AA Limited H1 Results

9 October 2023

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No statement in this presentation should be construed as a profit forecast or relied upon as a guide to future performance.

TODAY'S PRESENTERS

Jakob Pfaudler
Group CEO

Tom Mackay
Group CFO

Agenda

Business review
Jakob Pfaudler

Financial review
Tom Mackay

Summary and Q&A
Jakob Pfaudler, Tom Mackay

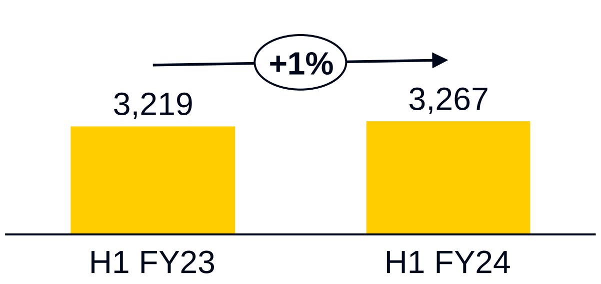
GROUP HIGHLIGHTS

- Accelerated revenue growth (+10%) and Adjusted EBITDA growth (+2%), despite strong inflationary headwinds
- Delivered further growth in B2C (+1%), B2B (+12%) and motor insurance (+4%) customer bases
- Improved financial health: £550m of July 2024 bonds successfully refinanced
- Reduced gross debt: bought back £61m of debt in August 2023 as a result of positive financial performance
- Progressed Horizons 2 & 3 of strategy: launched our new connected car data-based proposition
- Implemented Consumer Duty regulation successfully, in line with our core commitment to customer service

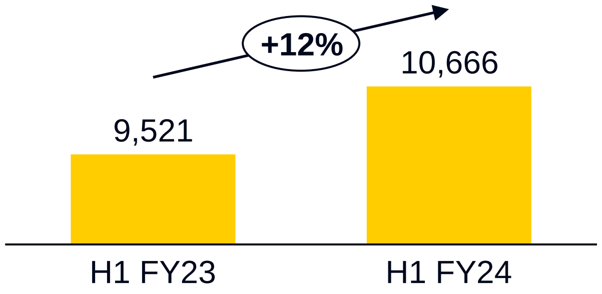
SUSTAINED ROADSIDE GROWTH IN H1 FY24

Sustained Membership and Revenue growth, offsetting inflationary pressures

Paid personal members (000s)

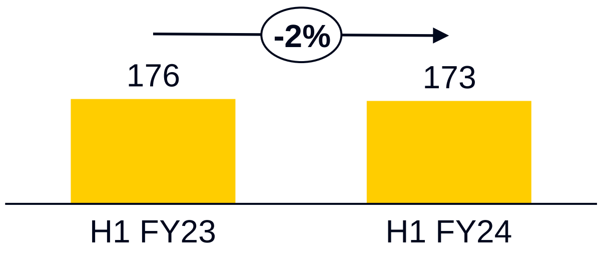


Business customers (000s)



Revenue (£m)

Adjusted EBITDA (£m)



Highlights

Continued B2C membership and revenue growth against challenging macroeconomic environment

Strong response to inflation with **considered pricing increases** and sharper management of membership base

Increased income per paid personal member to £194 (+£8)

Significant B2B growth and full year effect of new contract wins and price increases

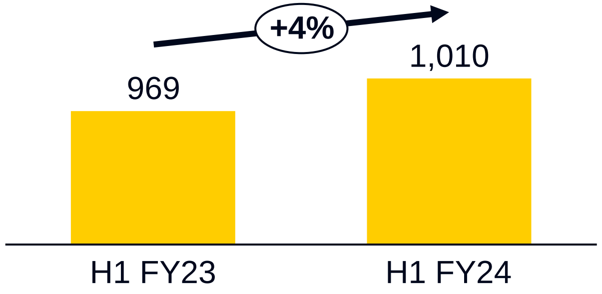
Increased utilisation of patrols with improving repair rates

