H1 16 interim results

22 September 2015

AA Your 4th Emergency Service

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Definitions

The following definitions apply throughout

Trading EBITDA (earnings before interest, tax, depreciation and amortisation): excludes exceptional items, share-based payments, acquisition earn-out costs and items not allocated to a segment.

Cash conversion: net cash flow from operating activities before tax and exceptional items divided by Trading EBITDA.

Adjusted Basic EPS: Earnings per share adjusts for a number of one-offs of which the largest are exceptional items, the amortisation of debt issue fees and penalties on early repayment of debt.

Personal Members and Business Customers: measured as the number at the period end.

Agenda

- **Headlines**
  Bob Mackenzie, Executive Chairman
- **H1 16 results**
  Martin Clarke, CFO
- **Strategic developments**
  Bob Mackenzie
- **Outlook**
  Bob Mackenzie

Headlines

Bob Mackenzie

Strategic objectives and performance

Strategic objective

1

Strengthen the AA as the pre-eminent motoring services organisation in the UK

Performance

- Good progress in Roadside Assistance transformation:
  - Retention up
  - Rate of decline in personal members slowed
  - New business up
- Core insurance holding up in tough market conditions but prior year results flattered by impact of credit card run off in Financial Services
- Insurance underwriter to be launched in new year
- Financial Services partnership launched

Strategic objectives and performance

Strategic objective

2

Revolutionise customer experience through investing in brand and embracing new technologies

Performance

- IT transformation on track and to budget with first phase in place in July 2016
- Marketing and advertising campaign positive for new sales, retention and morale
- App now used in 5% of personal breakdown calls

Strategic objectives and performance

Strategic objective

3

Reduce Group borrowings and the associated interest costs

Performance

- Refinancing reduced annual financing cash costs by £45m and facilitated dividends
- Restructuring savings now expected to be at least £40m pa
- Continued strong cash generation
- Total dividends of £55m proposed in FY 16 with interim dividend of 3.5p per share declared
- Intend to pursue a progressive dividend policy

The financial results
Martin Clarke

Financial performance reflects investment

- Group revenue down 1.4% to £484.6m despite 2.1% growth in Roadside
- Trading EBITDA down £12.6m to £199.2m, but including more than £15m of adverse factors:
  - Marketing and advertising spend
  - Additional Plc operating costs
  - Credit card run off impact benefitting prior year in Financial Services
  - Training of staff on Bosch technology
  - Ireland FX effect
- Trading EBITDA margin 41.1% (43.1%)
- Adjusted EPS (before refinancing) 8.2p (11.6p)
- Cash conversion 112% (101%)
- Dividends of £55m proposed for FY16; interim dividend of 3.5p per share declared

On track to meet year end expectations

Revenue drivers

- Rate of decline in Personal Members slowing (down 0.3% Q2 on Q1)
- Roadside retention up 1 percentage point to 80%
- Effect of new Personal Member pricing yet to flow through
- VW Group contract benefitting Business Customer numbers (anniversary in June)
- Insurance policies and average income per policy reflect the challenging Motor insurance market

	H1 16	**Y-o-Y Change**
Personal Members	3.7m	- 3.9%
Average income per Personal Member	£138	+ 6.2%
Business Customers	10.0m	+ 4.7%
Average income per Business customer	£18	flat
Breakdowns attended	3.5m	+ 2.9%
Insurance policies	2.1m	- 4.1%
Average income per insurance policy	£63	- 4.5%

Roadside Assistance retention up and Personal Membership decline slowing

Trading EBITDA

£m	**H1 16**	**H1 16 % of total**	**H1 15**
Roadside Assistance	**172.3**	76%	178.3
Insurance Services and Underwriter	**37.4**	17%	41.6
Driving Services	**8.9**	4%	8.6
Ireland	**6.9**	3%	7.1
Head Office costs	**(26.3)**		(23.8)
Total Trading EBITDA	**199.2**		**211.8**
Trading EBITDA margin	**41.1%**		43.1%

