

FY16 YEAR END RESULTS

5 APRIL 2016



AA

DEFINITIONS AND IMPORTANT NOTICE

The following definitions apply throughout

- Trading EBITDA (earnings before interest, tax, depreciation and amortisation): excludes exceptional items 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, items not allocated to a segment, the amortisation of debt issue fees, penalties on early repayment of debt and double running interest costs on Class B/B2 notes
- Personal Members and Business Customers: measured as the number at the period end.

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AGENDA

Headlines

Bob Mackenzie

Financials

Martin Clarke

Strategy and outlook

Bob Mackenzie

HEADLINES

AA



GOOD PROGRESS IN YEAR 1 OF THE TRANSFORMATION

- ▶ Results in line with expectations and strong operational cash flow
- ▶ Transformation firmly on track with early benefits in Roadside Assistance
 - Roadside retention up to 81% (2015: 79%)
 - Rate of decline in personal Members slowing -2.6% (2015: -4.5%) -1.4% H2 on H1
 - App usage increased to 11% of breakdowns
- ▶ Investment in patrols and their equipment improving productivity
- ▶ IT investment on time and budget
- ▶ Strategic steps: Insurance Underwriter, Financial Services, connected car developments and JV in India
- ▶ Refinanced most expensive debt, reducing cost of borrowings by £45m per annum
- ▶ Recommend total dividends of 9p per share for FY16

Transforming the AA into the UK's pre-eminent Membership services organisation

FINANCIALS

AA



FINANCIAL HEADLINES

- ▶ Reported Group revenue down 1.1% to £973m. Revenue excluding glass down 0.4% to £963m but 1.8% increase in Roadside revenue
- ▶ Trading EBITDA¹ down 3.3% to £415m but 0.8% increase in Roadside Trading EBITDA
- ▶ Trading EBITDA margin¹ 43.1% (2015: 44.4%)
- ▶ Adjusted EPS 23.2p (2015: 23.3p)
- ▶ Cash conversion 101%; net cash flow before refinancing one offs, purchase of own shares and dividends of £90m despite elevated capex levels
- ▶ Net debt of £2,809m (6.8x FY16 Trading EBITDA) vs £2,967m (6.9x FY15 Trading EBITDA)
- ▶ Total dividends of 9p per share of which 3.5p interim dividend paid

In line with expectations

P&L

£m	FY16	FY15	Change
Revenue	973	984	-1%
Cost of sales	(347)	(346)	-
Gross profit	626	638	-2%
Admin & marketing	(322)	(313)	3%
Share of JV & associates	1	1	-
Operating profit	305	326	-6%
Trading EBITDA	415	430	-3%
Items not allocated to a segment	(18)	(8)	125%
Depreciation & amortisation	(54)	(48)	13%
Exceptional items	(38)	(48)	-21%
Operating profit	305	326	-6%
Net finance cost	(288)	(265)	9%
Profit before tax	17	61	-72%
Tax (expense)/credit	(11)	8	-238%
Profit after tax	6	69	-91%
Basic EPS	1.0	13.3	
Basic EPS - adjusted	23.2	23.3	

- ▶ Trading EBITDA down 3% reflecting investment in business
- ▶ A&M expenses include exceptional items, mainly restructuring activities
- ▶ Items not allocated to segment reflect pension and share based payments impact
- ▶ Net finance cost reflects the early repayment penalties (£62m), written off debt issue fees (£18m) and double running costs on Class B/B2 notes (£19m)
- ▶ Tax expense reflects current tax charge of £10m and deferred tax charge of £1m
- ▶ Ongoing tax rate c 20%
- ▶ Adjusted basic EPS of 23.2p reflects the new capital structure in place since July

ROADSIDE ASSISTANCE – RESPONDING TO TRANSFORMATION

Revenue¹ up 1.8% to £724m

- Retention 81% (2015: 79%)
- Slower decline in personal Members -1.4% on H1 16
- Average income per personal Member +4.4% to £141

Trading EBITDA¹ up 0.8% to £361m

- Growth in income per personal Member and B2B holdings partially offset by investment in business
- First brand advertising spend in 8 years of £10m
- Diagnostic and communications technology investment for patrols