Notes:
Comparatives updated for IFRS-17

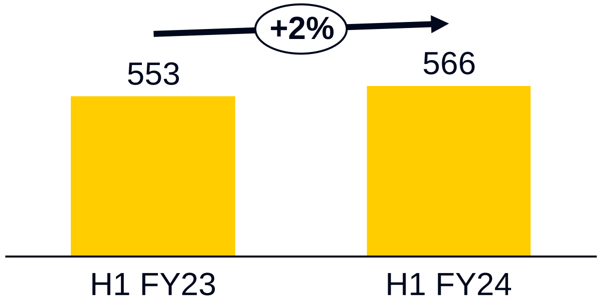
ROBUST INSURANCE RESULTS IN IMPROVING ENVIRONMENT

Motor book returned to growth

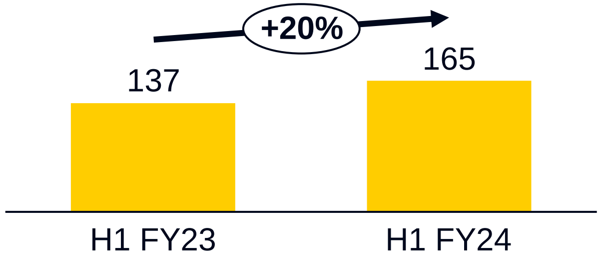
Motor Insurance policies (000s)[1]



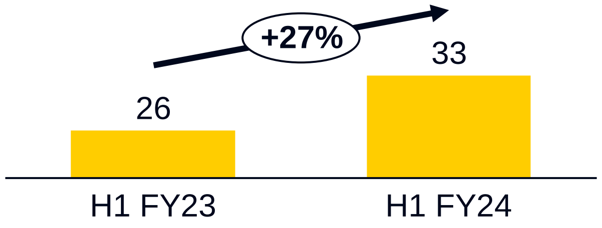
Underwritten Motor policies (000s)



Revenue (£m)



Adjusted EBITDA (£m)



Highlights

Growth in Motor book

Strengthened margins driven by higher average premiums and commissions in line with market

Market **premiums now rising ahead** of claims inflation

Market recovering post GIPP implementation

Strong growth in Accident Assist

Notes:
1. Policies counted as in-force for the broker, previously reflected 12 month sales which for H1 FY24 would be 1,085k.
Comparatives updated for IFRS-17

STRONG PROGRESS AGAINST HORIZON 1

Horizon 1 agenda to complete by end of year

Conversion rate improvement (ppts)

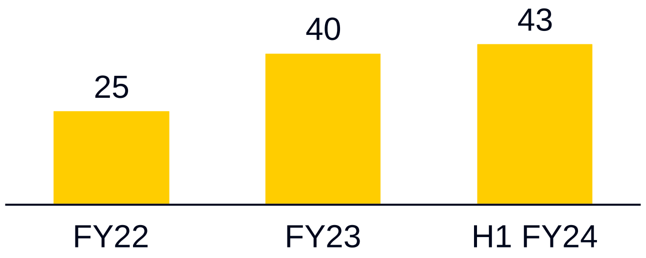
+0.2

Roadside

+3.0

Motor

B2C breakdowns logged digitally (%)



Renewal rate improvement (ppts)

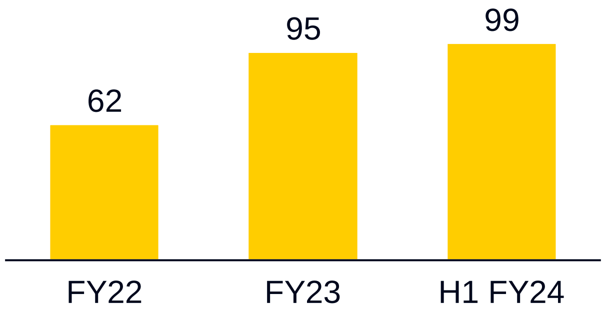
+0.7

Roadside[1]

-10.0

Motor

Policies on new Roadside platform (%)



Highlights

Completed Roadside re-platforming

Insurance re-platform on track

Improvement in digital capabilities **growing sales and conversion**

Upgraded data capabilities and driven efficiency

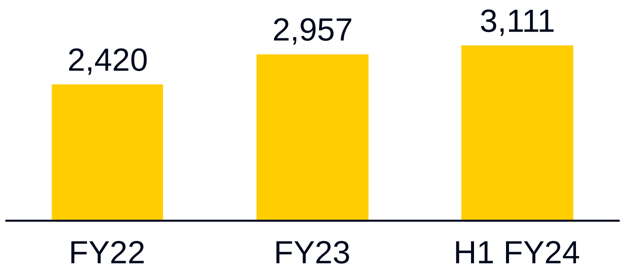
Continued to **drive growth in digital breakdown reporting** whilst developing service skills in contact centre colleagues

Notes:
1. Core Roadside policies, excluding Insurance add-on.