Note: Trading EBITDA % split shown pre head office costs

Roadside Assistance – a solid performance

- Revenue up 2.1% to £359.1m
  - Retention up 1 percentage point to 80%
  - New business up >5% since the advertising campaign was launched
  - Rate of decline in Personal Members slowed: down 0.3% Q2 on Q1
  - Average income per personal member +6.2% but likely to moderate as renewal price increases are held
- Trading EBITDA down 3.4% to £172.3m
  - Early phasing of marketing and advertising spend – £7.5m of anticipated £10m
  - Bosch technology investment resulting in garaging costs for patrols' training
  - Hot weather in July also resulting in increased garaging costs

Roadside showing early benefits of transformation ahead of new IT

Insurance Services – core insurance holding up well

- Trading EBITDA down 10.3%
- Core insurance holding up well; of £4.3m total decline, core insurance £1m
  - Favoured profitability over volume in Motor insurance
  - Home insurance stable
  - 16% reduction in call centre costs
- One off benefits in prior year of £2.3m in Financial Services
  - Financial Services benefit from the former credit card run-off
  - Expected also to affect the year end
- Insurance Underwriter launch expected in new year

Measures in place to improve core insurance performance

Driving Services, Ireland and head office costs

- Driving Services EBITDA up 3.5%; benefitted from renegotiation of car leases as finance leases
- Ireland's underlying performance strong; EBITDA rose £0.6m on constant FX
- Head Office costs include £4m of incremental Plc costs (c £8m in a full year)

Cashflow

	H1 16 £m	H1 15 £m
Trading EBITDA	**199.2**	211.8
Exceptional items	**(26.4)**	(39.4)
Other items including investing and tax	**(50.2)**	(14.7)
	122.6	157.7
Financing activities	**(308.0)**	72.1
Net cash flow	**(185.4)**	229.8

Cash as at 1 February	**301.5**	203.2
Net foreign exchange differences	**(0.8)**	(0.5)
Net cash flow	**(185.4)**	229.8
	115.3	432.5
Working capital	**39.3**	5.9
Cash as at 31 July	**154.6**	438.4

Cash reserve of £130m[1] available

Cash conversion 112% (101%)

£194m raised from share issue

£721m inflow from proceeds of new B2 notes (net of fees) offset by outflow of £1,039m on repayment of borrowings

Substantial increased investment in IT

Decrease in cash versus increase in prior year due to refinancing and consequent early repayment penalties

Note: [1] Cash of £155m less restricted cash of £25m

Q1 refinancing completed

- Issued £735m new high yield bonds to repay original Class B Notes (9.5%) on 31 July
- Raised £200m new equity to pay balance of PIK notes (9.5%)
- Repaid £209m of Senior Term Facility from existing cash in WBS
- Impact of the refinancing
  - Reduced leverage from 6.9x to 6.7x net debt / FY15 EBITDA
  - Reduced blended cost of debt from 5.9% to 5.0%
  - Near term maturities (pre 2020) reduced from 69% to 40% of outstanding debt
  - Accelerated payment of dividends by simplifying gating covenants

