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UNAUDITED FINANCIAL RESULTS FOR THE SECOND QUARTER ENDED SEPTEMBER 30, 2022

Zenith, the UK's leading independent leasing, fleet management and vehicle outsourcing business, today announces its unaudited second quarter financial results for the period ended 30 September 2022, with strong income growth despite a challenging economic environment.

Operational Highlights

- While supply chain challenges remain, lead times are beginning to shorten from the peaks of spring and summer 2022
- Total fleet size increased by c.4,300 units to 168,000 units, with funded fleet increasing by c.1,500 units to 72,000 units
- Despite a moderately improved supply of vehicles, lower deliveries than expected led to fewer end-of-contract terminations as customers were less able to replace their vehicles
- Termination volumes in Corporate were down 36% year on year, and down 15% on Q1. This is a deferral of activity and income to later periods, not a permanent change
- Order book stabilised at approximately 16,000 units over the last two months with gradually improving supply
- Order intake is slightly lower since the period-end; ZenAuto and the salary sacrifice segment of Corporate see lower orders as a result of shifts in consumer confidence, although in salary sacrifice this is mitigated to a large extent by the continuing, favourable benefit in kind taxation environment for Battery Electric Vehicles (BEVs)
- There was further visibility through to 2028 on benefit in kind rates on BEVs in the Autumn Statement
- BEVs are now 26% of the Corporate fleet and represent approximately 60% of our order intake
- ZenAuto has been profitable in Q2, with the fleet size passing the 10,000 unit mark

Financial Highlights¹

- Successful extension to November 2025 and upsizing by £250m of the securitisation facilities with existing lenders
- Securitisation programme now is an aggregate £975m, sized to fund our order book unwind and underlying fleet growth

Quarter ended September 30, 2022

- Gross profit of £36.7m up 5.8%; with profit growth across all divisions, a growing fleet size and increased rental activity in both Corporate and Commercial
- Adjusted EBITDA (excluding ZenAuto) down 2.9% (£0.6m) year on year, due to delays to vehicle deliveries and consequently vehicle disposals and income generated from churn, and investment to support the expected fleet growth as the order book unwinds

¹ Figures are stated prior to (i.e. exclude) the change of accounting estimates regarding vehicle depreciation and residual values

Half-year and last twelve months ended September 30, 2022

- Gross profit of £71.5m up 6.7%; with strong profit growth in Consumer, driven by growth in ZenAuto's fleet
- Adjusted EBITDA (excluding ZenAuto) down 0.7% (£0.3m) on the previous half-year, due to similar dynamics to the quarter end results
- LTM² Adjusted EBITDA of £77.2m, down by 1.3% on the year ended March 31, 2022
- Strong balance sheet with cash position of £55.7m³ and an undrawn credit facility of £65.0m, giving liquidity of £120.7m

Change of accounting estimates

As briefed at our Q1 results, we have re-assessed RVs and, therefore, depreciation on our funded fleet to the extent that those assets are accounted as fixed assets. As a result of reduced fleet depreciation, Gross Profit and Operating Profit increased by £7.2m in Q2. This has no impact on our cash flow, tax position or the borrowing base under any of our vehicle funding facilities.

TIM BUCHAN, CHIEF EXECUTIVE OFFICER, ZENITH, SAID:

"I am pleased to announce another strong performance for Zenith during the first half of the financial year, all the more impressive when set against the backdrop of the very challenging economic environment."

"Our order book remains at near record levels and all three of Zenith's divisions continue to perform well. While the supply chains issues that have dogged the motor industry continue to bring delays to new vehicle deliveries, we are now seeing those lead times begin to shorten."

"We also successfully extended our fleet financing, which is particularly pleasing given the challenging credit markets and confirms the underlying strengths of the Zenith business. It also provides us with financial headroom and flexibility for the period ahead."

"As we look ahead to the second half of the year, with the prospect of a difficult winter for the UK and period of economic recession, I am reassured by the resilience of Zenith's business model and would like to thank our colleagues across the business for their continued support, without which these results would not be possible."

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² Last Twelve Months

³ Excluding cash held in the special purpose vehicles in the securitisation programmes



CONTENTS

Highlights	1
Presentation of financial information	3
Disclaimer, Forward looking statements	4
Management’s discussion and analysis of financial condition and results of operations	5
Glossary	20
Condensed consolidated unaudited financial statements	Appended

PRESENTATION OF FINANCIAL INFORMATION

This report summarises consolidated financial and operating data derived from the unaudited consolidated financial statements of Zenith Automotive Holdings Limited, the parent company of Zenith Finco plc. The summary financial information provided herein has been derived from our records for the accounting calendar six months to September 30, 2022, and to September 30, 2021, which are maintained in accordance with FRS 102 and FRS 104.

The financial information contained within this report remains subject to audit and subsequent review.

We have presented certain non-FRS information in this quarterly report. This information includes “EBITDA”, “Adjusted EBITDA” and other measures derived therefrom, which represents earnings before interest, tax, depreciation, amortisation, impairment and exceptional items, and, in the case of “Adjusted EBITDA”, before operating losses from ZenAuto Limited.

Under FRS 102, we are obliged to re-assess residual values (RVs) of fixed assets, and therefore depreciation, where there has been an indication of change to those residual values, such as changes in market prices. The recent significant and sustained increase in used vehicle prices obliges us to re-assess (and re-set) residual values on our funded fleet to the extent that those assets are accounted as fixed assets. We have made this re-assessment as at 1 April 2022, and then further reassessed as at 30 June 2022, as a change in accounting estimates, with a subsequent impact on our profit and loss account for the six months ended September 30, 2022.

We present this change in isolation and draw the reader’s attention to the change, because it is a material and novel adjustment to our reported performance and position. We believe that Adjusted EBITDA and EBITDA, as adjusted to exclude this change in accounting estimates, are more representative and appropriate measures of our operating results, profitability and ability to service debt.

Our management believes metrics derived from EBITDA are meaningful for investors because they provide an analysis of our operating results, profitability and ability to service debt. Measures derived from EBITDA are also used by management to track our business development, establish operational and strategic targets and make important business decisions. EBITDA is the measure commonly used by investors and other interested parties.

Comparative information has been provided, where appropriate, for the audited year ended March 31, 2022, and the unaudited six months ended September 30, 2021.

References to “Zenith”, “Zenith Group” and “the Group” refer to Zenith Automotive Holdings Limited and all of its subsidiaries.

Due to rounding, certain numbers presented throughout this report may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.



DISCLAIMER

This report is for information purposes only and does not constitute an offer to sell or the solicitation of an offer to buy securities. This report does not contain all of the information that is material to an investor.

FORWARD LOOKING STATEMENTS

This report contains “forward-looking statements” as that term is defined by the U.S. federal securities laws and within the meaning of the securities laws of certain other jurisdictions. These forward looking statements include, without limitation, those regarding our intentions, beliefs or current expectations concerning our future financial condition or performance, result of operations and liquidity; our strategy, plans, objectives, prospects, growth, goals and targets; future developments in the markets in which we participate or are seeking to participate; and anticipated regulatory changes in the industry in which we operate.