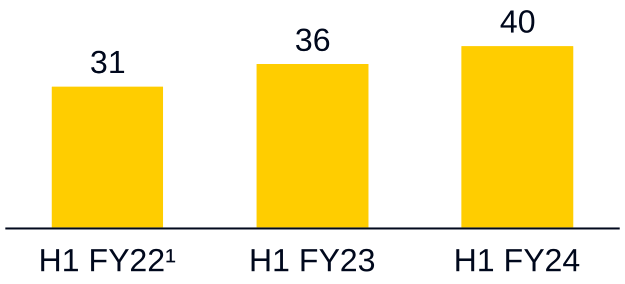
ACCELERATING TRACTION WITH HORIZONS 2 & 3

Horizons 2 & 3: Good early progress made

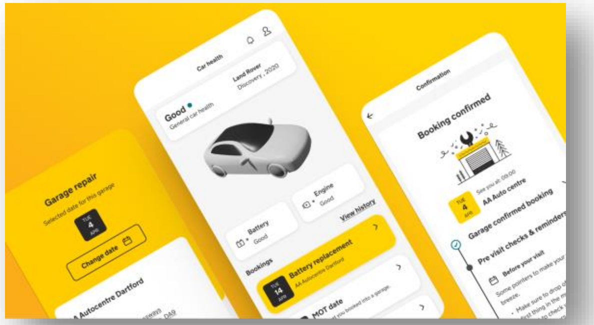
Driving School Instructors



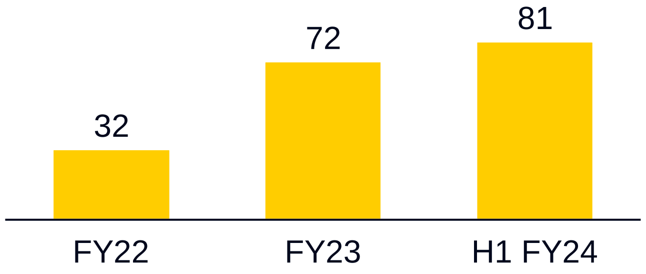
Accident Assist cases (k)



New connected car proposition



Patrols' EV training (% level 2)



Highlights

Expanded digital self-serve for customers alongside additional training for Contact centre

Continued to **grow propositions,** strong growth in Driving School and Accident Assist

First proposition within Horizon 3 – delivered new AA-X connected car app

Continued to **extend EV capability in patrols**

Repositioned the brand with new visual identity and marketing campaign to highlight broader, deeper offer

Notes:
1. H1 FY22 figures exclude partial fault cases

Agenda

Business review

Financial review

Summary and Q&A

H1 FY24 FINANCIAL HEADLINES

- **Delivered revenue growth** despite ongoing inflation challenges
- **Grown underlying revenue by 7%**, excluding re-insured gross written premium
- **Increased overall membership, Adjusted EBITDA** and operating **cash flow** generation
- Continued improvement of the Group's capital structure enabling a **buy back of £61m of debt** in August 2023

Revenue	Adjusted EBITDA	Adjusted EBITDA %	Operating Profit
H1 FY24	*H1 FY24*	*H1 FY24*	*H1 FY24*
£625m	**£206m**	**33%**	**£96m**
+10%	+2%	-2.6ppts	-6%

NCF from operating activities	Net debt	Group Leverage	Available Liquidity
H1 FY24	*H1 FY24*	*H1 FY24*	*H1 FY24*
£149m	**£2,222m**	**5.4x**	**£180m**
+23%	FY23: £2,222m	FY23: 5.4x	FY23: £166m