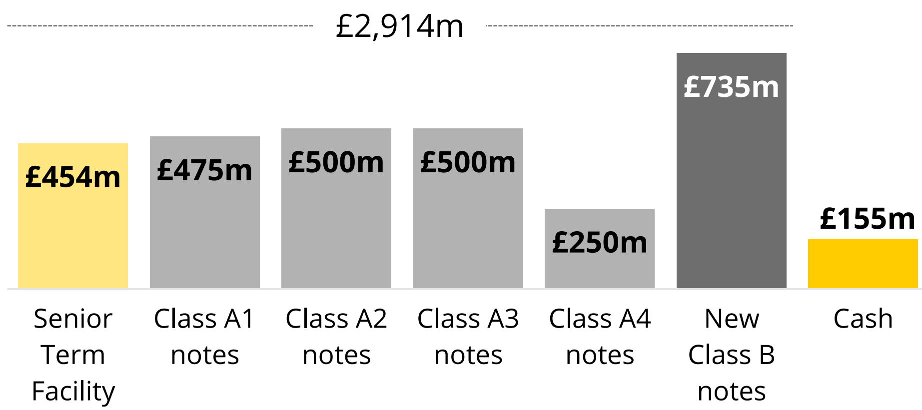
A key strategic objective achieved

Potential to continue to delever

Debt structure

Fixed interest rates
(with LIBOR hedged for Senior Term Facility)

Interest rate	4.36%[1]	4.72%	6.27%	4.25%	3.78%	5.50%
Effective maturity	2019	2018	2025	2020	2019	2022
Final maturity	2019	2043	2043	2043	2043	2043



Leverage 6.7x net debt / EBITDA

Blended cost of debt at 4.96%

Average maturity 6 years

Pro-forma interest cover close to 3x

Gross debt including finance leases of £2,966m vs. £3,432m at IPO

Note: [1] Senior Term Facility at LIBOR + 2%. As a result of certain hedging arrangements LIBOR is effectively fixed at 2.3640% until July 2018 and 2.9985% for the period between August 2018 and January 2019, such that if the Class A notes are rated "BBB-" or above, the maximum rate of interest payable until 31 July 2018 is 4.364%

Dividends

- Refinancing facilitated payment of dividends
- Committed to pay at least £50m in respect of FY16
- Expected dividends of £55m with interim dividend declared of 3.5p per share
  - Ex-dividend date: 1 October 2015
  - Record date: 2 October 2015
  - Payment date: 23 October 2015

