INTERIM RESULTS

September 2020

AA

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DEFINITIONS

The following definitions apply throughout

Trading EBITDA (earnings before net finance costs, tax, depreciation and amortisation): excludes share-based payments, pension service charge adjustment and adjusting operating items.

Cash conversion: net cash flow from continuing operating activities before tax, capital expenditure and adjusting operating items divided by Trading EBITDA.

Adjusted EPS: earnings per share adjusted for a number of one-offs of which the largest are adjusting operating items, share-based payments, pension service charge adjustment, the write-off of debt issue fees and penalties on early repayment of debt.

Personal members and business customers: measured as the number at the period end.

TODAY’S PRESENTERS

Simon Breakwell

Chief Executive Officer

Kevin Dangerfield

Chief Financial Officer

AGENDA

Introduction and H1 review
Simon Breakwell

Financial review
Kevin Dangerfield

Closing remarks
Simon Breakwell

PROUD TO KEEP BRITAIN MOVING

Customers

- Safe systems of work implemented to protect our customers and patrols
- Increased client communications and amendment of selected policy terms to support customers
- Provided free breakdown to all NHS workers, attending 8,000 breakdowns over 3 months (April to June)
- Provided technical support to over 500 London Ambulance Service vehicles, including Nightingale hospital, greatly increasing operational availability
- Waived franchise fees for Driving Instructors for 14 weeks
- Provided free 'At Home' cover for all Lloyds Banking Group customers during June

Colleagues

- Increased communication activity continues to ensure our people feel connected and informed, including regular CEO updates/vlogs and dedicated COVID-19 intranet site
- COVID-19 engagement survey to understand how people were feeling. 67% participation with majority of people feeling proud to work for the AA
- Key HR policies amended - emergency childcare provision extended and sick pay rules extended to support those with symptoms
- Range of wellbeing support made available to all colleagues remotely

Operations

- Continue to use a blended mix of homeworking and office working
- All key contact centres open, with 2m social distancing in place
- Utilisation of furlough scheme unwound with all staff off furlough by end of September
- All lines of business operational and stabilised – including call centres, patrols and retention functions

ROADSIDE HIGHLIGHTS

Consumer

New Business: Lockdown drove lower demand; since restrictions eased sales have recovered strongly, supported by our new marketing campaign 'That Feeling'

Membership Base: Down slightly since FY20 year end (2%) reflecting the impact of lockdown on new business sales

Retention: Rate flat reflecting strength of service and adjustments to propositions during lockdown to meet customer needs

Smart Breakdown: Rollout impacted by lockdown; despite this over 10,000 members are now using Smart Breakdown to predict and prevent breakdowns

Business Services

Key contracts: All key B2B contracts retained or extended, including JLR, Porsche, Honda and Hyundai

New Car Sales: Lockdown adversely impacted new car sales (-97% in April; -89% in May) which in turn reduced business customer holdings slightly

Customer Service and Operations

Which? Survey: First place in Which? Survey for the third year running, and AA supported manufacturer programmes took the first six places

Workload: Breakdown volumes down by 13% year on year reflecting lockdown impact and leading to lower garaging and patrol related costs

Service Levels: Call-to-arrive just below 45 minutes; repair rates and repair times improved on the same period last year, reflecting lockdown workload mix and continuous improvement

Digital Reporting: 16% of all breakdowns reported fully through digital channels (FY20: 11%), reflecting launch of digital reporting for Lloyds Banking Group customers

AA Prestige

B2C Channel: Lockdown decreased consumer demand for SMR, now recovering strongly on the back of pent-up MOT demand

B2B Channel: Business SMR volumes held up well, and we have increased our share from our larger customers

AA Driving Schools

Partner Support: Franchise fees waived for 14 weeks to support instructors while testing was suspended, reducing short-term revenue, but benefiting long-term retention