These statements often include words such as “anticipate”, “believe”, “could”, “estimates”, “expect”, “forecast”, “intend”, “may”, “plan”, “projects”, “should”, “suggests”, “targets”, “would”, “will” and other similar expressions. These statements are not guarantees of performance or results. Many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those expressed in the forward-looking forward looking statements and projections.

We undertake no obligation to review or confirm analysts’ expectations or estimates or to release publicly any revisions to any forward looking statements to reflect events or circumstances after the date of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Zenith is the UK's leading independent leasing, fleet management and vehicle outsourcing business, with capabilities across all vehicle asset types, supporting business fleets (trucks, trailers, vans, company cars), salary sacrifice and consumer cars.

Our purpose is to provide sustainable, innovative vehicle mobility solutions. Our mission is to decarbonise the UK vehicle parc by eliminating tailpipe emissions.

We operate across the corporate, commercial and consumer sectors, specialising in bespoke mobility solutions. We operate in three distinct but complementary channels: business to business (B2B), business to business to employee (B2B2E) and business to consumer (B2C).

As of September 30, 2022, we had approximately 168,000 vehicles under management, with approximately 72,000 vehicles in our funded fleet and approximately 96,000 vehicles in our managed fleet.

For the year ended March 31, 2022, we generated gross profit of £136.2 million and Adjusted EBITDA of £78.2 million.

Key performance indicators

We use a range of commercial, financial and other KPIs to monitor our business. We believe that the most important KPIs for investors to understand are fleet size and growth (including the breakdown of managed and funded fleet) and financial metrics such as, gross profit, Adjusted EBITDA and cash conversion.

Fleet size and growth

Zenith Automotive Holdings Limited	As of March 31,			As of September 30,	
	2020	2021	2022	2021	2022
Funded Fleet.....	54,112	66,744	70,155	66,438	71,988
Managed Fleet.....	89,534	80,459	91,886	84,997	96,199
Total Fleet.....	143,646	147,203	162,041	151,435	168,187

We increased the size of our fleet to September 30, 2022, by 6,146 units or 4% versus March 31, 2022. This reflects growth from September 30, 2021, of 16,752 units or 11%. The growth from March 31, 2022, was predominantly via the managed fleet in our Consumer division (ZenAuto and White Label).



Financial KPIs

Zenith Automotive Holdings Limited (£000)	For the three months ended September 30,		For the six months ended September 30,		For the twelve months ended September 30,
	2021	2022	2021	2022	2022
Turnover	129,447	161,030	274,361	318,721	633,417
Gross profit	34,701	36,712	66,983	71,488	140,750
Adjusted EBITDA, before ZenAuto	20,776	20,177	40,289	39,250	77,194
Adjusted Operating Cash Flow	19,837	(21,045)	31,156	34,297	53,743
Cash conversion %	n/m	n/m	69%	88%	72%

(1) Cash conversion is based on EBITDA, i.e. including the results of ZenAuto. Cash conversion **excludes** the positive impact in the six months ended September 30, 2021, of the deferral of VAT under the Government's Covid-19 VAT deferral scheme. There was no impact of this scheme in the six months ended September 30, 2022, because the deferred VAT was repaid in full by February 2022.

Our financial performance in the most recent period to September 30, 2022, versus the comparative period, is explained below. For reconciliations of statutory to non-statutory and KPI-based measures of performance, see Glossary.

Results of Operations

The table below sets out a summary of our income statement for the periods presented.

Zenith Automotive Holdings Limited (£000)	For the three months ended September 30,		For the six months ended September 30,		For the twelve months ended September 30,
	2021	2022	2021	2022	2022
Turnover ⁽¹⁾	129,447	161,030	274,361	318,721	633,417
Cost of sales (excluding changes to accounting estimates of RVs of fleet fixed assets) ⁽¹⁾	(94,746)	(124,318)	(207,379)	(247,232)	(492,667)
Gross profit (excluding changes to accounting estimates of RVs of fleet fixed assets) ^(1,2)	34,701	36,712	66,983	71,488	140,750
Changes to accounting estimates of RVs of fleet fixed assets ⁽¹⁾	-	7,241	-	18,555	18,555
Gross profit ^(1,2)	34,701	43,953	66,983	90,043	159,305
Operating expenses	(14,514)	(16,320)	(27,700)	(32,462)	(66,241)
Operating profit before depreciation of owned tangible fixed assets, amortisation of goodwill and intangible assets and exceptional items, and <u>before</u> changes to accounting estimates of RVs of fleet fixed assets	20,187	20,392	39,283	39,026	93,064
Depreciation of owned fixed assets	(1,555)	(1,706)	(3,079)	(3,402)	(5,688)
Amortisation of goodwill	(6,195)	(6,128)	(12,163)	(12,209)	(24,406)
Amortisation of intangible assets	(6,660)	(6,693)	(13,320)	(13,387)	(26,706)
Operating exceptional items ⁽³⁾	53	-	(38)	-	(25)
Operating profit	5,830	13,107	10,683	28,583	36,241
Finance costs (net)	(27,326)	(28,843)	(54,090)	(56,397)	(121,070)
Finance costs (previous term Facilities and revolving credit facility) ⁽⁴⁾	(10,154)	(9,969)	(19,929)	(18,863)	(42,428)
Finance costs (on shareholder instruments) ⁽⁵⁾	(17,172)	(18,874)	(34,160)	(37,534)	(78,642)
Loss before taxation	(21,496)	(15,736)	(43,407)	(27,814)	(84,830)
Tax charge on loss	(19,658)	(356)	(19,512)	(712)	(58)
Loss for the financial period attributable to the shareholders of the group	(41,154)	(16,092)	(62,919)	(28,526)	(84,888)



- (1) We recognise in cost of sales the costs we incur in respect of assets subject to securitised contracts or hire purchase contracts, such as interest payable on the funding of long-term leases of such assets and depreciation of such assets over the course of their respective lives.
- (2) Operating exceptional items are costs that do not relate to the Group's normal business operations and which in management's judgement are considered material individually or in aggregate (if of a similar type) due to their size or frequency.
- (3) Finance costs (previous senior debt facilities and current senior notes and RCF) includes amounts due under the previous term facilities and previous revolving credit facilities, refinanced in January 2022, and similar charges under the new £475 million senior secured notes and new £65 million revolving credit facilities issue / arranged in January 2022, and costs incurred in operating the day to day banking of the business. Finance costs in the year ended March 31, 2022, includes £7.3 million in relation to the termination of the previous senior debt facilities, relating to the unamortised arrangement costs that were previously carried on the balance sheet under FRS 4.
- (4) Finance costs (on shareholder instruments) include non-cash shareholder Loan Note and Preference Share interest payable under the terms of those instruments. Interest on these balances is rolled on an annual basis. The other cost in this line is historic payments made to set up finance facilities which are amortised over the life of the facilities.

Divisional performance summary

The tables below present a summary of turnover and gross profit of each division. (These figures are presented prior to the impact of the change in accounting estimates for fleet depreciation.)