	FY16	FY15	Change
Personal Members ('000s)	3,673	3,770	-2.6%
Average income per Member	£141	£135	+4.4%
Personal paid ² Members ('000s)	3,331	3,393	-1.8%
Average income per paid ² Member	£156	£150	+4.0%
Business customers ('000s)	10,216	9,640	+6.0%
Average income per business customer	£18	£19	-5.3%
Breakdowns attended ('000s)	3,459	3,542	-2.3%

Revenue drivers improving: Trading EBITDA reflecting investment

INSURANCE SERVICES – SOLID CORE PERFORMANCE

- ▶ Revenue down 7.7% to £131m as expected
- ▶ Trading EBITDA down 7.1% to £78m
- ▶ Core motor and home insurance Trading EBITDA up
 - 16% reduction in call centre costs
 - Favoured profitability over volume in motor insurance
- ▶ Introduction of new systems and products in Home Services
- ▶ Financial Services down £5.4m due to credit card runoff in prior year
- ▶ Insurance Underwriter launched in January 2016

	FY16	FY15 Change	
Insurance broker policies ('000s)	2,074	2,163	-4.1%
Motor policies ('000s)	592	635	-6.8%
Home policies ('000s)	899	907	-0.9%
Average income per insurance policy (£)	63	66	-4.5%

Core solid; Home Services, Financial Services and Underwriter promising

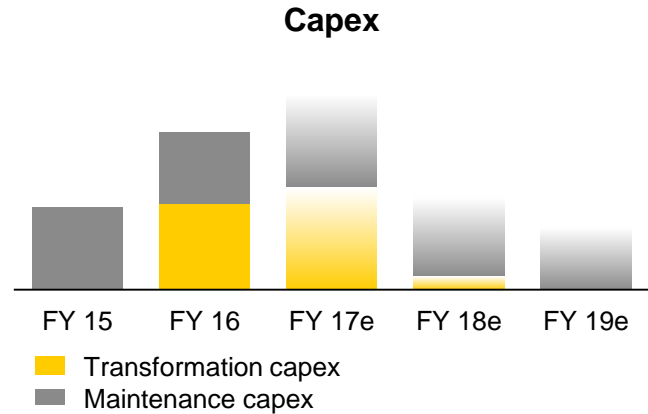
DRIVING SERVICES; IRELAND; HEAD OFFICE COSTS – ALL AS EXPECTED

- ▶ Driving Services EBITDA down 5% to £19m
 - Fewer driving school franchisees and police speed awareness courses
 - Under review to establish means of integrating Driving Schools into Membership proposition
- ▶ Ireland EBITDA down 13% to £13m due to FX
 - Flat on a constant currency basis
- ▶ Head Office costs up as expected
 - £4m incremental PLC costs giving full year impact of £8m
 - £4m spend on IT licences

	FY16	FY15 Change	
Driving instructors	2,574	2,670	-3.6%
Ireland – personal members ('000s)	128	119	7.6%
Ireland – insurance policies ('000s)	185	178	3.9%

OPERATIONAL CASHFLOW STRONG

£m	FY16	FY15
Net cash flows before tax and exceptional items	420	416
Tax and exceptional items	(39)	(59)
Net operating cash flows	381	357
Transformation capex	(54)	0
Underlying IT capex	(18)	(30)
Non-IT capex	(13)	(7)
Capex accruals	10	0
Capital repayment of Finance Lease net of disposal proceeds	(23)	(16)
Other	(7)	6
Net cash flows before refinancing, purchase of own shares, interest and dividends	276	310
Refinancing transactions	(183)	12
Purchase of own shares	(22)	0
Interest paid	(186)	(222)
Dividend paid	(21)	0
Net (decrease)/increase in cash and cash equivalents	(136)	100



Note: Capex includes finance lease capital spend net of vehicle proceeds

REFINANCING AND DIVIDENDS

Refinancing

- ▶ Issued £735m of new high yield bonds to repay original Class B notes (9.5%) on 31 July
- ▶ Raised £199m new equity to pay balance of PIK notes (9.5%)
- ▶ Repaid £209m of STF from existing cash in WBS
- ▶ Impact of the refinancing
 - Reduced leverage from 6.9x to 6.7x net debt/FY15 Trading 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 payments of dividends