INSURANCE HIGHLIGHTS

Insurance and Financial Services

The Insurance division continued to show significant growth in H1 and strong resilience during COVID-19

- Motor policies grew strongly 20.3% year on year
- Successful growth of the in-house underwriter with 20.1% growth in motor policies to 538k and 7.8% growth in home policies to 358k in the last six months
- Continued strong cross-sell conversion rates of 35% into our Roadside business
- Customers were put at the centre of all COVID-19 responses with over 100 amendments to processes and communications
- Our recently launched in-house claims management proposition – Accident Assist – is performing well, with new system capability operational

Successful delivery of a new motor claims platform and full migration completed

Financial services partnership with the Bank of Ireland extended to at least 2028

FCA final report and consultation paper on General Insurance Pricing Practices published on 22 September 2020

- AA committed to delivering good customer outcomes and looks forward to engaging with the FCA on range of proposals
- Pricing remedies focused on motor and home insurance only where the FCA have proposed that renewal prices offered are no higher than the equivalent new business prices
- Changes to product governance rules extend to general insurance to ensure products offer fair value for all customers
- Consultation period ends January 2021 with the publication of the policy statement in Q2 2021 with a four month implementation window following this

FINANCIAL REVIEW

AA

H1 21 FINANCIAL HEADLINES

- Revenue down 2.6% at £478m (H1 20: £491m)
- Trading EBITDA up 4.8% at £173m (H1 20: £165m) and Trading EBITDA margin improved to 36.2% (H1 20: 33.6%)
- Operating profit up marginally at £121m (H1 20: £120m)
- PBT down 38.1% to £26m (H1 20: £42m) due to higher amortisation and depreciation as well as higher net finance costs related to February 2020 refinancing
- Free cash flow generation of £21m (H1 20: £44m) due to the working capital outflow of £6m, higher tax payments, and higher finance costs
- Net Debt post IFRS 16 of £2,628m (H1 20: £2,698m, FY20: £2,645m)
  - £166m cash and cash equivalents (H1 20: £132m, FY20: £149m)
  - Substantial headroom over financial covenants
    - Class A free cash flow: debt service 2.9x (covenant 1.35x)
    - Class B free cash flow: debt service 2.1x (covenant 1.00x)
  - Net Debt: Trading EBITDA 7.3x (H1 20: 7.8x, FY20: 7.6x)
- Dividend remains suspended

INCOME STATEMENT

£m	H1 21	H1 20	YoY
Revenue	**478**	491	*(2.6%)*
Trading EBITDA	**173**	165	*4.8%*
Share-based payments	(1)	(2)	*(50.0%)*
Pension service charge adjustment	(2)	(2)	-
Amortisation and depreciation	(47)	(41)	*14.6%*
Adjusting operating items	(2)	-	*100.0%*
Operating profit	**121**	120	*0.8%*
Finance costs	(95)	(78)	*21.8%*
Profit before tax	**26**	42	*(38.1%)*
Tax expense	(5)	(8)	*(37.5%)*
Profit for the period	**21**	34	*(38.2%)*
Basic EPS (p)	**3.4**	5.5	*(38.2%)*
Adjusted Basic EPS[1] (p)	**6.7**	6.0	*11.7%*

- Adjusting operating items – include furlough income and one-off COVID-19 costs
- Net finance cost higher due to the early repayment penalty, transaction fees and write-off of unamortised issue fees totalling £20m related to the February 2020 refinancing

[1] Adjusted for adjusting operating items, share-based payments, pension service charge adjustment, penalties on early repayment of debt, write-off of debt issue fees following refinancing and tax expense.