Fundamental strength of the business and cash generation

Good progress in transformation to date

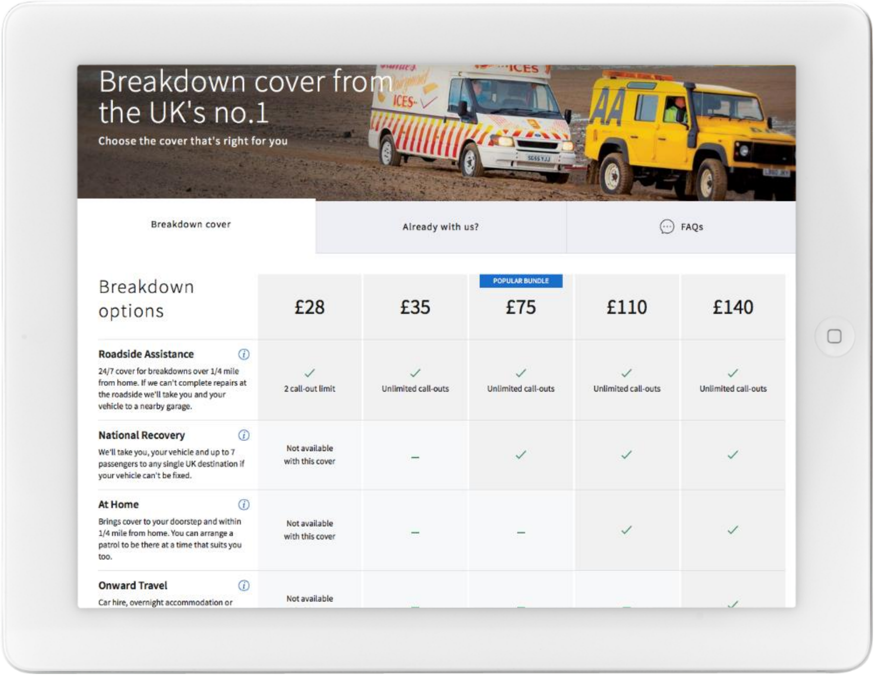
Confidence in potential of the AA

Strategy update

Bob Mackenzie

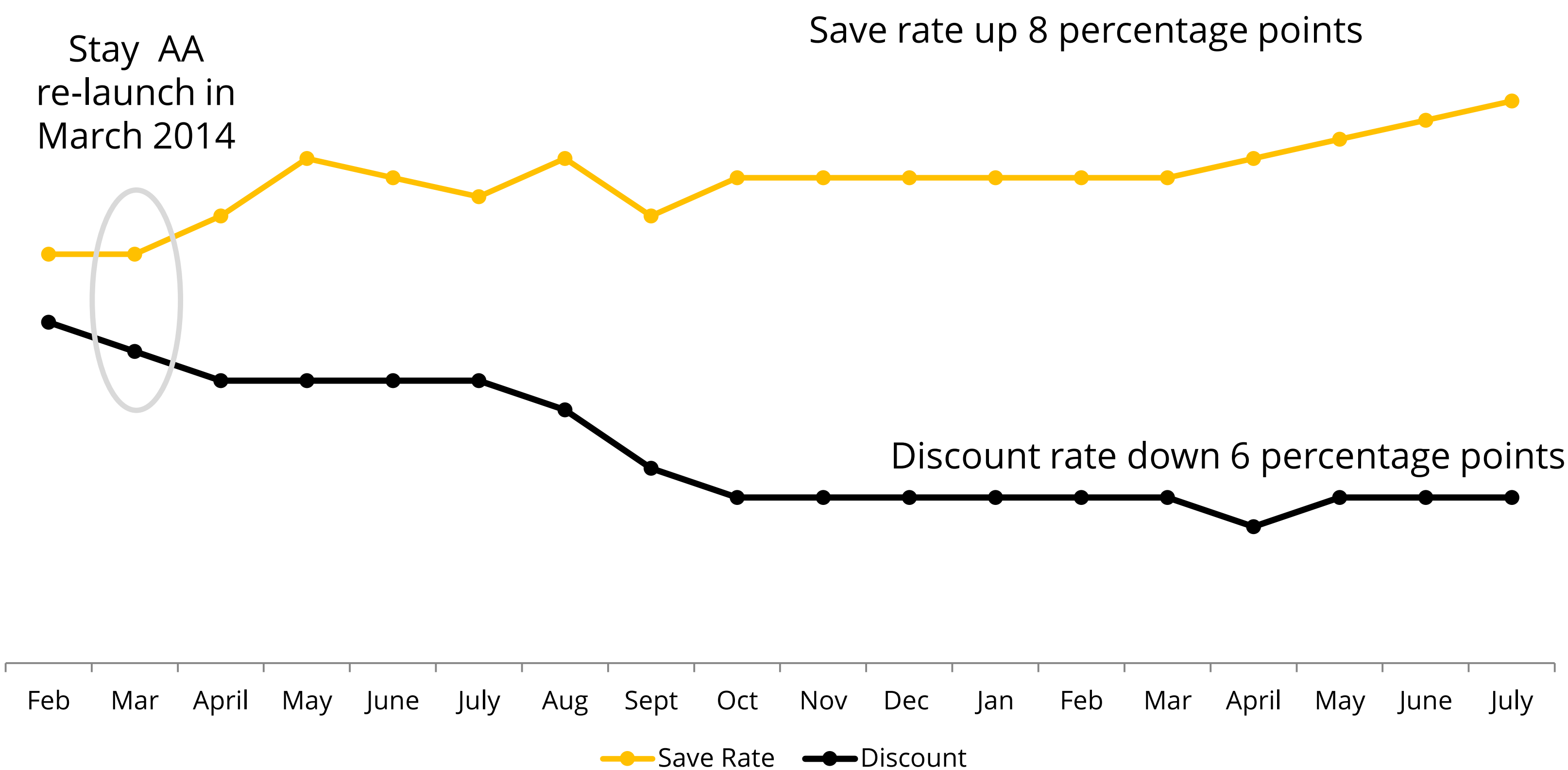
Good progress in Roadside transformation