Notes:
Comparatives updated for IFRS-17

INCOME STATEMENT

£m	H1 FY24	H1 FY23	YoY	FY23
Revenue	**625**	568	*10%*	1,173
Adjusted EBITDA[1]	**206**	202	*2%*	409
Amortisation of acquisition costs	(32)	(30)	*(7%)*	(61)
Reported EBITDA[2]	**174**	172	*1%*	348
Share-based payments	(3)	(1)	*(200%)*	(3)
Pension service charge adjustment	(3)	(2)	*(50%)*	(5)
Amortisation and depreciation	(54)	(49)	*(10%)*	(104)
Impairment	0	(7)	*100%*	(7)
Adjusting operating items	(18)	(11)	*(64%)*	(30)
Operating profit	**96**	102	*(6%)*	199
Net finance costs	(73)	(62)	*(18%)*	(126)
Profit before tax	23	40	*(43%)*	73
Tax expense	(7)	(5)	*(40%)*	(6)
Profit for the period	**16**	35	*(54%)*	67

- Group revenue +10% driven by:
  - Increase in re-insured revenue in the underwriter
  - Growth in B2C and B2B member numbers
  - Core pricing increases, lower than inflation
- Stable profitability despite headwinds - Group Adjusted EBITDA +2% at £206m
- Adjusted operating items for H1 FY24 include investment in developing connected car capability and strategic projects
- Net finance costs increased by £11m following refinanced borrowings

Notes:
Comparatives updated for IFRS-17

1. Adjusted EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of insurance acquisition costs, amortisation of other intangible assets, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.
2. Reported EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of other intangible assets, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.

CASH FLOW

£m	H1 FY24	H1 FY23	FY23
Operating activities			
Profit before tax	23	40	73
Add back non cash items	129	119	235
Difference between pension charge and cash contributions	(12)	(12)	(24)
Working capital and provisions	14	(17)	(6)
Net cash flows from operating activities before tax	**154**	**130**	**278**
Tax paid	(5)	(9)	(15)
Net cash flows from operating activities	**149**	**121**	**263**
Investing activities			
Capital expenditure	(47)	(39)	(79)
Proceeds from sale of fixed assets	3	2	14
Other investing activities	3	(1)	2
Net cash flows used in investing activities	**(41)**	**(38)**	**(63)**
Financing activities			
Refinancing transactions	(12)	8	7
Interest paid on borrowings	(73)	(58)	(124)
Payment of lease capital and interest	(16)	(10)	(30)
Net cash flows used in financing activities	**(101)**	**(60)**	**(147)**
Net increase in cash and cash equivalents	7	23	53
Cash and cash equivalents at 1 February	165	112	112
Cash and cash equivalents at period end	**172**	**135**	**165**

- Net cash flow from operating activities before tax increased by £24m, supported by significant working capital improvement due to increased B2C revenue, higher underwriter premiums and Accident Assist expansion maturing
- Capex spend increased to £47m to continue investment as we deliver on Horizons 1, 2 and 3, generating significant benefits
- Refinancing activities outflow driven by tap issuance of A10s at below par
- Strong cash and cash equivalents at period end
- Good levels of liquidity and continuing to generate positive operating cash flow

Notes:
Comparatives updated for IFRS-17

NET DEBT

£m	H1 FY24	H1 FY23	FY23
Total Net Debt	2,222	2,240	2,222
Less: lease adjustment for IFRS 16	(27)	(26)	(28)
Less: AA Limited group lease obligations	(3)	(3)	(3)
Add: AA Limited cash	63	55	66
Net Debt for covenant reporting	2,255	2,266	2,257

Key metrics	H1 FY24	H1 FY23	FY23
Net Debt/EBITDA[1]	5.4x	5.5x	5.4x
WBS Senior Leverage Ratio[2]	5.7x	6.1x	5.8x
WBS Class B Leverage Ratio[3]	6.6x	7.1x	6.7x
Interest cover[4]	2.9x	3.3x	3.3x

Financial covenants	H1 FY24	H1 FY23	FY23
Class A FCF to DSCR[5] (covenant > 1.35x)	2.7x	2.8x	2.9x

Notes
1. Total Net Debt to AA Limited Adjusted EBITDA for the last 12 months.
2. Ratio of Net Senior Secured Debt to Intermediate group Debt Covenant EBITDA for the last 12 months.
3. Ratio of Net WBS Debt to Intermediate group Debt Covenant EBITDA for the last 12 months.
4. Run rate AA Limited ongoing cash finance costs: Adjusted EBITDA for the last 12 months.
5. Ratio of last 12 months Intermediate group debt covenant free cash flow to proforma debt service relating to the Senior Term Facility and Class A Notes.