ROADSIDE PERFORMANCE REVIEW

	H1 21	H1 20	*YoY*
Revenue (£m)[1]	**395**	412	*(4.1%)*
Trading EBITDA (£m)[1]	**144**	136	*5.9%*
Trading EBITDA margin (%)[1]	**36.5**	33.0	*10.6%*
Personal paid members (k)	**3,150**	3,190	*(1.3%)*
Average income per paid member (£) (new basis)[2]	**164**	164	*Flat*
Average income per paid member (£) (old basis)[2]	**167**	165	*1.2%*
Business customers (k)	**8,918**	8,994	*(0.8%)*
Average income per business customer (£)	**23**	22	*4.5%*

Revenue

- Revenue slightly down due to impact to trading of COVID-19 including to smaller Roadside businesses
- Retention flat at 80%. Paid membership down reflecting the initial decline in new member volumes following lockdown. Expect progressive recovery to continue into H2
- Average income per paid member flat on new basis
- B2B customer holdings in line with expectations, all key contracts retained or extended on similar terms
- Average income per business customer up 4.5% to £23, reflecting margin improvement across B2B base

Trading EBITDA

- Up 5.9% reflecting benefit of reduced workload and swift cost management actions to protect profitability and preserve cash flow

1. H1 20 restated for transfer of AA Cars business from Roadside to Insurance.
2. The average income per paid personal member under the old basis is represented as a proportion of closing paid personal membership holdings. The average income per paid personal member under the new basis is represented as a proportion of the average paid personal membership holdings over the relevant period.

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INSURANCE PERFORMANCE REVIEW

	H1 21	H1 20	YoY
Revenue (£m)[1]	**83**	79	*5.1%*
Trading EBITDA (£m)[1]	**29**	29	-
Trading EBITDA margin (%)[1]	**34.9**	36.7	*(4.9%)*
Total insurance policies[2] ('000s)	**1,818**	1,644	*10.6%*
Total Motor policies ('000s)	**966**	803	*20.3%*
Motor policies underwritten ('000s)	**538**	401	*34.2%*
Total Home insurance policies ('000s)	**852**	841	*1.3%*
Home policies underwritten ('000s)	**358**	304	*17.8%*
Average income per policy[3] (Motor and Home) (£)	**77**	79	*(2.5%)*
Average income per policy[4] (Motor and Home) (£)	**60**	67	*(10.4%)*

Revenue

- Continued strong growth in motor book, home book growing in line with expectations
  - Supported by profitable growth of the in-house insurer
  - Ongoing investment in pricing systems to enhance competitiveness
- Average income per policy including income from insurer and Accident Assist businesses down £2 to £77 reflecting ongoing investment in growing policy book
- Financial Services - Bank of Ireland partnership reset concluded and extended by a further 3 years to at least 2028

Trading EBITDA

- Trading EBITDA flat reflecting solid performance of broker and insurer
- Margin decline due to investment in marketing to grow policies and drive future value

[1] H1 20 restated for transfer of AA Cars business from Roadside to Insurance.
[2] Motor and Home policies only.
[3] Includes income from the in-house insurer and Accident Assist businesses.
[4] Excludes income from in-house insurer and Accident Assist businesses.

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CASH FLOW MOVEMENT

£m	H1 21	H1 20
Trading EBITDA	**173**	165
Working capital and provisions excluding adjusting operating items	**(5)**	19
Difference between pension charge and cash contributions	**(11)**	(11)
Other items	**(1)**	(3)
Cash flow from continuing operating activities before taxation, adjusting operating items and capital expenditure	**156**	170
Tax paid	**(13)**	(4)
Capital expenditure	**(30)**	(37)
Lease payments net of proceeds from sale of fixed assets	**(14)**	(11)
Operating free cash flow after capital expenditure	**99**	118
Interest on borrowings less interest receivable	**(70)**	(64)
Operating free cash flow before adjusting operating items	**29**	54
Acquisitions and disposals	**(4)**	(8)
Acquisition of own shares	**(2)**	-
Adjusting operating items	**(2)**	(2)
Free cash flow	**21**	44
Refinancing costs	**(14)**	-
Bond buy-back	**-**	(20)
Dividends	**-**	(8)
Net cash movement	**7**	16