Dividends

- ▶ £55m to be paid in respect of FY16
 - Interim dividend of 3.5p paid October 2015
 - Balance 5.5p final dividend to be paid
 - Ex-dividend date: 12 May
 - Record date: 13 May
 - Payment date: 13 June
- ▶ Progressive dividend policy
- ▶ Dividend cover 2.6x (adjusted EPS)

Cash generation will enable reduction of leverage in future

FINANCIAL IMPLICATIONS OF THE TRANSFORMATION

- ▶ Transformation capex - £128m over three years
 - Shift in timing: £54m in FY16; £65m in FY17; £9m in FY18
- ▶ Investment in marketing and brand - £10m plus additional spend on product development: £8m in FY17 to be invested in connected car and other products
- ▶ New IT opex - £8m pa on IT licences
- ▶ Restructuring costs of £45m planned
- ▶ Savings - at least £40m in respect of the FY15 cost base
 - £8m of cost savings realised in FY16
 - Phase 2 to commence once IT is in place

Driving revenue growth and profits

STRATEGY AND OUTLOOK



AA

TRANSFORMING THE AA INTO THE PRE-EMINENT MEMBERSHIP SERVICES ORGANISATION

THE STRATEGIC PRIORITIES

1. Strengthen the AA to become the pre-eminent membership services organisation in the UK
2. Revolutionise customer experience through investing in the brand and embracing new technologies
3. Reduce Group borrowings and the associated interest costs

THE TIME LINE

Year 1 FY16 Stronger foundations delivered

Year 2 FY17 Building momentum for change

Year 3 FY18 Realise the transformation

Year 4 FY19 Delivering growth

Stronger foundations in year 1 of transformation

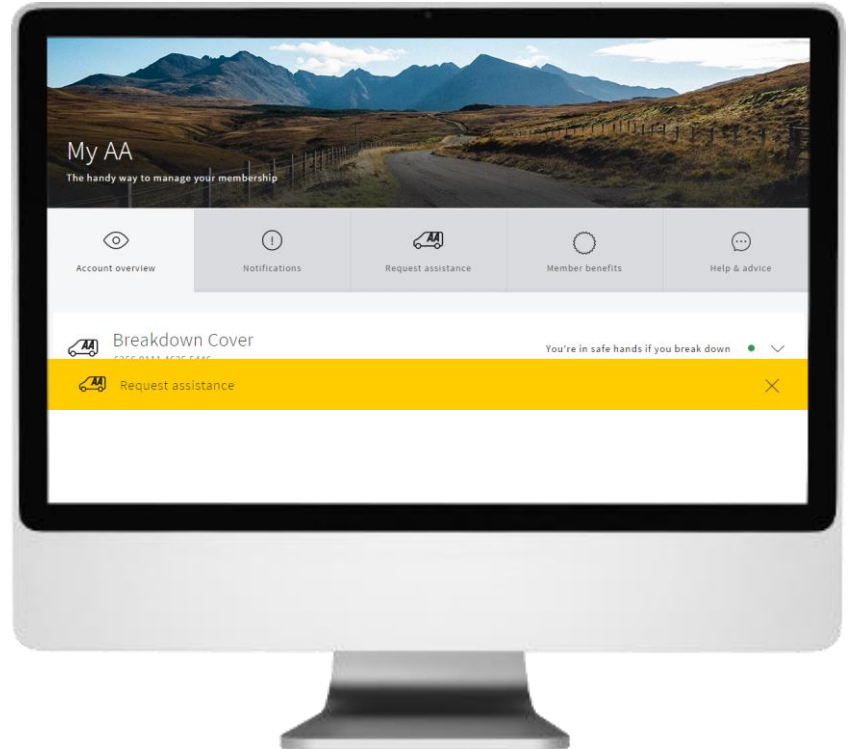
IT SYSTEMS TRANSFORMATION

- ▶ IT transformation on time and budget
- ▶ Key enabler for opex savings and revenue growth
- ▶ Infrastructure - majority of call centre desktops and back office IT upgraded enabling efficiencies
- ▶ CRM marketing package brought forward; rest on track for upload of data from H2
 - Immediate segmentation capabilities
 - Opportunities for cross selling in due course
- ▶ New technology for patrols to be rolled out by May improves productivity
- ▶ Insurer Hosted Pricing to improve competitiveness
 - For use by Underwriter with our own data, and the panel in time
 - Will also improve our broker pricing agility