Corporate

(£000)	For the three months ended September 30,		For the six months ended September 30,		For the twelve months ended September 30,
	2021	2022	2021	2022	2022
Turnover	89,983	96,524	184,052	190,112	382,214
Gross profit	23,597	24,660	45,234	44,468	89,120

Commercial

(£000)	For the three months ended September 30,		For the six months ended September 30,		For the twelve months ended September 30,
	2021	2022	2021	2022	2022
Turnover	31,353	45,459	74,504	95,456	204,565
Gross profit	7,996	8,483	15,726	16,726	33,740

Consumer

(£000)	For the three months ended September 30,		For the six months ended September 30,		For the twelve months ended September 30,
	2021	2022	2021	2022	2022
Turnover	8,111	19,048	15,805	33,153	46,638
Gross profit	3,108	3,570	6,023	10,294	17,890



Comparison of results of operations for the three months ended September 30, 2021 and 2022

Turnover

Turnover increased by £31.5 million, or 24.4%, to £161.0 million for the three months ended September 30, 2022, from £129.4 million for the three months ended September 30, 2021. The increase in turnover was primarily due to higher lease incomes on the higher fleet (especially in the Commercial and Consumer divisions) and a positive movement in sundry revenues such as Corporate and Commercial rental.

However, these positives were tempered by a negative *volume* effect in vehicle sales revenues, with 36% lower termination *volumes* (disposals of vehicles in the period), and a reduction in sundry incomes that are attached to vehicle terminations, such as service and maintenance incomes that are recognised on vehicle disposal. Because the volume of terminations was lower versus the comparative period, and because many of those terminations were linked to new vehicle orders under a “key for key” exchange, the level of deliveries was also impacted, which impacted the income that is linked to new vehicle deliveries.

The reduction in vehicle terminations was due to the shortage of new vehicles in the market, as lead times on new vehicles remained unusually long. However, during this quarter, and more particularly in the period since the quarter end, we have seen lead times reduce from the peak earlier in the calendar year, shortly following the beginning of Ukraine conflict.

The increase in the order book within our Corporate division was from 12,241 open orders at March 31, 2022, to 14,771 open orders at September 30, 2022. This compares to a Corporate order bank of 8,643 orders at September 30, 2021.

Within our Consumer division, ZenAuto turnover was the key driver of an increase of £10.9 million (or 134.8%), driven by expanding funded fleet (generating lease income) and a higher volume and value of terminations (from a much lower base in the three months ended September 30, 2021, when the ZenAuto fleet was substantially smaller).

Corporate

Turnover of our Corporate division increased by £6.5 million, or 7.3%, to £96.5 million for the three months ended September 30, 2022, from £90.0 million for the three months ended September 30, 2021. Within the Corporate division, the rental business continued to benefit from high vehicle demand from our corporate customers and other in-life services as vehicle usage increased, such as income from tyre rebates. Lease incomes also increased, driven by a Corporate fleet that has increased by 1,497 units or 3.5%, to 44,212 units (September 30, 2021: 42,715 units).

The lengthening lead times on new vehicle deliveries, the growth in BEVs and the growth inherent in market segments such as salary sacrifice (where the tax environment for BEVs as an employee perk is highly beneficial) all contribute towards an order bank within Corporate that reached 14,771 open orders as at September 30, 2022, from 13,683 orders as at March 31, 2022, and from 8,643 orders as at September 30, 2021. The latest position as at October 31, 2022, is a slight reduction in the order bank to 14,707 open orders as the market stabilises and deliveries start to flow more readily, albeit gradually.



Commercial

Turnover and operating performance of our Commercial division is on a like-for-like basis between the two periods, because the acquisitions of the former Cartwright businesses (CVFS and CVR) were completed on September 30, 2020.

Turnover increased by £14.1 million, or 45.0%, to £45.5 million for the three months ended September 30, 2022, from £31.3 million for the three months ended September 30, 2021. The increase in Commercial turnover was primarily due to the beneficial impact of continuing high trailer utilisation rates in our CVR business, where demand has remained high in sectors such as online grocery and parcel delivery, but also in the movement of goods in general. Furthermore, there was an increase in the volume of terminations from our funded fleet within the Commercial business by 73 units to 160 units in the quarter.

Consumer

Turnover of our Consumer division increased by £10.9 million, or 134.8%, to £19.0 million for the three months ended September 30, 2022, from £8.1 million for the three months ended September 30, 2021. The increase in Consumer turnover was primarily due to the growth in the fleet size following the investments made in the ZenAuto business (particularly in the brand), and which continues the trend seen to March 31, 2022. The funded fleet increased to 10,086 vehicles by September 30, 2022, from 8,843 vehicles as at March 31, 2022, and from 7,378 vehicles as at September 30, 2021, i.e. a 36.7% increase over the twelve month period. This growth was achieved despite the relative shortage of new vehicles available in the market (caused by factors such as the semiconductor shortage) and despite some dampening of consumer confidence (continuing after the period closed) due to inflation, rising interest rates and other macroeconomic factors.

Cost of Sales, excluding the impact of changes in accounting estimates (fleet depreciation)

Cost of sales increased by £29.6 million, or 31.3%, to £124.3 million for the three months ended September 30, 2022, from £94.7 million for the three months ended September 30, 2021. The increase in cost of sales was primarily due to the higher volume of transactions in our Commercial division as fleet volumes grew and trading expanded in trailer rental and direct maintenance, together with an increase in the cost of funding for the three months ended September 30, 2022, from the three months ended September 30, 2021, as a result of the refinancing of our securitisation facilities that was completed in August 2021, and increase in cost of sales as a result of greater trading activity in the ZenAuto business. This was offset by lower volume of terminations (explained above), which reduced the aggregate carrying value of vehicles disposed of in the period.

Cost of sales represented 77.2% of turnover for the three months ended September 30, 2022, compared to 73.2% of turnover for the three months ended September 30, 2021. The increase in cost of sales as a proportion of turnover between the two periods was caused by a change in the mix of income across our Group, particularly towards the Commercial division and towards lease incomes rather than vehicle disposals.

Gross Profit, excluding the impact of changes in accounting estimates (fleet depreciation)

Group

Gross profit increased by £2.0 million, or 5.7%, to £36.7 million for the three months ended September 30, 2022, from £34.7 million for the three months ended September 30, 2021. There are no material variances from a group view with small increases in gross profit across contribution, termination profits, and other in-life incomes such as rebates.

Corporate

Gross profit in the Corporate division increased by £1.1 million, or 4.5%, to £24.7 million for the three months ended September 30, 2022, from £23.6 million for the three months ended September 30, 2021.

Within Corporate, the key drivers of the variance were a reduction in termination profits (i.e. profits on disposal of vehicles on termination, otherwise known as “Residual Value (RV) profits”), due to a reduction in the *volume* of terminations, though *rates of profit per unit* were maintained at elevated levels; offset by an increase in short term rental income where we have seen increased demand.

Commercial

Gross profit in the Commercial division increased by £0.5 million, or 6.1%, to £8.5 million for the three months ended September 30, 2022, from £8.0 million for the three months ended September 30, 2021. The increase in Commercial gross profit was primarily due to positive impact of higher trailer utilisation rates within the CVR business and the higher volume of terminations, particularly of trailers.