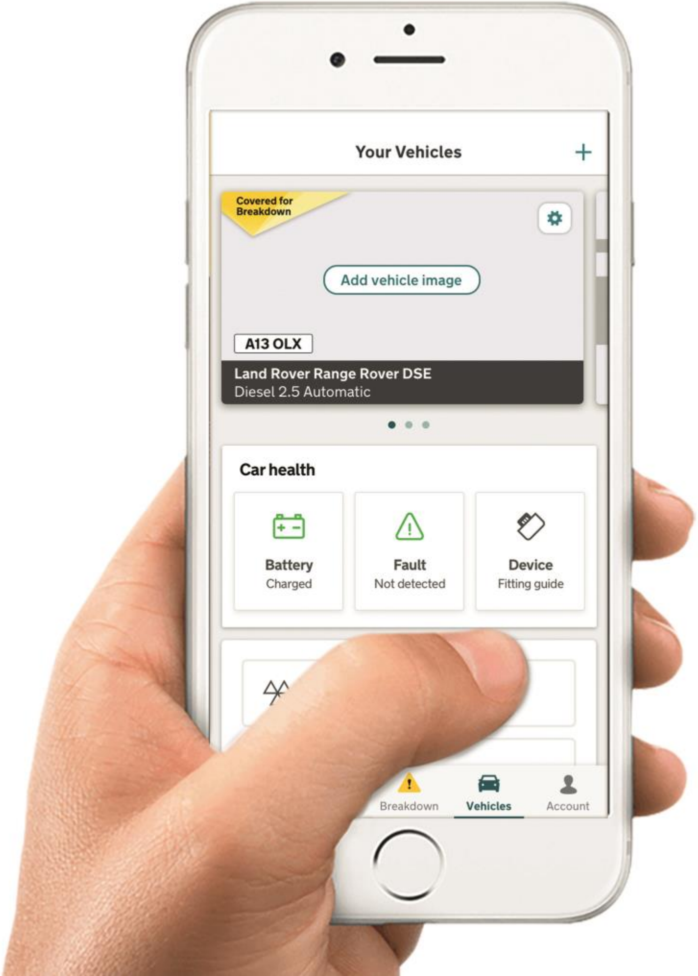
- Working capital and provisions movement excluding adjusting operating items mainly due to the impact of COVID-19 on cash receipts and also included a payment made in respect of the extension of our contract with the Bank of Ireland
- Tax payments higher reflecting the change to the timing of corporation tax payments mandated by HMRC
- Capex of £30m down £7m from prior year reflecting timing of project spend, reduction in labour costs and re-prioritisation of IT maintenance spend due to COVID-19
- Debt interest higher at £70m reflecting higher interest cost following February 2020 refinancing
- Positive free cash flow generation of £21m but lower than prior period due to change in working capital and tax payments noted above
- Refinancing costs higher than prior period due to A5 refinancing in February 2020

SUMMARY

- Strong performance underpinned by operational delivery and prudent financial management

- Maintaining expectations that Trading EBITDA in FY21 will be slightly below FY20

