AA Always Ahead

AA Intermediate Co Ltd - Investor Report

This is the Investor Report for the six months ending 31 July 2024 (H1 25) 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 profits, strong operating margins and high cash conversion. The Holdco Group continued to demonstrate all of these qualities in the first half of the financial year:

- Roadside Paid personal members increased to 3.277m (H1 24: 3.267m) and business customers increased by 4% to 11.117m (H1 24: 10.666m).
- H1 25 Revenue increased 6% to £556m (H1 24: £524m) driven by growth in business customers as well as growth in average income per member.
- H1 25 Adjusted EBITDA increased 4% to £198m (H1 24: £191m) despite ongoing inflationary and macroeconomic pressures.
- Net cash inflows from operating activities increased to £169m for the six months ended 31 July 2024 (H1 24: £150m).
- The Total Class A Net Debt to EBITDA ratio was 5.46x as at 31 July 2024 (H1 24: 5.7x)

Further information is available at https://www.theaacorporate.com.

Regulatory and business update

On 26 July 2024, the transaction previously announced in December 2023 whereby Stonepeak entered into an agreement with Basing TopCo Limited (an indirect parent of AA Intermediate Co Limited), and its ultimate majority shareholders, TowerBrook Capital Partners and Warburg Pincus, to invest into the AA Limited group completed. As part of Stonepeak's £450m investment, £180m was provided to the wider AA group of which £158m was injected into the AA Intermediate Co Limited group to fund the redemption of £155m notional of Class B3 Notes at a redemption price of 101.625%. The remaining £22m will be used by the wider Group to support the next phase of our growth strategy and pay certain transaction costs associated with the Stonepeak investment.

There have been no other new significant regulatory and business developments (including any highly publicised incidents) other than as described in the Interim 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 July 2024 included growth capital expenditure of £17m.

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

Financing

On 6 February 2024 the Group renewed its £200m Liquidity Facility. The facility remains undrawn.

On 22 May 2024 the AA Limited group issued £435m of Class A12 Notes with an interest rate of 6.85% and a maturity date of 31 July 2031. On 23 May 2024, £429m of the issue proceeds were used to settle a tender offer of Class A2 Notes. The remaining £6m of A12 proceeds were held in a Mandatory Prepayment Account.

On 31 July 2024 the outstanding £10m of A2 Notes were redeemed using the £6m of A12 proceeds in the Mandatory Prepayment Account and existing cash held.

On 31 July 2024 the Group redeemed £155m of Class B3 Notes at a redemption price of 101.625% using cash received as part of the Stonepeak investment into The AA.

Acquisitions or Disposals

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 Hedging Position

As at 31 July 2024, 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 for the year ended 31 January 2026.

Ratios

We confirm that in respect of this investor report dated 16 October 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 July 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:

£m	**12 months to July 24**
Operating profit before tax	46
Add back:	
Total debt service charges net of interest receivable	166
Exceptional items	16
Depreciation and amortisation	108
Pension adjustment	6
Share-based payments	2
Less:	
Gain on below par redemption of loan notes	(1)
Class A EBITDA	**343**
Less	
Cash tax paid	(22)
Change in working capital	48
Minimum capital maintenance spend	(44)
Class A Free cash flow	**325**
Class A total debt service charge	120
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 July 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 July 2024) calculated for such Permitted Investor Payments was 5.46x.

Maximum Permitted Investor Payments

		12 months to July 24
		£m
Class A Debt:		
	STF	165
	Class A8	325
	Class A9	270
	Class A10	385
	Class A11	400
	Class A12	435
Less:	Cash and Cash Equivalent Investments	(111)
Total Class A Net Debt		**1,869**
Class A EBITDA		**343**
Ratio of Class A Net Debt to EBITDA[1]		**5.46**
Maximum amount of Permitted Investor Payments[1]		**14.92**

[1] *Calculated on an unrounded basis*

Excess Cashflow

- 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.
- 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

16 October 2024