- ▶ IT Transformation spend of c.£128m over three years
- ▶ Timing of spend:
 - £54m in FY16
 - £65m in FY17
 - £9m in FY18
- ▶ Steady state IT maintenance capex of £10m once IT transformation is complete (versus £30m pa previously)
- ▶ Additional IT maintenance opex of £8m in a full year

IT DIGITAL : DELIVERING A STEP-CHANGE IN CAPABILITY

- ▶ Objective to increase digital sales, retention, and reduce costs
- ▶ App having a positive effect
 - 500k Members registered (250k in last 3 months)
 - 11% usage in breakdowns reducing drive time
 - Members with the App are more likely to renew
- ▶ Soft launch of My AA in January
 - Enables self-service
 - Increases digital sales and lowers costs
- ▶ New website to be launched in May
 - Enables personalised, digital sales
 - Smoother customer journeys
 - Content to enrich Membership proposition



ROADSIDE ASSISTANCE PRODUCTIVITY

- ▶ iPhones and tablets for patrols save admin, improve connectivity and data capture
- ▶ Bosch diagnostic kit improving repair rate (82%)
- ▶ “One-and-Done” culture reducing tasks per breakdown
- ▶ Rolling out multi-fit wheel
- ▶ New battery testing equipment
 - New battery range leading to record conversion rates
 - Rolling out new testers to provide more accurate, faster results
- ▶ New scheduling and additional patrols reducing garaging costs
- ▶ App reduces number of calls per breakdown

Which? recommended provider for
10th successive year



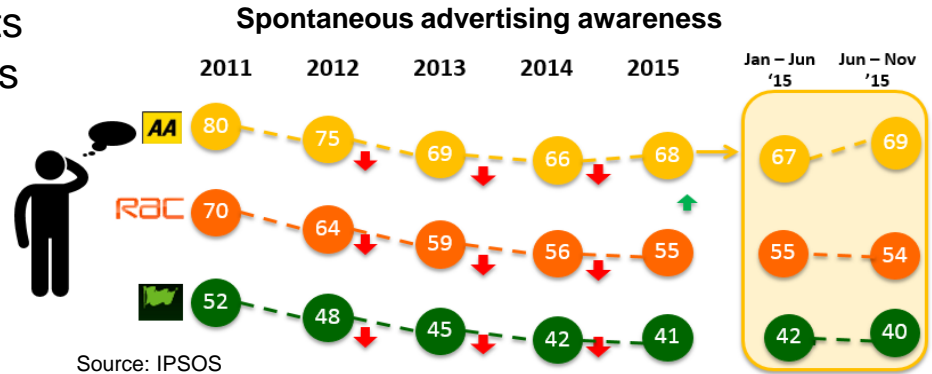
EARLY SIGNS OF IMPROVEMENT IN ROADSIDE MEMBERSHIP

- ▶ Overall retention up to 81% - the highest rate in five years (79% last year)
- ▶ Number of Stay AA calls to review Membership declining
 - Save rate improved 7 pts; discount rate improved 7 pts
- ▶ Rate of decline in personal Members slowing and mix improving toward paid Membership
 - Standard Members -2.6% (2015: -4.5%)
 - Paid Members -1.8% (2015: -5.2%)

Personal Members¹	FY16	FY15	FY14
Standard personal Members (000s)	3,673	3,770	3,946
Paid personal Members (000s)	3,331	3,393	3,579
Average income per standard personal Member (£)	141	135	126
Average income per paid personal Member (£)	156	150	138