CLOSING REMARKS



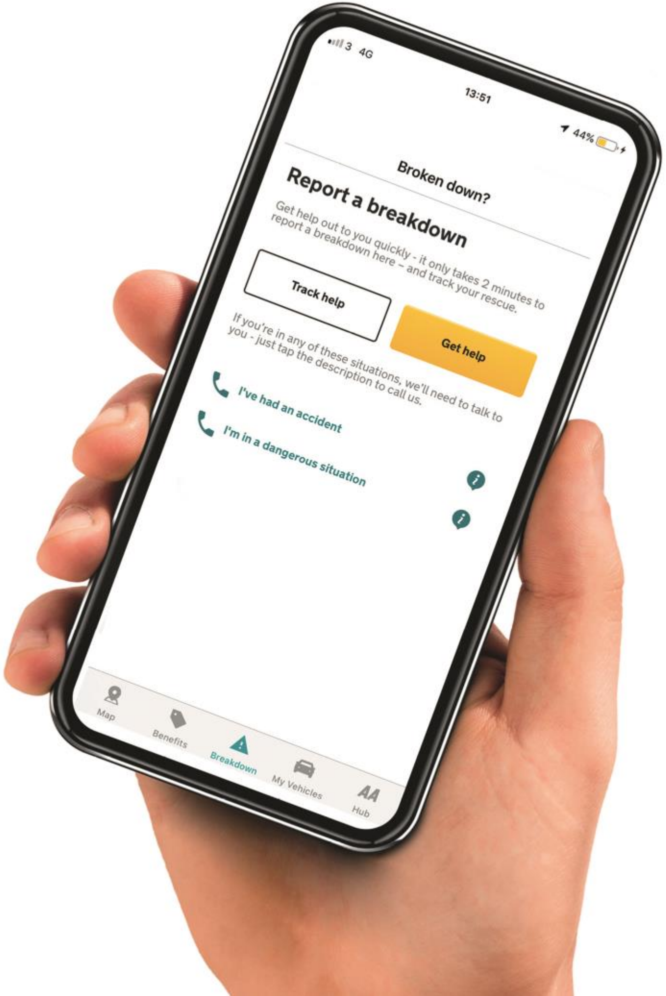
H1 21 HIGHLIGHTS

- Strong operational performance in challenging market conditions
  - Trading EBITDA +4.8% to £173m
  - Maintaining full year guidance with Trading EBITDA only slightly below last year
- Roadside membership only slightly down with retention flat
- All key B2B contracts retained or extended
- Driving Schools and other smaller businesses returning to normal trading levels
- Insurance continuing to deliver strong rates of policy growth and delivering strong conversion rates into Roadside membership
- Positive momentum building across Accident Assist business
- Performance reinforces resilience in business and confidence to invest for the future

Putting service, innovation and data at the heart of the AA

Q&A

APPENDIX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44%
Broken down?
Report a breakdown
Get help out to you quickly - it only takes 2 minutes to report a breakdown here – and track your rescue.
Track help
Get help
If you're in any of these situations, we'll need to talk to you - just tap the description to call us.
I've had an accident
I'm in a dangerous situation
Map
Benefits
Breakdown
My Vehicles
Hub

COLLEAGUE ENGAGEMENT DURING COVID-19

A number of actions were taken during COVID-19 to support colleagues and ensure the business can continue to serve customers. A survey conducted earlier in the year delivered a 70% engagement score (10 point increase) with 85% of our people saying they were proud to work for the AA

Communications

Activity increased significantly to keep people informed and connected including regular CEO updates

COVID-19 site launched on our intranet (The Hub) to ensure our people had the latest updates and news

Yammer/patrol WhatsApp cascades and Q&A

Big themes: Keeping informed, creating pride, supporting leaders and policy updates to support colleagues

COVID-19 Engagement Survey

Survey took place to understand how people were feeling

67% participation rate

70% engagement (increase of 10 points on previous survey)

85% of colleagues felt proud to work for the AA

84% of colleagues felt they have been kept regularly informed of the impact of COVID-19 on their working lives

Wellbeing

Emergency childcare provision extended

Sick pay rules extended to support those with symptoms

Range of wellbeing support made available to all colleagues

Furlough/Job Retention Scheme

Participated in the Government’s Job Retention Scheme in order to protect jobs with c.1,600 colleagues furloughed at some point during this period

Impacted colleagues pay topped up to 100% during period

Ways of Working

Significant shift to working from home at the start of lockdown with support made available throughout this period to support leaders and colleagues alike

Majority of employees have enjoyed more flexibility in how they work so we are considering how we can utilise learnings to inform a more flexible model in the future