Consumer

Gross profit in the Consumer division increased by £0.5 million, or 14.9%, to £3.6 million for the three months ended September 30, 2022, from £3.1 million for the three months ended September 30, 2021. The increase in Consumer gross profit was primarily due to growth in fleet size within the ZenAuto business and supported by higher transaction volumes within the White Label operation, particularly new deliveries, which were impacted by the supply chain factors within the automotive market, but still showed growth versus the comparative period.

Changes in depreciation due to a change in accounting estimates

As briefed in the Q1 results announcement, we have re-assessed RVs and, therefore depreciation, on our funded fleet to the extent that those assets are accounted as fixed assets. We are obliged to re-assess depreciation under accounting standards, because of the material, sustained change in market prices for used vehicles.

The re-assessment of residual values has created additional Gross Profit and Operating Profit (via reduced fleet depreciation) of £7.2m during the quarter. This has no impact on our cash flow, tax position or the borrowing base under any of our vehicle funding facilities.

It also has no impact on the commercial decisions or positions that we take on pricing residual values or writing new business. We will continue to report the same revenue and profit KPIs in our own internal



board reporting, and to our investors, which we believe are more closely aligned to underlying earnings and cash flows.

Operating Expenses

Operating expenses increased by £1.7 million, or 11.9%, to £16.3 million for the three months ended September 30, 2022, from £14.6 million for the three months ended September 30, 2021. The increase in operating expenses was primarily due to higher people costs and related overheads (of £1.3 million, versus the comparative period), where we continue to invest in the capacity and capabilities of the group, in anticipation of future fleet growth when the existing order bank unwinds, particularly in Corporate.

In addition, we expensed more cost (£0.4 million higher, versus the comparative period) for the nationwide ZenAuto marketing campaign in the current financial year, whereas this was largely phased towards the second half of the preceding financial year ended March 31, 2022.

Operating expenses also include: depreciation of owned fixed assets (i.e. depreciation of non-fleet related assets, such as computer hardware and software, fixtures and fittings and similar fixed assets); and amortisation of acquired intangibles and amortisation of goodwill, both of which are non-cash items, driven by the intangible assets created (like goodwill) when Bridgepoint acquired the group in 2017.

Finance Costs

Finance costs for the three months ended September 30, 2021, reflect the cost of, inter alia, the previous term debt and revolving credit facilities, which were refinanced in January 2022.

Finance costs increased by £1.5 million, or 5.6%, to £28.8 million for the three months ended September 30, 2022, from £27.3 million for the three months ended September 30, 2021. The increase in finance costs was primarily due to the increased loan note and preference share interest, because the underlying balances increased after the annual compounding of interest (£1.7 million higher charges versus the comparative period); offset by the lower costs of the new senior secured notes compared to the previous senior term debt facilities.

Tax Charge

Tax changed by £19.3 million, to a charge of £0.4 million for the three months ended September 30, 2022, from a charge of £19.7 million for the three months ended September 30, 2021. The change in tax primarily reflects the deferred tax charge arising in Q2 FY2022 on intangible assets due to the prospective changes in headline corporation tax rate.

Comparison of results of operations for the six months ended September 30, 2021 and 2022

Turnover

Turnover increased by £44.4 million, or 16.2%, to £318.7 million for the six months ended September 30, 2022, from £274.4 million for the six months ended September 30, 2021.

The increase in turnover was primarily due to lease incomes on the larger fleet (especially in the Commercial and Consumer divisions), positive movement in sundry revenues such as Corporate and Commercial rental and positive trends on vehicle disposal revenues.

However, the latter was tempered by a negative *volume* effect in vehicle sales revenues, with 36% lower termination *volumes* (disposals of vehicles in the period, coincidentally with 36% declines in both the first and second quarters of the half year), and a reduction in sundry incomes that are attached to vehicle terminations, such as service and maintenance incomes that are recognised on vehicle disposal. Because the volume of terminations was lower versus the comparative period, and because many of those terminations were linked to new vehicle orders under a “key for key” exchange, the level of deliveries was also impacted, which impacted the income that is linked to new vehicle deliveries.

The reduction in vehicle terminations was due to the shortage of new vehicles in the market, as lead times on new vehicles remained unusually long. However, in the latter part of the half year and since the period end, we have seen lead times reduce from the peak earlier in the calendar year, shortly following the beginning of Ukraine conflict.

Within our Consumer division, ZenAuto turnover was the key driver of an increase of £15.9 million (or 135%), driven by expanding funded fleet (generating lease income) and a higher volume and value of terminations.

Corporate

Turnover of our Corporate division increased by £6.1 million, or 3.3%, to £190.1 million for the six months ended September 30, 2022, from £184.1 million for the six months ended September 30, 2021. Within the Corporate division, the rental business continued to benefit from high vehicle demand from our corporate customers and other in-life services as vehicle usage increased, such as income from tyre rebates. In addition, the Corporate division was the largest contributor to the turnover growth dynamics for the group that are described above – in particular, the positive effect of vehicle disposal incomes, but reflecting a strong positive *rate per unit* effect on disposal incomes, offset by materially lower disposal volumes compared to the previous half year.

Commercial

Turnover and operating performance of our Commercial division is on a like-for-like basis between the two periods, because the acquisitions of the former Cartwright businesses (CVFS and CVR) were completed on September 30, 2020.

Turnover increased by £21.0 million, or 28.1%, to £95.5 million for the six months ended September 30, 2022, from £74.5 million for the six months ended September 30, 2021. The increase in Commercial turnover was primarily due to the beneficial impact of continuing high trailer utilisation rates in our CVR



business, where demand has remained high in sectors such as online grocery and parcel delivery, but also in the movement of goods in general. Furthermore, there was an increase in the volume of terminations from our funded fleet. The second quarter, described above, was the key driver of turnover growth, generating £14.1 million of the £21.0 million positive variance versus the previous half year.

Consumer

Turnover of our Consumer division increased by £17.3 million, or 110%, to £33.2 million for the six months ended September 30, 2022, from £15.8 million for the six months ended September 30, 2021. The increase in Consumer turnover was primarily due to the growth in the fleet size in the ZenAuto business, despite the relative shortage of new vehicles available in the market and despite some dampening of consumer confidence towards the end of the half year. The increase also reflected strong growth in the managed fleet (via deliveries) in the White Label business, particularly during the first three months of the half year.

Cost of Sales, excluding the impact of changes in accounting estimates (fleet depreciation)

Cost of sales increased by £39.9 million, or 19.2%, to £247.3 million for the six months ended September 30, 2022, from £207.4 million for the six months ended September 30, 2021. The increase in cost of sales was primarily due to the higher volume of transactions in our Commercial division as fleet volumes grew and trading expanded in trailer rental and direct maintenance, together with an increase in the cost of depreciation and cost of funding for the six months ended September 30, 2022, from the six months ended September 30, 2021, as a result of the growth in the funded fleet and also the refinancing of our securitisation facilities that was completed in August 2021, and an increase in cost of sales as a result of greater trading activity in the ZenAuto business. This was offset by lower volume of terminations, which reduced the aggregate carrying value of vehicles disposed of in the period.