THE MEMBERSHIP PROPOSITION

- ▶ Advertising increased spontaneous awareness – next campaign to focus on sales
- ▶ Clearer communications
- ▶ Simpler product architecture
- ▶ Renewed concept of membership and benefits – rapid take up of Mitchells & Butler discounts
- ▶ Better segmentation to ensure benefits from flexibility on pricing, local rewards
- ▶ Website now capable of immediate updating
- ▶ Investment in new services such as AA Tyres and Automyze



EVOLUTION OF NEW BUSINESS AREAS

FINANCIAL SERVICES

- ▶ BOI partnership launched
- ▶ Credit Card, Savings, Loans
- ▶ Savings book up to £100m
- ▶ Vehicle inspections provided with car loans



INSURANCE UNDERWRITER

- ▶ Underwriter live from January 2016
- ▶ Targeting 250k+ policies over 3 years supporting the growth of our broker
- ▶ 80% of book reinsured
- ▶ Targeting combined operating ratio in mid 90s



INDIA ROADSIDE ASSISTANCE JV

- ▶ JV with TVS Automobile Solutions
- ▶ Exposure to fast growing Indian car market
- ▶ Leverage B2B relationships



CONNECTED CAR

- ▶ Intelematics JV to develop market leading connected car services and software platform
- ▶ Developing new fleet intelligence vehicle management system with Trackm8



OUTLOOK

- ▶ Positive start to FY17
- ▶ Continued intention to limit price increases
- ▶ IT transformation on track – marketing CRM package launched ahead of plan
- ▶ Shift in phasing of transformation capex: £65m in FY17
 - Total of £128m transformation capex is unchanged
- ▶ Continue to invest in brand marketing and products
- ▶ Targeting cost savings off the FY15 base of at least £40m pa from FY19

Strengthened foundations, strong management and good execution

THE TRANSFORMATION OF THE AA

The UK's pre-eminent Membership services organisation



APPENDIX

AA



REVENUE

£m	FY16	FY15	Change	% of Group	
Roadside Assistance	724	711	+1.8%	75%	▶ Increase in average income per Member offsetting the decline in personal Members
Insurance Services	131	142	-7.7%	14%	▶ Lower policy numbers and income per policy
Driving Services	68	74	-8.1%	7%	▶ Lower driving school franchises and Police courses
Ireland	38	39	-2.6%	4%	▶ Impact of lower € - revenue up £3m on constant FX
Insurance Underwriting	2	1	-	-	
Total revenue¹	963	967	-0.4%		

TRADING EBITDA

£m	FY16	FY15	Change	% of Group	
Roadside Assistance	361	358	+0.8%	76%	<ul style="list-style-type: none"> ▶ Revenue up 1.8% ▶ Advertising and Bosch investment
Insurance Services	78	84	-7.1%	17%	<ul style="list-style-type: none"> ▶ Efficiency savings ▶ FS business re-set under way
Driving Services	19	20	-5.0%	4%	▶ Lower driving school franchisees and Police courses
Ireland	13	15	-13.3%	3%	▶ EBITDA flat on constant currency
Head office costs	(56)	(48)	+16.7%		▶ Incremental PLC and IT licensing costs
Total Trading EBITDA¹	415	429	-3.3%		
Trading EBITDA Margin¹	43.1%	44.4%			