COVID-19 RESPONSE – LEARNING INFORMING PLANNING PRIORITIES

- Clarity of focus was empowering
- Pace of action – speed of decision making
- Bypassing ordinary decision making structures – and still good decisions were made!
- Enabled by our recent investment in upgrading our IT estate and the power it has to transform the Group
- New business priorities informed by COVID-19

GROUP REVENUE

£m	H1 21	H1 20	Change	% of Group	
Roadside revenue	**395**	412	(4.1%)	82.6%	Principally due to the impact of COVID-19 on our smaller Roadside businesses including Driving Schools and DriveTech
Insurance revenue	**83**	79	5.1%	17.4%	Reflects the strong performance of our new Accident Assist business which more than offset the anticipated decline in commissions due to ongoing investment in marketing and our decision to absorb costs to help our customers during the lockdown
Group revenue	**478**	491	(2.6%)	100.0%	

TRADING EBITDA

£m	H1 21	H1 20	Change	% of Group	
Roadside Trading EBITDA	**144**	136	5.9%	83.2%	Increase reflects the operational resilience of our core Roadside business, benefit of reduced workload and our ability to act swiftly to protect profitability during the lockdown
Insurance Trading EBITDA	**29**	29	-	16.8%	Performance in line with expectations as we continue to invest in accelerating the growth in policies of the broker and in-house underwriter, leveraging our strong brand, large distribution platform and proprietary data to deliver future value and Trading EBITDA growth
Trading EBITDA	**173**	165	4.8%	100.0%	

GROUP REVENUE AND TRADING EBITDA SUMMARY

Revenue

	H1 21 £m	H1 20 £m
Roadside	**395**	412
Insurance	**83**	79
Group	**478**	491

Trading EBITDA

	Trading EBITDA		Margin	
	H1 21 £m	H1 20 £m	**H1 21 Margin %**	H1 20 Margin %
Roadside	**144**	136	**36.5**	33.0
Insurance	**29**	29	**34.9**	36.7
Group	**173**	165	**36.2**	33.6

RECONCILIATION OF TRADING EBITDA TO OPERATING PROFIT

£m	H1 21	H1 20
Trading EBITDA	**173**	165
Pension service charge adjustment	**(2)**	(2)
Share-based payments	**(1)**	(2)
Amortisation and depreciation	**(47)**	(41)
Adjusting operating items	**(2)**	-
Operating profit	**121**	120

RECONCILIATION OF ADJUSTED PROFIT AFTER TAX

£m	H1 21	H1 20
Profit after tax	**21**	34
Adjusted for:		
Adjusting operating items	**2**	-
Share-based payments	**1**	2
Pension service charge adjustment	**2**	2
Adjusting finance costs	**20**	-
Tax expense	**5**	8
Adjusted profit before tax	**51**	46
Tax at the effective rate of 19.2% (H1 20: 19.2%)	**(10)**	(9)
Adjusted profit after tax	**41**	37

	H1 21	H1 20
Weighted average number of shares (m)	**611**	614
Basic earnings per share (pence)	**3.4**	5.5
Adjusted basic earnings per share (pence)	**6.7**	6.0

- Adjusted profit after tax slightly higher than last year reflecting the benefit of higher Trading EBITDA offset by higher amortisation and depreciation
- Basic earnings per share 3.4 pence (H1 20: 5.5 pence). Adjusted earnings per share 6.7 pence (H1 20: 6.0 pence)

INCOME STATEMENT

£m	H1 21	H1 20
Group revenue	**478**	491
Cost of sales	(180)	(192)
Gross profit	**298**	299
Administrative and marketing expenses	(177)	(180)
Other income	-	1
Operating profit	**121**	120
Finance costs	(95)	(78)
Profit before tax	**26**	42
Tax expense	(5)	(8)
Profit for the period	**21**	34
Basic EPS (p/share)	**3.4**	5.5
Adjusted Basic EPS (p/share)	**6.7**	6.0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