- Focus on pre-IT implementation initiatives
- Advertising campaign proving highly effective
- Clearly-defined, low cost basic product launched – focuses on benefits of full membership
- Improved marketing channels
- New discounting tools to address churn
- Member benefits under review - smaller number of stronger benefits



Retention up; discounting stabilised; new sales up

Stay AA – continued improvement in retention



Save rate up and discount rate down since Save AA launch in March 2014

App uptake growing and improved digital capability

- App making positive progress
  - 5% of breakdown calls
  - New “Browse Warning Lights” tool
- Bosch diagnostics equipment rolled out to patrols
  - Able to connect to the majority of cars on the road
  - Positive impact on repair rates
- Working on self-service and My AA

Good progress and new IT will deliver productivity and growth

Brand advertising and marketing – positive impact

- First brand advertising in ten years launched in June
- Investment of £7.5m in H1 with balance of expected £10m in H2
- Initial response to brand marketing very positive
- Programme for next year to be built on this campaign's success
- We may invest additional resources in product development

With more expertise than anyone else we have seen it all

Marketing and advertising progressing well

IT transformation on budget and to time

- First phase on track for July 2016
  - Majority of call centre desktop IT upgraded
  - Stronger CRM capabilities; opportunity for digital propositions and cross-sell
  - Smoother, interactive, self-help experience for members
  - Enhanced deployment and patrol support
- Enabler for further opex savings
- Enabler for revenue growth

IT transformation capex spend of c£128m over 3 years

Front end loaded

- c£82m in FY 16
- c£36m in FY 17
- c£10m in FY 18

Steady state IT capex of £10m pa after investment phase (versus £30m pa)

Additional IT maintenance opex of £8m in a full year

Cost savings at least £40m after investment phase

- IT infrastructure investment delivers
  - Decreased manual reconciliation
  - Increased back office automation
- Digital investment delivers
  - Reduction in customer interaction points (currently 1.6 calls per breakdown)
  - Smoother customer experience
- Diagnostics investment delivers
  - More accurate diagnosis
  - Higher repair rates
  - Improved efficiency of resourcing
- CRM investment delivers
  - Greater ability to cross and up sell
  - Greater efficiency for call centres
- Benefits to culture

Restructuring overview

Investment in people and property strategy c£45m over 3 years

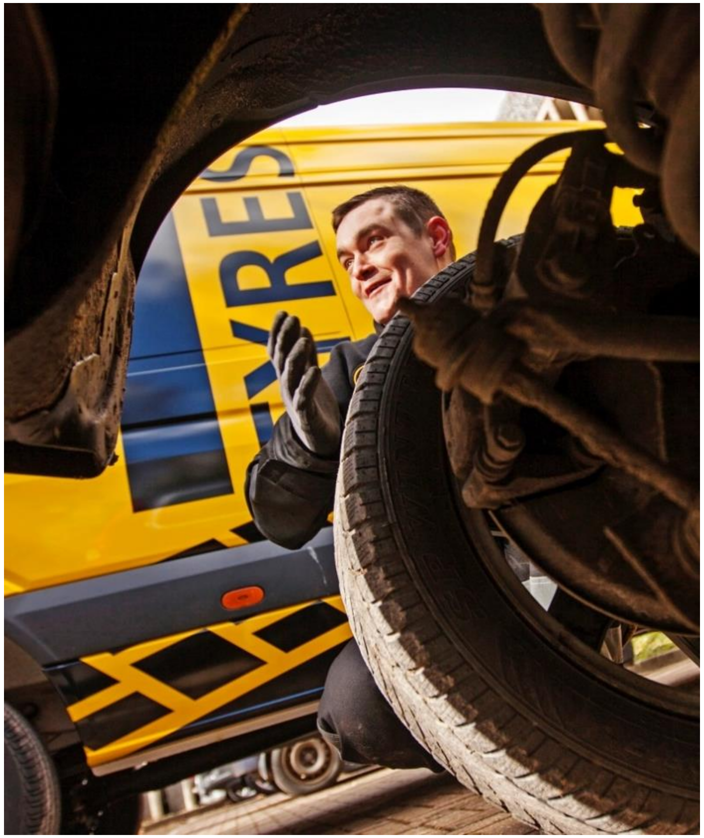
Cost savings of at least £40m thereafter