Cost of sales represented 77.6% of turnover for the six months ended September 30, 2022, compared to 75.6% of turnover for the six months ended September 30, 2021. The increase in cost of sales as a proportion of turnover between the two periods was caused by a change in the mix of income across our Group, particularly towards the Commercial division and towards lease incomes rather than vehicle disposals.

Gross Profit, excluding the impact of changes in accounting estimates (fleet depreciation)

Group

Gross profit increased by £4.5 million, or 6.7%, to £71.4 million for the six months ended September 30, 2022, from £67.0 million for the six months ended September 30, 2021. The main component of the positive variance was the contribution via lease margin and termination incomes of the ZenAuto business within the Consumer division, where fleet volumes and termination incomes (both volume and rate) were strongly positive. The Consumer division as a whole contributed to £4.3 million of the £4.5 million change for the current versus previous half year.

Corporate

Gross profit in the Corporate division decreased by £0.8 million, or 1.7%, to £44.5 million for the six months ended September 30, 2022, from £45.2 million for the six months ended September 30, 2021.

Within Corporate, the key drivers of the variance were a reduction in termination profits (i.e. profits on disposal of vehicles on termination, otherwise known as “Residual Value (RV) profits”), due to a reduction in the *volume* of terminations, though *rates of profit per unit* were maintained at elevated levels; offset by an increase in short term rental income where we have seen increased demand. There was the additional factor of lower margin vehicles coming into the fleet during the period as a result of recent increases in interest rates (which were particularly sharp in the first quarter), which caused cost of funds to be higher at funding date than was expected at quotation (customer pricing) date. In addition, the cost of funds arising from the refinancing of the securitisation in August 2021 was higher in the current half year than the previous year. This was offset somewhat by fleet growth in Corporate, despite the supply chain challenges, which were much more severe in the half year to September 30, 2022, than for the previous period to September 30, 2021.

Commercial

Gross profit in the Commercial division increased by £1.0 million, or 6.4%, to £16.7 million for the six months ended September 30, 2022, from £15.7 million for the six months ended September 30, 2021. The increase in Commercial gross profit was primarily due to positive impact of higher trailer utilisation rates within the CVR business and the higher volume of terminations, particularly of trailers. The growth in the half year was evenly spread between the first and second half, as these two factors were buoyant across the half year. However, we did notice a slight weakening of trailer utilisation rates toward the end of the half year, which has continued after the period end, predominantly caused by weakening confidence and the impact on goods haulage and parcel delivery, for example.

Consumer

Gross profit in the Consumer division increased by £4.3 million, or 70.9%, to £10.3 million for the six months ended September 30, 2022, from £6.0 million for the six months ended September 30, 2021. The increase in Consumer gross profit was primarily due to growth in fleet size within the ZenAuto business and supported by higher transaction volumes within the White Label operation, particularly new deliveries. The ZenAuto business also benefitted by higher termination incomes (chiefly RV profits), as vehicle disposal volumes and rates both improved in this business. The improvement in disposal volumes in ZenAuto was driven by the maturing fleet, which more than offset the supply chain difficulties which hindered disposal volumes in Corporate.

Changes in depreciation due to a change in accounting estimates

Please refer to the explanation of the change in accounting estimates within the quarterly discussion and analysis above.

The re-assessment of residual values created additional Gross Profit and Operating Profit (via reduced fleet depreciation) of £18.6 million during the half year. This has no impact on our cash flow, tax position or the borrowing base under any of our vehicle funding facilities.



The re- assessment of residual values, and the consequential effect on the depreciation charges on that population of assets, has reduced the depreciation charge within our cost of sales by £18.6 million, from a charge of £68.8 million on that population of assets, *had the residual values not been re-set*, to a charge of £50.6 million for the six months ended September 30, 2022. This compares to depreciation charges on the funded fleet for the six months ended September 30, 2021, of £56.7 million.

Operating Expenses

Operating expenses increased by £4.8 million, or 17.2%, to £32.5 million for the six months ended September 30, 2022, from £27.7 million for the six months ended September 30, 2021. The increase in operating expenses was primarily due to higher people costs and related overheads (of £2.5 million, versus the comparative period), where we continue to invest in the capacity and capabilities of the group, in anticipation of future fleet growth when the existing order bank unwinds, particularly in Corporate.

In addition, we expensed more cost (£1.2 million higher, versus the comparative period) for the nationwide ZenAuto marketing campaign in the current financial year, whereas this was largely phased towards the second half of the preceding financial year ended March 31, 2022.

Operating expenses also include: depreciation of owned fixed assets (i.e. depreciation of non-fleet related assets, such as computer hardware and software, fixtures and fittings and similar fixed assets); and amortisation of acquired intangibles and amortisation of goodwill, both of which are non-cash items, driven by the intangible assets created (like goodwill) when Bridgepoint acquired the group in 2017.

Finance Costs

Finance costs for the six months ended September 30, 2021, reflect the cost of, inter alia, the previous term debt and revolving credit facilities, which were refinanced in January 2022.

Finance costs increased by £2.3 million, or 4.3%, to £56.4 million for the six months ended September 30, 2022, from £54.1 million for the six months ended September 30, 2021. The increase in finance costs was primarily due to the increased loan note and preference share interest, because the underlying balances increased after the annual compounding of interest (£3.4 million higher charges versus the comparative period); offset by the lower costs of the new senior secured notes compared to the previous senior term debt facilities.

Tax Charge

Tax changed by £18.8 million, to a charge of £0.7 million for the six months ended September 30, 2022, from a charge of £19.5 million for the six months ended September 30, 2021. The change in tax primarily reflects the deferred tax charge arising in Q2 FY2022 on intangible assets due to the prospective changes in headline corporation tax rate.

Facilities funding our fleet

Fleet leasing is a capital intensive business and requires continuous access to different funding sources at attractive terms in order to maintain attractive margins. We seek to fund most of our funded fleet through securitisation facilities and the remainder with wholesale asset finance arrangements, such as secured back-to-back hire purchase contracts, RV financing and agency funding. The substantial undrawn capacity we currently have under our new securitisation facilities, in particular, enables us to continue growing the size of our funded fleet.

On September 30, 2022, we had drawn £597.5 million on our securitisation facilities (March 31, 2022: £532.8 million). We had also drawn £154.9 million on our RV facilities (March 31, 2022: £139.1 million) that are connected to the bifurcated securitisation facility (through which the lease receivables are funded by securitisation and the RV assets are funded by separate bilateral facilities). These drawings compare to an aggregate amount of such securitisation and RV facilities of £882.2 million (£725.0 million in respect of bifurcated and non-bifurcated securitisation facilities, plus £157.2 million of RV facilities for the bifurcated programme).

Back-to-back hire purchase funding is an arrangement whereby we buy a vehicle through a hire purchase contract funded by a financier and lease it on contract hire to customers on corresponding terms. As of September 30, 2022, we had drawn £88.5 million of funding commitments pursuant to back-to-back hire purchase agreements with financiers (March 31, 2022: £74.1 million).

Agency funding is an arrangement whereby we contract as disclosed or undisclosed agent for a third party which finances the vehicle purchase and, in most instances, holds legal title to the vehicle. As of September 30, 2022, we had utilised £125.6 million of agency funding (March 31, 2022: £105.7 million).