- Cash and cash equivalents of £172m, of which £63m is at AA Limited level
- Net Debt for covenant purposes is the net debt in the WBS, presented on a pre-IFRS 16 basis
- Significant covenant headroom available
- Working capital facility: £56m, of which £46m is available for cash drawings
- WBS cash: £109m
- AA Limited unrestricted cash: £25m
- £550m of July 2024 bonds successfully refinanced - next bond maturity now July 2025
- Bought back £61m of debt in August 2023 as a result of positive financial performance

IMPACT OF IFRS 17

Key messages

- IFRS 17 is a new accounting standard for insurance contracts (including Roadside Assistance)
- We have successfully transitioned to IFRS 17
- No change to profitability, cash, dividend capacity or solvency requirements
- Election to capitalise acquisition costs
- Significant changes to statutory presentation

Observations

- Revenue is now shown gross of reinsurance
- Deferral and capitalisation of acquisition costs increases EBITDA
- Increased equity at transition date due to the deferral of acquisition costs

Reported to Adjusted EBITDA reconciliation

£m	Total
Published EBITDA as at 31 July 2022	**172**
Impact of IFRS 17 adoption	(2)
Deferral of acquisition costs	32
Adjusted EBITDA as at 31 July 2022	**202**

Agenda

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SUMMARY: A STRONG SET OF RESULTS

Clear market leadership: Increase to 3.3m B2C members and 10.7m B2B customers

Accelerating growth: £625m Revenue (+10%)

Strong profitability despite headwinds: £206m adjusted EBITDA (+2%)

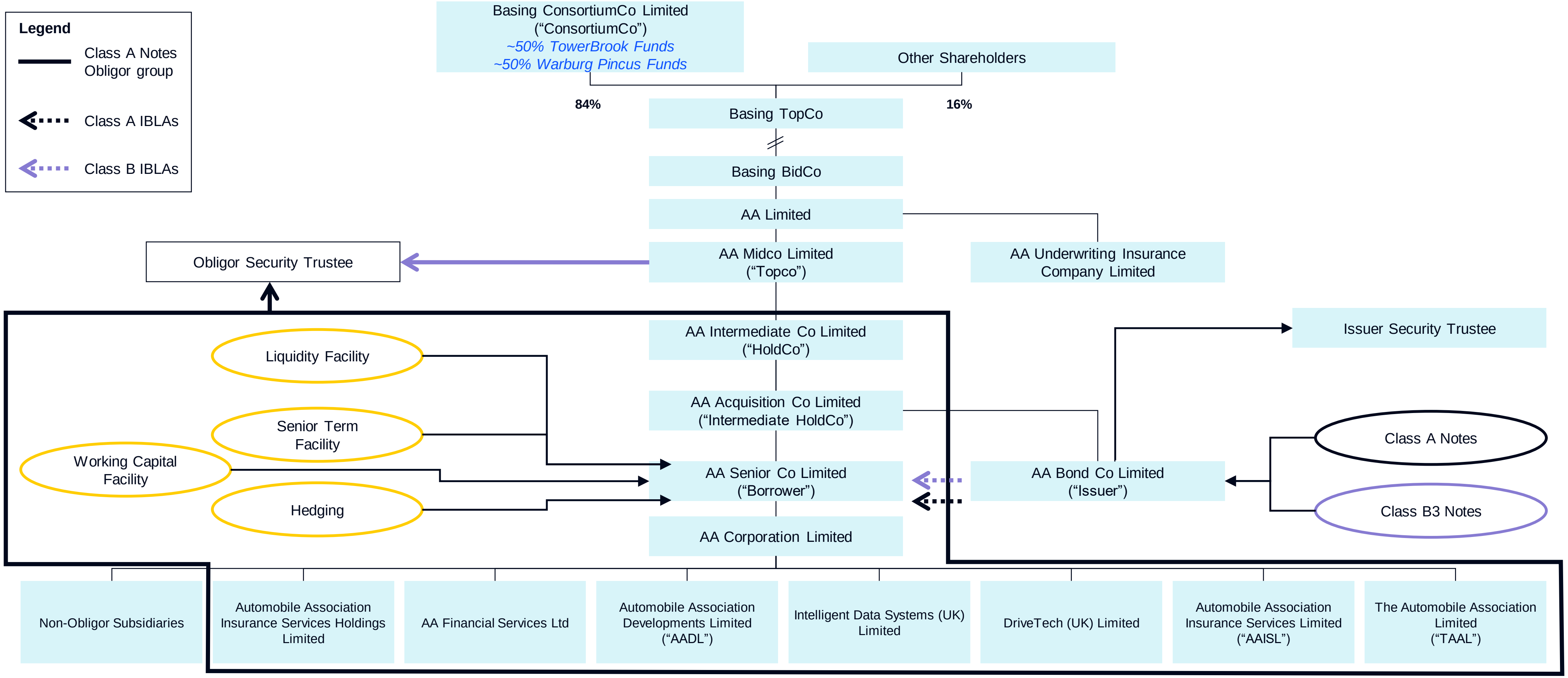
Further improving financial health: £550m of July 2024 bonds successfully refinanced