Phase 1 savings: £4m in FY 16, £8m annualised

Phase 2 to commence after IT in place

New business developments

- India Roadside Assistance JV signed with TVS in July
- Bank of Ireland Financial Services partnership signed in July
- AA Tyres, our mobile tyre fitting business, performing well
- Insurer Underwriter on track for soft launch early next year; unencumbered insurance company purchased
- AA AutoWindshields disposal agreed in August with ongoing supply contract



New business developments creating platform for growth

Outlook

Bob Mackenzie

Outlook

- Transformation well on track and we expect to meet expectations for FY16
- Transitional impacts on FY17
  - IT systems and marketing investment will be in place but benefits to follow
  - We will assess the desirability of further investment in marketing
  - Expect to commit increased resources to product development
  - Higher IPT expected to generate churn in Insurance and Roadside
  - EU holiday pay legislation will potentially increase costs
- Refinancing created a stable, medium-term capital structure
- Cash generation allows continued deleveraging
- Dividends of £55m in respect of FY16 and progressive dividend policy

Transforming the AA into a membership club
serving a broader range of motorists' needs in a digital age

Appendix

Profit & loss

	H1 16 £m	H1 15 £m
Revenue	**484.6**	491.7
Cost of sales	**(172.1)**	(172.3)
Gross profit	**312.5**	319.4
Administrative & marketing expenses	**(175.3)**	(171.5)
Other items	**0.5**	0.6
Operating profit	**137.7**	148.5
Trading EBITDA	**199.2**	211.8
Items not allocated to a segment	**(7.6)**	(1.8)
Amortisation and depreciation	**(25.9)**	(21.9)
Share-based payments and acquisition earn-out costs	**(1.6)**	(0.2)
Exceptional items	**(26.4)**	(39.4)
Operating profit	**137.7**	148.5
Net finance costs	**(201.3)**	(138.3)
(Loss) / profit before tax	**(63.6)**	10.2
Tax income	**12.5**	17.3
(Loss) / profit for the period	**(51.1)**	27.5

Trading EBITDA down 6% to £199.2m reflecting first half investment

A&M expenses include exceptional items, mainly restructuring activities

Net finance costs reflect early repayment penalties and written off debt issue fees

Tax income reflects the loss before tax due to higher finance costs

Ongoing tax rate c 20%

Balance sheet

	H1 16 £m	H1 15 £m
Non-current assets		
Goodwill and other intangible assets	**1,270.9**	1,249.9
Property, plant and equipment	**106.0**	93.0
Investments in joint ventures and associates	**8.4**	4.0
Deferred tax assets	**57.0**	53.4
Other receivables	**-**	13.1
	1,442.3	1,413.4
Current assets		
Inventories	**5.3**	5.4
Trade and other receivables	**184.4**	175.4
Cash and cash equivalents	**154.6**	438.4
	344.3	619.2
Assets held for sale	**3.0**	-
Total assets	**1,789.6**	2,032.6
Current liabilities		
Trade and other payables	**(523.4)**	(498.4)
Provisions	**(6.4)**	(10.7)
	(529.8)	(509.1)
Non-current liabilities		
Borrowings and loans	**(2,910.7)**	(3,376.9)
Finance lease obligations	**(20.4)**	(10.8)
Defined benefit pension scheme liabilities	**(328.5)**	(266.5)
Provisions	**(11.3)**	(14.1)
Insurance technical provisions	**(3.9)**	(4.3)
	(3,274.8)	(3,672.6)
Liabilities held for sale	**(4.5)**	-
Total liabilities	**(3,809.1)**	(4,181.7)
Net liabilities	**(2,019.5)**	(2,149.1)