£m	H1 21	H1 20
Goodwill and other intangible assets	1,352	1,345
Property, plant and equipment	49	55
Right-of-use assets	59	80
Investments in joint ventures and associates	5	5
Derivative financial instruments	-	1
Financial assets at amortised cost	4	24
Deferred tax assets	9	28
Non-current assets	**1,478**	**1,538**
Inventories	4	4
Trade and other receivables	274	237
Cash and cash equivalents	166	132
Current assets	**444**	**373**
Total assets	**1,922**	**1,911**
Trade and other payables	(510)	(485)
Current tax payable	-	(6)
Borrowings and loans	-	(200)
Lease liabilities	(20)	(46)
Provisions	(4)	(2)
Current liabilities	**(534)**	**(739)**
Borrowings and loans	(2,716)	(2,530)
Derivative financial instruments	(4)	(1)
Lease liabilities	(36)	(37)
Defined benefit pension scheme liabilities	(150)	(251)
Provisions	(6)	(4)
Deferred consideration	-	(10)
Insurance technical provisions	(38)	(35)
Non-current liabilities	**(2,950)**	**(2,868)**
Total liabilities	**(3,484)**	**(3,607)**
Net liabilities	**(1,562)**	**(1,696)**

CONSOLIDATED STATEMENT OF CASH FLOWS

£m	H1 21	H1 20
Profit before tax	**26**	42
Amortisation, depreciation and impairment	**47**	41
Net finance costs	**95**	78
Difference between pension charge and cash contributions	**(11)**	(11)
Other adjustments to profit before tax	**3**	(1)
Change in working capital and provisions	**(6)**	19
Net cash flows from operating activities before tax	**154**	168
Tax paid	**(13)**	(4)
Net cash flows from operating activities	**141**	164
Investing activities		
Capital expenditure	**(30)**	(37)
Other investing activities	**(4)**	(27)
Net cash flows used in investing activities	**(34)**	(64)
Financing activities		
Refinancing transactions	**(14)**	-
Interest paid on borrowings	**(70)**	(65)
Acquisition of own shares	**(2)**	-
Lease capital repayments net of proceeds from sale of fixed assets	**(13)**	(9)
Payment of lease interest	**(1)**	(2)
Dividends paid	**-**	(8)
Net cash flows from financing activities	**(100)**	(84)
Net increase in cash and cash equivalents	**7**	16

SIGNIFICANT LIQUIDITY AND COVENANT HEADROOM

£m	H1 21	H1 20
Total Net Debt per accounts	**2,628**	2,698
Less: lease adjustment for IFRS 16	**(22)**	(23)
Less: AA plc group lease obligations	**(3)**	(3)
Add: bond buy-back	**29**	23
Add: AA plc cash	**65**	61
Net Debt for covenant reporting	**2,697**	2,756

Key metrics	H1 21	H1 20
Net Debt/Trading EBITDA[1]	**7.3x**	7.8x
Interest cover[2]	**2.5x**	2.4x

Financials covenants	H1 21	H1 20
Class A FCF: DSCR[3] (covenant > 1.35x)	**2.9x**	2.9x
Class B FCF: DSCR[3] (covenant > 1.00x)	**2.1x**	2.1x

- Cash and cash equivalents of £166m of which £65m is at AA plc level
- Net Debt for covenant purposes is the net debt in the WBS, presented on a pre-IFRS 16 basis
  - Lease adjustment is required to reconcile balance sheet Net Debt to Net Debt for covenant reporting
  - B2 bond buy-back and AA plc cash are outside of WBS
- Significant covenant headroom available
  - £165m liquidity facility
  - £60m working capital facility, of which £56m remains undrawn at the period end

[1] Total Net Debt to AA plc Trading EBITDA for the last 12 months.
[2] Trading EBITDA: run rate cash interest.
[3] Free cash flow: debt service charge ratio.

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