Extension of, and increase to, our securitisation facilities

After the quarter end, we increased the scale of our non-bifurcated securitisation facilities by £250.0 million, with the existing lenders to that programme. The newly-sized non-bifurcated securitisation facilities are now £850.0 million from the previous £600.0 million.

In addition, we extended the revolving periods on both the non-bifurcated and bifurcated securitisation facilities by approximately 15 months, such that the revolving periods on both facilities now run to November 2025.

It is very pleasing to have successfully extended and upsized our securitisation facilities, particularly given the challenging conditions in credit markets this year. We regard the success of this transaction as evidence of the confidence of the credit markets in Zenith's performance and prospects.

In respect of the back-to-back and RV funding, and the agency funding, there has not been a material change in the scale or nature of those facilities since March 31, 2022.

Liquidity

Our principal source of liquidity on an ongoing basis, including for the purposes of funding credit enhancement costs in respect of our securitisation facilities, is expected to be our operating cash flows.

As part of the refinancing of our senior term debt in January 2022, we entered into a revolving credit facility in an aggregate amount of £65.0 million. As at September 30, 2022, this was undrawn. As such, the financial covenant test under that facility was not tested.

The group had an aggregate cash balance as at September 30, 2022, of £66.5 million (March 31, 2022: £60.2 million), of which £10.8 million (March 31, 2022: £9.3 million) relates to cash balances held within the special purposes vehicles that are part of our securitisation structures. Therefore, the group had freely-available cash resources at September 30, 2022, of £55.7 million (March 31, 2022: £50.9 million), in addition to the undrawn capacity on the £65.0 million revolving credit facility.

Bond purchases

We may, from time to time, purchase our notes for cash in open-market purchases and/or privately negotiated transactions upon such terms and at such prices as we may determine. We will evaluate any such transactions in light of then-existing market conditions, taking into account our current liquidity and prospects for future access to capital. The amounts involved in any such transactions, individually or in the aggregate, may be material.



Historical cash flows

The following table sets forth cash flow information for the periods presented. A non-statutory cash flow presentation is appended to this document (in “Glossary”), to assist the understanding of our cash flow.

Zenith Automotive Holdings Limited (£000)	For the three months ended September 30,		For the six months ended September 30,	
	2021	2022	2021	2022
Net cash inflow from operating activities.....	50,123	57,092	81,234	72,290
Tax (paid) / received.....	(316)	(1,176)	590	(2,482)
Net cash flows used in investing activities	(32,827)	(92,975)	(63,711)	(125,941)
Net cash flows (used in)/from financing activities.....	2,969	56,597	(1,337)	62,445
Net increase in cash & cash equivalents	19,949	19,538	16,776	6,312
Cash and cash equivalents at start of period.....	16,040	46,942	19,213	60,168
Cash and cash equivalents at end of period	35,989	66,480	35,989	66,480

Net cash flow from operating activities

Net cash inflow from operating activities increased by £7.0 million, to a £57.1 million inflow for the three months ended September 30, 2022, from a £50.1 million inflow for the three months ended September 30, 2021. This increase in net cash flow from operating activities was primarily due to the timing of VAT recoveries on new vehicle purchases, which were substantially up in the current period.

Net cash inflow from operating activities decreased by £8.9 million, to a £72.3 million inflow for the six months ended September 30, 2022, from a £81.2 million inflow for the six months ended September 30, 2021. This increase in net cash flow from operating activities was primarily due to the decrease in creditors occurring in the half year, linked to vehicle funding on extended fleet and bilateral funding arrangements.

Tax paid / received

Cash flows used in tax changed by £0.9 million, to a £1.2 million payment for the three months ended September 30, 2022, from a £0.3 million outflow for the three months ended September 30, 2021, reflecting the increase in profits chargeable to corporation tax between the two periods.

Cash flows used in tax changed by £3.1 million, to a £2.5 million payment for the six months ended September 30, 2022, from a £0.6 million receipt for the six months ended September 30, 2021, as tax payments resumed a more normal pattern of payments on account for corporation tax, without adjustment for prior period recoveries of tax paid (as was the case in the three months ended September 30, 2021).

Net cash used in investing activities

Net cash flows used in investing activities increased by £60.1 million, to a cash outflow of £93.0 million for the three months ended September 30, 2022, from a cash outflow of £32.8 million for the three months ended September 30, 2021. This increase in net cash outflows used in investing activities was primarily due to an increase in the purchase of funded assets (the funding of which is shown in net cash flow from financing activities).

Net cash flows used in investing activities increased by £62.2 million, to a cash outflow of £125.9 million for the six months ended September 30, 2022, from a cash outflow of £63.7 million for the six months ended September 30, 2021 for the reasons described above in respect of the three months ended September 30, 2022.

Net cash flow (used in)/from financing activities

Net cash flows (used in)/from financing activities changed by £53.6 million, to a cash inflow of £56.6 million for the three months ended September 30, 2022, from a cash inflow of £3.0 million for the three months ended September 30, 2021. There was no drawdown or repayment of the group's current revolving credit facilities in the three months ended September, 30, 2022, though the group repaid £15.0 million of the previous revolving credit facility in the three months ended September, 30, 2021. The level of interest paid in the three months to September 30, 2022, decreased to £0.2 million, from £10.7 million for the three months ended September 30, 2021, due to the coupon payments on the new senior secured notes being paid semi-annually on 30 June and 31 December, whereas the previous senior term debt package carried interest paid quarterly on calendar quarter ends.

Net cash flows (used in)/from financing activities changed by £63.8 million, to a cash inflow of £62.5 million for the six months ended September 30, 2022, from a cash outflow of £1.3 million for the six months ended September 30, 2021. There was no drawdown or repayment of the group's current revolving credit facilities in the six months ended September, 30, 2022, though the group repaid £20.0 million of the previous revolving credit facility in the six months ended September, 30, 2021. The level of interest paid decreased to £13.7 million for the period ended September 30, 2022, from £19.5 million for the six months ended September 30, 2021, due to the lower interest rate on the senior secured notes compared to the previous senior term debt facilities, offset by the payment of the coupon on the senior secured notes covering the period from inception (January 28, 2022) to September 30, 2022, whereas in the comparative period the previous senior debt package interest was paid quarterly, and therefore the payment covered a three month period, rather than a five month period. These previous senior term debt and revolving credit facilities were refinanced in January 2022.

Off-balance sheet arrangements

At September 30, 2022, our material off-balance sheet item relates to vehicles funded through agency arrangements. For vehicles funded under such arrangements only the commitment to repurchase the vehicle at the end of the lease for the RV is recognised on the balance sheet. At September 30, 2022, the outstanding balance of vehicles subject to repurchase arrangements through agency arrangements was £43.9 million (March 31, 2022: £36.9 million), reported as "Vehicles subject to repurchase agreements." By contrast, the outstanding rentals balance is reported on the agency funder's balance sheet.