SEGMENTAL ANALYSIS

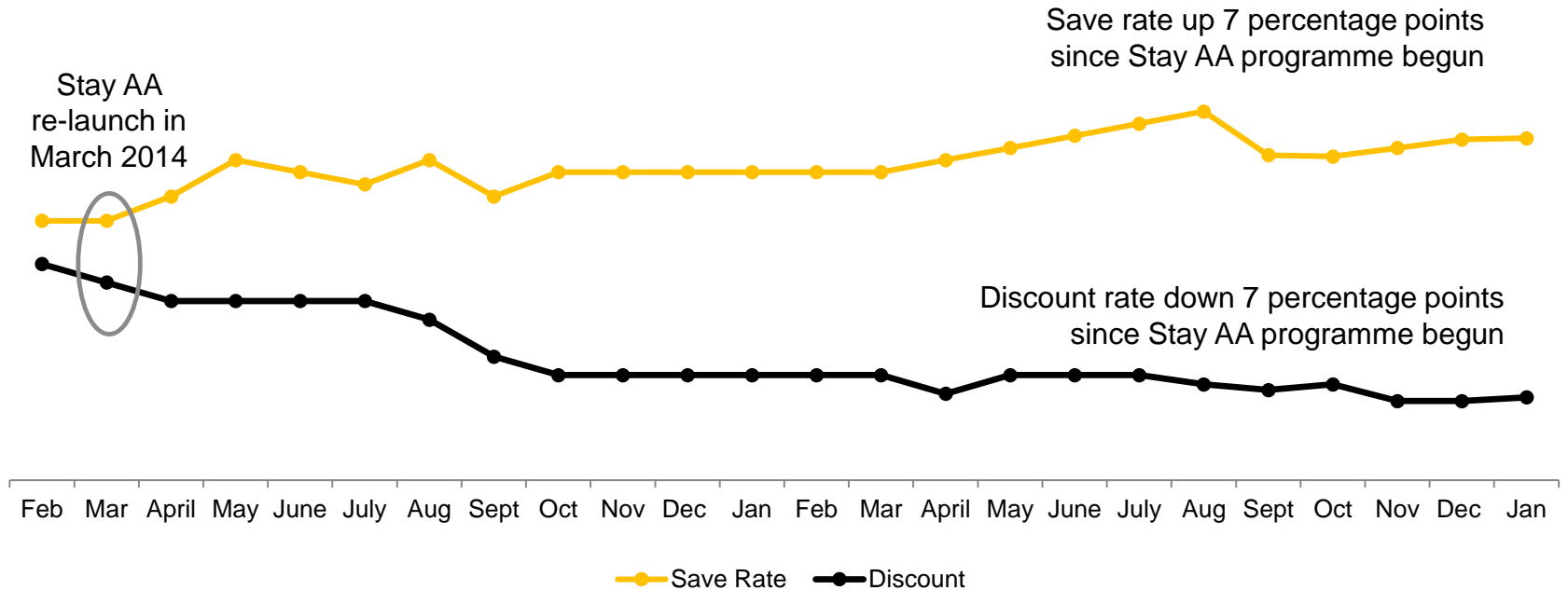
Roadside Assistance	FY16	Y-o-Y Change
Revenue ¹ (£m)	724	1.8%
Trading EBITDA ¹ (£m)	361	0.8%
Personal Members ('000s)	3,673	-2.6%
Business Customers ('000s)	10,216	6.0%
Average income per Personal Member (£)	141	4.4%
Breakdowns attended ('000s)	3,459	-2.3%

Driving Services	FY16	Y-o-Y Change
Revenue (£m)	68	-8.1%
Trading EBITDA (£m)	19	-5.0%
Driving school instructors	2,574	-3.6%

Insurance Services	FY16	Y-o-Y Change
Revenue (£m)	131	-7.7%
Trading EBITDA (£m)	78	-7.1%
Policy numbers ('000s)	2,074	-4.1%
Average income per policy (£)	63	-4.5%

Ireland	FY16	Y-o-Y Change
Revenue (£m)	38	-2.6%
Trading EBITDA (£m)	13	-13.3%
Personal Members ('000s)	128	7.6%
Insurance policy numbers ('000s)	185	3.9%

SUSTAINED IMPROVEMENT IN RETENTION



BALANCE SHEET

£m	FY16	FY15
Goodwill and other intangible assets	1,298	1,257
Property, plant and equipment	122	100
Investments in joint ventures and associates	10	4
Deferred tax assets	52	81
Other receivables	-	21
Non-current assets	1,482	1,463
Inventories	5	5
Trade and other receivables	172	187
Current tax receivables	-	1
Cash and cash equivalents	166	302
Current assets	343	495
Total assets	1,825	1,958
Trade and other payables	(525)	(498)
Provisions	(8)	(8)
Current liabilities	(533)	(506)
Borrowings and loans	(2,920)	(3,241)
Finance lease obligations	(21)	(16)
Defined benefit pension scheme liabilities	(296)	(434)
Provisions	(7)	(12)
Insurance technical provisions	(4)	(4)
Non-current liabilities	(3,248)	(3,707)
Total liabilities	(3,781)	(4,213)
Net liabilities	(1,956)	(2,255)