Segmental analysis – headlines

Roadside Assistance	H1 16	Y-o-Y Change
Revenue	**£359.1m**	+2.1%
Trading EBITDA	**£172.3m**	-3.4%
Personal Members	**3.7m**	- 3.9%
Business Customers	**10.0m**	+ 4.7%
Average income per Personal Member	**£138**	+6.2%
Breakdowns attended	**3.5m**	+2.9%

Insurance Services	H1 16	Y-o-Y Change
Revenue	**£64.4m**	-10.9%
Trading EBITDA	**£37.3m**	-10.3%
Policy numbers	**2.1m**	- 4.1%
Average income per policy	**£63**	-4.5%

Driving Services	H1 16	Y-o-Y Change
Revenue	**£32.8m**	-14.6%
Trading EBITDA	**£8.9m**	+3.5%
Driving school instructors	**2,602**	-5.8%

Ireland	H1 16	Y-o-Y Change
Revenue	**£18.8m**	-3.1%
Trading EBITDA	**£6.9m**	-2.8%
Personal Members	**122,000**	+5.2%
Insurance policy numbers	**182,000**	+ 5.8%

Cashflow

	H1 16 £m	H1 15 £m
Operating profit	**137.7**	148.5
Depreciation and amortisation	**25.9**	21.9
Other items	**1.6**	(0.6)
Purchase and sale of vehicles	**(2.8)**	-
Change in working capital	**39.3**	5.9
Cash exceptional items	**21.0**	38.0
Operating cash flow before tax and exceptional items	**222.7**	213.7
Cash exceptional items	**(21.0)**	(38.0)
Tax paid	**(0.6)**	(0.7)
Net cash flows from operating activities	**201.1**	175.0
Investing activities		
Capital expenditure (excluding vehicles)	**(36.2)**	(16.5)
Other investing activities	**(3.0)**	5.1
Net cash flows used in investing activities	**(39.2)**	(11.4)
Financing activities		
Financing transactions	**(318.5)**	(5.5)
Issue of share capital (net of fees)	**193.8**	200.1
Purchase of own shares	**(7.0)**	-
Interest paid on borrowings	**(104.1)**	(114.6)
Debt repayment penalties	**(62.1)**	-
Payment of finance lease capital and interest	**(10.1)**	(7.9)
Net cash flows from financing activities	**(308.0)**	72.1
Net increase in cash and cash equivalents	**(146.1)**	235.7

Debt package as at 31 July 2015

	Expected maturity date	Interest rate	Run Rate Cash Interest £m	**Principal at 31 July 2015 £m**	Principal at 31 July 2014 £m
Senior Term Facility	31 Jan 19	4.36%	19.8	**454**	663
Class A1 notes	31 Jul 18	4.72%	22.4	**475**	475
Class A2 notes	31 Jul 25	6.27%	31.4	**500**	500
Class A3 notes	31 Jul 20	4.25%	21.3	**500**	500
Class A4 notes	31 Jul 19	3.78%	9.5	**250**	250
Class B notes	31 Jul 19	-	-	**-**	655
Class B2 notes	31 Jul 22	5.50%	40.4	**735**	-
PIK notes	6 Nov 19	-	-	**-**	350
		4.96%	144.8	**2,914**	3,393

Ring-fenced cash and cash equivalents	**114.3**	204.2
Non ring-fenced cash and cash equivalents	**40.3**	234.2
Total cash and cash equivalents	**154.6**	438.4

Class A Net Debt: Trading EBITDA (STF and Class A notes less ring-fenced cash)	**4.9**	5.1
Class B Net Debt: LTM EBITDA (debt excluding PIK notes less-ring fenced cash)	**6.8**	6.7
Total Net Debt : LTM EBITDA (total debt less total cash)	**6.7**	6.9