Glossary

Reconciliation of Loss for the financial periods to Adjusted EBITDA excluding ZenAuto

Zenith Automotive Holdings Limited (£000)	For the financial year ended March 31,			For the six months ended September 30,		For the twelve months ended September 31,
	2020	2021	2022	2021	2022	2022
	(£ in thousands)					
Loss for the financial period attributable to the shareholders of the group	(102,415)	(98,845)	(119,282)	(62,919)	(28,525)	(84,888)
Tax (credit)/ charge on loss.....	5,503	(4,376)	18,858	19,512	713	58
Finance costs (on shareholder investment & all other items).....	61,311	66,862	75,268	34,160	37,534	78,642
Finance costs (previous Term Facilities and previous Revolving Credit Facility)...	37,058	37,699	43,495	19,929	18,863	42,428
Operating exceptional items.....	-	359	63	38	-	25
Changes to accounting estimates of RVs of fleet fixed assets.....	-	-	-	-	(18,555)	(18,555)
Amortisation of intangible assets	25,516	26,365	26,639	13,320	13,387	26,706
Amortisation of goodwill.....	23,873	24,102	24,360	12,163	12,209	24,406
Depreciation of owned fixed assets.....	5,299	5,909	5,364	3,079	3,402	5,688
Adjusted EBITDA	56,145	58,075	74,766	39,283	39,026	74,510
Add back: Adjusted EBITDA loss for ZenAuto.....	2,204	3,392	3,467	1,005	224	2,685
Adjusted EBITDA excluding ZenAuto	58,349	61,467	78,232	40,288	39,250	77,194

Reconciliation of Change in Cash & Cash Equivalents to Adjusted Operating Cash Flow

Zenith Automotive Holdings Limited (£000)	For the financial year ended March 31,			For the six months ended September 30,	
	2020	2021	2022	2021	2022
Net increase in cash & cash equivalents	52,540	(54,355)	40,955	16,776	6,312
Add back / (Deduct):					
As adjusted credit enhancement adjustment	2,818	26,528	(29,346)	(29,346)	-
Acquisition Cash Flows.....	-	10,490	-	-	-
Financing - bank loans raised (Existing Revolving Credit Facility)	(60,000)	40,000	(20,685)	20,000	-
Financing - interest paid.....	29,551	35,078	31,534	19,438	13,651
Corporation tax (paid) / received.....	4,063	2,301	1,156	(590)	2,482
Purchase of fixed assets.....	8,143	8,294	10,217	4,878	8,813
Senior debt refinancing: fees and expenses	-	-	8,761	-	3,038
Securitisation refinancing: fees and expenses	-	-	8,011	-	-
Adjusted Operating Cash Flow.....	37,115	68,336	50,603	31,156	34,297

Note: "As adjusted credit enhancement adjustment" represents the credit enhancement for the period, as adjusted as if our new securitisation programme entered into in August 2021 had been entered into at the beginning of the period indicated. See "Description of Certain Financing Arrangements" in our offering memorandum dated January 2022. Our former securitisation arrangements had significantly lower advance rates on vehicle RVs, in particular. Credit enhancement is a key working capital requirement and represents the difference between the securitisation funding advance rate received, including any RV funding, and the purchase price of the vehicle.



Non-statutory Cash Flow presentation: EBITDA to Adjusted Operating Cash Flow to Net Cash Flow for the period

	For the three months ended September 30,		For the six months ended September 30,		For the twelve months ended March 31,
Zenith Automotive Holdings Limited (£000)	2021	2022	2021	2022	2022
EBITDA	20,187	20,392	39,283	39,026	74,766
Change in Working capital, including vehicle funding and payments	28,761	6,049	28,969	(4,730)	(24,100)
Exceptional items	52	-	(38)	-	(63)
Adjusted Operating Cash Flow	49,001	26,442	68,214	34,297	50,603
Purchase of fixed assets	(3,030)	(5,282)	(4,878)	(8,813)	(10,217)
Corporation tax (paid) / received	(316)	(1,176)	590	(2,482)	(1,156)
Cash Flow before acquisitions and corporate financing	45,654	19,984	63,926	23,001	39,230
Pro forma credit enhancement adjustment	-	-	(7,631)	-	29,346
Acquisition Cash Flows	-	-	-	-	-
Financing - bank loans raised (previous revolving credit facility and senior term debt) ..	(15,000)	-	(20,000)	-	20,685
Financing - interest paid (previous revolving credit facility and senior term debt)	(10,705)	(182)	(19,438)	(13,651)	(31,534)
Securitisation refinancing: fees and expenses	-	-	(81)	-	(8,011)
Senior debt refinancing: fees and expenses	-	(263)	-	(3,038)	(8,761)
Net cash flow (Change in Net Cash and Cash Equivalents)	19,949	19,539	16,776	6,312	40,955

Note: this cash flow presentation reconciles between EBITDA (i.e. as reported, after deducting losses from ZenAuto Limited) to Adjusted Operating Cash Flow, from which we derive our cash conversion KPI, to Cash Flow before acquisitions and corporate financing, which is the cash flow measure we regard as closest to a measure of cash flow available for debt service and similar financing, and to Net Cash movement in the periods in question.



Zenith Automotive Holdings Limited
Condensed unaudited interim financial statements
For the six months ended 30 September 2022

Zenith Automotive Holdings Limited

Information to accompany the condensed interim financial statements

For the six months ended 30 September 2022

	Page
Condensed consolidated statement of profit and loss account	2
Condensed consolidated statement of financial position	3
Condensed consolidated statement of changes in equity	4
Condensed consolidated cash flow statement	5
Notes to the condensed unaudited interim financial statements	6

Zenith Automotive Holdings Limited

Condensed consolidated statement of profit and loss account

For the six months ended 30 September 2022

	Note	Six months ended 30 September 2022 £'000	Six months ended 30 September 2021 £'000
Turnover	3	318,721	274,361
Cost of sales		(228,678)	(207,379)
Gross profit		90,043	66,983
Operating expenses		(61,460)	(56,300)
Operating profit before depreciation of owned tangible fixed assets, amortisation of goodwill and intangible assets and exceptional items		39,026	39,283
Depreciation of owned tangible fixed assets		(3,402)	(3,079)
Amortisation of goodwill		(12,209)	(12,163)
Amortisation of intangible assets		(13,387)	(13,320)
Operating exceptional items		-	(38)
Change of accounting estimates – fleet depreciation		18,555	-
Operating profit	4	28,583	10,683
Finance costs (net)		(56,397)	(54,090)
Loss before taxation	4	(27,814)	(43,407)
Tax charge on loss		(712)	(19,512)
Loss for the financial period attributable to the shareholders of the group		(28,526)	(62,919)

All results derive from continuing operations.

The accompanying notes 1 to 11 are an integral part of these financial statements.

Condensed consolidated statement of comprehensive income

For the six months ended 30 September 2022

	Six months ended 30 September 2022 £'000	Six months ended 30 September 2021 £'000
Loss for the financial period	(28,526)	(62,919)
Hedge gains arising during period (net of tax impact)	17,645	2,939
Total comprehensive expense attributable to the shareholders of the group	(10,881)	(59,980)

The accompanying notes 1 to 11 are an integral part of these financial statements.

