeding £5m (Indexed) during the period.

Financing

On 6 February 2023 the Group renewed and increased its Liquidity Facility by £15m and by a further £25m on 7 June 2023, to a total of £200m. The facility remains undrawn.

On 10 February 2023 the Group increased its Senior Term Facility by £15m to a total of £165m. The additional £15m Senior Term Facility commitments were drawn on 24 March 2023.

On 6 February 2023 the Group issued £400m of Class A11 Notes at an interest rate of 8.45%. The proceeds of the issuance of the Class A11 Notes were used to redeem £308m of Class A7 Notes for a cash payment of £302m on 7 February 2023 tendered by existing note holders as part of a liability management exercise. The remaining surplus cash proceeds of £98m were transferred to a mandatory prepayment account to be held for redemption of Class A7 Notes. A further £10m of Class A7 Notes were purchased from existing bond holders on 3 March 2023 and redeemed. A further £103m of Class A7 Notes were voluntarily repaid on 16 May 2023 and redeemed using the £98m surplus and £5m of additional cash.

On 23 June 2023 the Group issued an additional £135m of Class A10 Notes at a yield to maturity of 9.50% and a below par price of 90.31%. The proceeds of the issue of £122m were used in combination with existing cash held to redeem the outstanding £129m of Class A7 Notes.

On 17 August 2023 £61m of A2 Notes were repurchased and cancelled for cash consideration of £60m. The remaining A2 principal balance after this redemption is £439m.

Post year end, on 22 May 2024 the Group issued £435m of A12 Notes with a maturity date of 31 July 2031. £429m of the A12 proceeds were used to settle a tender offer of the A2 Notes on 23 May 2024, and £6m is held in a mandatory prepayment account to be used to repay the outstanding A2 Notes.

Acquisitions or Disposals

There were no acquisitions or disposals in the year ended 31 January 2024.

Post year end, on 1 February 2024 the Group acquired a 100% share in Key Care Ltd ("Keycare") for total consideration of £10m cash. Keycare is an insurance business offering insurance policies for lost and stolen keys operating in the UK and the Republic of Ireland. The acquisition enables the Group to expand its product base and increase its offerings for both business and consumer customers, enhancing its position in the market.

Current Hedge Position

The Holdco Group has interest rate swaps in place which are used to fully hedge its interest rate exposure in relation to its drawn Authorised Credit Facilities. The Group has also currently hedged 100% of forecast diesel usage for the year ended 31 January 2025 and c.50% of forecast usage for the year ended 31 January 2026.

Class A 'Basket' Reset

As at 1 February 2023 we reset both the Minimum Capital Maintenance Spend Amount to £44 million (from £35 million). The Maximum Finance Lease Amount remains at £150 million. This applies for the 5 financial years ending 31 January 2028.

Ratios

We confirm that in respect of this investor report dated 06 June 2024, by reference to the most recent Financial Statements that we are obliged to deliver to you in accordance with paragraph 1 (*Financial Statements*) of Part A (*Information Covenants*) of Schedule 3 (*Holdco Group Covenants*) of the Common Terms Agreement:

- the Class A FCF DSCR for the Test Period ending on 31 January 2024 is 2.7x, which is greater than the Trigger Event Ratio Level and Class A Default Ratio Level; we set out the calculation below:

	Year to Jan-24 £m
Operating profit before tax	37
Add back:	
Debt interest payable	153
Interest payable under finance leases	2
Amortisation of debt issue costs	6
Discounts and fees in respect of financing	3
Transfer from cash flow hedge reserve	(8)
Finance cost in respect of pensions	7
Exceptional items	33
Depreciation and amortisation	105
Difference between the pension service cost and employer cash contributions	6
Share-based payments	4
Less:	
Gain on below par redemption of loan notes	(7)
Interest receivable	(6)
Class A Maintenance EBITDA	335
Less	
Cash tax paid	(17)
Change in working capital	47
Minimum capital maintenance spend	(44)
Class A Free cash flow	321
Class A total debt service charge	121
Class A FCF DSCR	2.7

- the amount of Additional Financial Indebtedness raised since the date of the immediately preceding Investor report and included for the Test Period ending 31 January 2024 was £nil.

- the amount of Permitted Investor Payments made since the date of the immediately preceding Investor Report was £nil. The ratio of Total Class A Net Debt to EBITDA at the relevant Test Date (31 January 2024) calculated for such Permitted Investor Payments was 5.7x.

Maximum permitted investor payment

		Year to Jan-24 £m
Class A Debt:		
	STF Interest	165
	Class A2	439
	Class A8	325
	Class A9	270
	Class A10	385
	Class A11	400
Less:	Cash and Cash Equivalent Investments	(87)
Total Class A Net Debt		1,897
	Permitted Investor payment	-
Max Class A Net Debt		1,897
Class A Maintenance EBITDA		335
Ratio of Class A Net DEBT to EBITDA		5.7

- We confirm that the Class A FCF DSCR Ratio has been calculated in respect of the Test Dates for which it is required to be calculated under the Common Terms Agreement.

Excess Cashflow

- the amount of Excess Cashflow is £nil. We set out below the computation of Excess Cashflow for the preceding Financial Year.

	Year to January 2024 £m
Free Cash Flow	321
Less:	
Exceptional items	(19)
Proceeds from sale of fixed assets	4
Capital expenditure for the period	(78)
Cash consideration on permitted acquisitions and joint venture investment	2
Cash payable under pension deficit reduction programme	(30)
Voluntary and mandatory debt repayments	(604)
Proceeds from debt issued	537
Total debt service costs	(142)
Lease capital repayments	(33)
Debt issue fees not covered by receipts from borrowings	(5)
Adjustment for share-based payments	(4)
Add back:	
Minimum capital maintenance spend	44
Excess cashflow	(7)

- the amount of Retained Excess Cashflow as at the date of this Investor Report is £278m.

We confirm that:

- no CTA Default or Trigger Event has occurred and is continuing.
- the Holdco Group is in compliance with the Hedging Policy.
- we are in compliance with the Obligor Coverage Test.
- below is a list of the Material Companies as at 31 January 2024:
    - Automobile Association Developments Limited
    - Automobile Association Insurance Services Limited
    - AA Corporation Limited
- the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully,

T. Mackay

Tom MacKay
Director
For and on behalf of Automobile Association Developments Limited as Holdco Group Agent
06 June 2024