CASH FLOW

£m	FY16	FY15
Operating profit	305	326
Depreciation and amortisation	54	48
Other items	12	0
Cash exceptional items	37	57
Change in working capital	12	(15)
Operating cash flow before tax and exceptional items	420	416
Cash exceptional items	(37)	(57)
Tax paid	(2)	(2)
Net cash flows from operating activities	381	357
Investing activities		
Capital expenditure	(75)	(37)
Other investing activities	4	21
Net cash flows use in investing activities	(71)	(16)
Financing activities		
Refinancing transactions	(183)	12
Purchase of own shares	(22)	-
Interest paid on borrowings	(178)	(218)
Payment of finance lease capital	(34)	(31)
Payment of finance lease interest	(8)	(4)
Dividends paid	(21)	-
Net cash flows from financing activities	(446)	(241)
Net increase in cash and cash equivalents	(136)	100

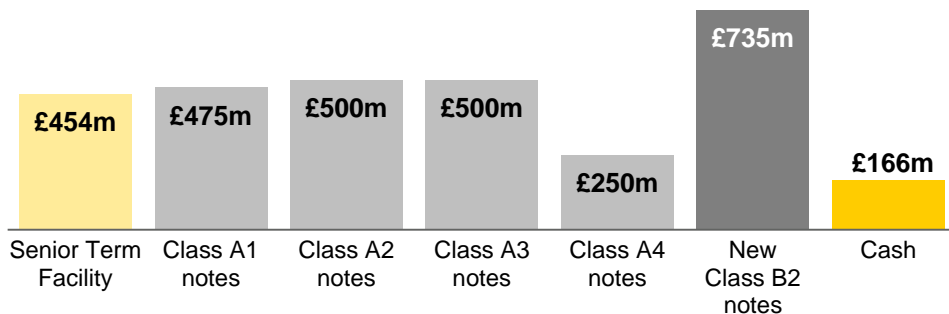
DEBT STRUCTURE

Fixed interest rates

with LIBOR hedged for Senior Term Facility

Interest rate	4.36%	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

£2,914m



- ▶ Leverage 6.8x net debt/EBITDA
- ▶ Blended cost of debt 4.97%
- ▶ Average maturity 6 years
- ▶ Run rate cash interest cover* close to 3x
- ▶ Gross debt including finance leases of £2,975 vs £3,432m at IPO
- ▶ Class A covenant: FCF to DSCR** > 1.35x
- ▶ Class B covenant: FCF to DSCR** > 1.0x
- ▶ Majority of bonds investment grade
- ▶ Next bond refinancing due July 2018 (Class A1 notes)

*Run rate cash interest: Trading EBITDA

**Free cash flow: debt service cover ratio

DEBT PACKAGE

	Expected maturity date	Interest rate	Run rate cash interest (£m)	Principal at 31 January 16 (£m)	Principal at 31 January 15 (£m)
Senior Term Facility	31 January 2019	4.36%	19.8	454	663
Class A1 notes	31 July 2018	4.72%	22.4	475	475
Class A2 notes	31 July 2025	6.27%	31.4	500	500
Class A3 notes	31 July 2020	4.25%	21.3	500	500
Class A4 notes	31 July 2019	3.78%	9.5	250	250
Class B notes	31 July 2019	-	-	-	655
Class B2 notes	31 July 2022	5.50%	40.4	735	-
PIK notes	6 November 2019	-	-	-	175
		4.97%	144.8	2,914	3,218
Ring fenced cash and cash equivalents				94	262
Non ring fenced cash and cash equivalents				72	40
Total cash and cash equivalents				166	302
Class A Net Debt: Trading EBITDA (STF & Class A notes less ring fenced cash)				5.0x	4.9x
Class B Net Debt: LTM EBITDA (debt excluding PIK notes less ring fenced cash)				6.9x	6.6x
Total Net Debt : LTM EBITDA (total debt less total cash)				6.8x	6.9x
Class A FCF DSCR				3.9x	3.5x
Class B FCF DSCR				2.4x	2.2x