Sustained progress on transformation agenda with ambitious strategic vision and plan

Notes:
Comparatives updated for IFRS-17

Appendix

CORPORATE STRUCTURE



- AA Limited and its subsidiary, AA Underwriting Insurance Company Limited, sit outside the WBS. Please note, the financial figures presented in these materials focus on the AA Limited Group, which are different from Holdco and its restricted subsidiaries ("Holdco Group") for debt purposes.
- The AA intends to report consolidated full year results for the AA Limited Group each year.
- Consolidated full year and interim results for the AA Intermediate Co Limited Group will be reported each year in line with the Common Terms Agreement for the WBS.

CAPITALISATION TABLE

£m	H1 FY24	FY23	Ratings (S&P)	Maturity/Tenor	Coupon
Cash in WBS	(109)	(99)			
Senior Term Facility[1]	165	150		Mar-26	S+3.03%
Class A2 Notes	500	500	BBB-	Jul-25	6.269%
Class A7 Notes	-	550	BBB-	Jul-24	4.875%
Class A8 Notes	325	325	BBB-	Jul-27	5.500%
Class A9 Notes	270	270	BBB-	Jul-28	3.250%
Class A10 Notes[3]	385	250	BBB-	Jul-29	7.375%
Class A11 Notes[2]	400	-	BBB-	Jan-28	8.450%
Class A Gross Debt	**2,045**	**2,045**			
Net Class A Debt	**1,936**	**1,946**			
Class B3 Notes	280	280	B+	Jan-26	6.500%
Leases adjustment	39	31			
WBS Total Gross Debt	**2,364**	**2,356**			
WBS Net Debt	**2,255**	**2,257**			

1: Senior Term Facility drawn by additional £15m in Mar 23.
2: £400m A11 Note Issuance in Feb 23.
3. £135m A10 Note tap in June 23

PROGRESSING THROUGH OUR THRE STRATEGIC HORIZONS

Horizon 1: 2021 – 2023	Horizon 2: 2022 – 2025	Horizon 3: 2023+
Optimising the core	Extending the business	Monetising innovation
Upgrading organisational execution capabilities	Expanding propositional ecosystem into wider TAM	Creating new connected car data based propositions
Upgrading core and Digital & Data infrastructure	Amplifying cross-sell and ARPU growth	Extending leadership in electrification
Improving customer journeys to optimise conversion	Digitising customer journeys and extending self-service	Becoming a data driven mobility business
Enhancing persistency and customer value management	Expanding the ESG agenda	
Improving efficiency and productivity		
Finalising	**In delivery**	**First launch live**

DEFINITIONS

The following definitions apply throughout:

- Adjusted EBITDA is profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of insurance acquisition costs, amortisation of other intangible assets, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.
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- Personal members and business customers: measured at the period end.
- Net WBS Debt represents the borrowings and cash balances within the WBS structure headed by the Company. This includes the principal amounts of the Senior Term Facility, Class A notes, Class B3 notes and lease obligations for covenant reporting less cash and cash equivalents.
- Available liquidity is available cash and the amounts available to borrow under the Working Capital Facility (WCF).