Zenith Automotive Holdings Limited

Condensed consolidated statement of financial position

As at 30 September 2022

	Note	As at 30 September 2022 £'000	As at 30 September 2021 £'000	As at 31 March 2022 £'000
Fixed assets				
Goodwill	5	355,882	378,726	367,201
Intangible assets	5	349,992	369,879	363,380
Tangible assets	5	<u>829,600</u>	<u>596,981</u>	<u>726,127</u>
		<u>1,535,474</u>	<u>1,345,586</u>	<u>1,456,708</u>
Current assets				
Inventory		1,088	935	1,058
Debtors				
– due within one year	6	131,974	124,411	135,207
– due after one year	6	84,342	70,722	75,113
Cash at bank and in hand		<u>66,480</u>	<u>35,989</u>	<u>60,168</u>
		283,884	232,057	271,546
Creditors: amounts falling due within one year	7	<u>(506,829)</u>	<u>(444,018)</u>	<u>(406,426)</u>
Net current liabilities		<u>(222,945)</u>	<u>(211,961)</u>	<u>(134,880)</u>
Total assets less current liabilities		1,312,529	1,133,625	1,321,828
Creditors: amounts falling due after more than one year	8	(1,421,790)	(1,189,017)	(1,423,503)
Provisions for liabilities		<u>(112,123)</u>	<u>(106,208)</u>	<u>(108,828)</u>
Net liabilities		<u>(221,384)</u>	<u>(161,600)</u>	<u>(210,503)</u>
Capital and reserves				
Called up share capital		271,546	271,546	271,546
Share premium account		2,444	2,444	2,444
Hedging reserve		25,245	124	7,600
Profit and loss account		<u>(520,619)</u>	<u>(435,714)</u>	<u>(492,093)</u>
Shareholders' deficit		<u>(221,384)</u>	<u>(161,600)</u>	<u>(210,503)</u>

The accompanying notes 1 to 11 are an integral part of these financial statements.

Zenith Automotive Holdings Limited

Consolidated statement of changes in equity

As at 30 September 2022

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Hedging reserve £'000	Total £'000
At 1 April 2021	271,546	2,444	(372,794)	(2,815)	(101,619)
Loss for the financial period	-	-	(62,919)	-	(62,919)
Hedges of variable interest rate risk	-	-	-	3,428	3,428
Deferred tax charge	-	-	-	(489)	(489)
Total comprehensive expense	-	-	(62,919)	2,939	(59,980)
At 30 September 2021	271,546	2,444	(435,714)	124	(161,600)
Loss for the financial period	-	-	(56,362)	-	(56,362)
Hedges of variable interest rate risk	-	-	-	10,180	10,180
Deferred tax charge	-	-	-	(2,704)	(2,704)
Reassessment of goodwill on acquisition	-	-	(17)	-	(17)
Total comprehensive expense	-	-	(56,379)	7,476	(48,903)
At 31 March 2022	271,546	2,444	(492,093)	7,600	(210,503)
Loss for the financial period	-	-	(28,526)	-	(28,526)
Hedges of variable interest rate risk	-	-	-	21,033	21,033
Deferred tax charge	-	-	-	(3,388)	(3,388)
Total comprehensive expense	-	-	(28,526)	17,645	(10,881)
At 30 September 2022	271,546	2,444	(520,619)	25,245	(221,384)

The accompanying notes 1 to 11 are an integral part of these financial statements.

Hedging reserve:

Movements in the hedging reserve reflect the change in the fair value of derivative financial instruments designated into hedge accounting relationships in accordance with IFRS 9. The derivatives are originally recognised on the balance sheet at fair value, with fair value gains or losses relating to future periods being recognised in other comprehensive income and therefore outside of the profit and loss account. These will subsequently be released to the profit and loss account in the period the forecasted cashflow it is hedging occurs.

Zenith Automotive Holdings Limited

Condensed consolidated cash flow statement

For the six months ended 30 September 2022

	Six months ended 30 September 2022 £'000	Six months ended 30 September 2021 £'000
Operating profit	28,583	10,683
Adjustment for:		
Depreciation charges	53,959	59,783
Amortisation of goodwill and intangibles	25,596	25,483
Profit on sale of tangible fixed assets	(48,210)	(9,225)
Operating cash flow before movement in working capital	59,928	86,724
Capital repayment received from finance lessees	6,067	9,640
Decrease / (increase) in debtors	20,803	(4,429)
(Increase) / decrease in stock	(30)	49
Decrease in creditors	(16,625)	(10,996)
Increase in provisions	2,147	246
Net cash inflow from operating activities	72,290	81,234
Income tax (paid) / received	(2,482)	590
Cash flows from investing activities		
Proceeds from sale of operating lease assets	133,260	98,979
Purchase of operating lease assets	(23,374)	12,100
Purchase of operating lease assets (funded)	(235,827)	(174,790)
Net cash flows from investing activities	(125,941)	(63,711)
Cash flows from financing activities		
Repayments of borrowings	(159,731)	(156,689)
Drawdown of funding	235,827	174,790
Interest paid	(13,651)	(19,438)
Net cash flows from financing activities	62,445	(1,337)
Net increase in cash and cash equivalents	6,312	16,776
Cash and cash equivalents at start of the year	60,168	19,213
Cash and cash equivalents at end of the period	66,480	35,989

The accompanying notes 1 to 11 are an integral part of these financial statements.

Cash and cash equivalents include amounts in respect of Exhibition Finance plc (formerly Bifurcate Funding Limited), Forge Funding Limited and Vehicle Titleco Limited of a total of £10,797,000 (30 September 2021: £12,853,000; 31 March 2022: £9,283,000) that are not freely available for use by the Group.

Zenith Automotive Holdings Limited

Notes to the financial statements

For the six months ended 30 June 2022

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The financial information for the six month period ended 30 September 2022 has been prepared in accordance with FRS 104 'Interim Financial Reporting' and the Companies Act 2006. This report should be read in conjunction with the Group's annual report and financial statements for the year ended 31 March 2022, which have been prepared in accordance with FRS 102.

Accounting policies

The accounting policies, methods of computation and presentation in these accounts are consistent with those that were applied in the annual financial statements for the year ended 31 March 2022, except for the estimation of income tax. The auditor's report on those accounts was unqualified. The Group's financial statements are prepared under the historical cost convention in compliance with Financial Reporting Standard 101 Reduced Disclosure Framework.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings. Income tax expense is recognised based on Group's estimate of the weighted average effective annual income tax rate expected for the full financial year.

Going concern

The Group has considerable financial resources, a broad customer base across different business sectors and diversified income streams. Therefore, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook, high and potentially persistent rates of inflation and challenging conditions in the automotive supply chain.

The directors of the Group have considered the adoption of the going concern basis in preparing the financial statements given the current economic climate and have formed the conclusion that there are no material uncertainties with respect to the Group's ability to continue as a going concern for the foreseeable future. In forming this view, the directors have considered: the Group's financial position, the Group's budgets and trading forecasts (including stress-testing these forecasts based on the principal risks facing the Group); and the committed debt facilities available to the Group together with forecast headroom against those borrowing facilities (including against covenants), and including the impact of reasonable sensitivities and foreseen uncertainties. This includes the impact of the extended securitisation facilities (refinanced in August 2021 for a minimum of three years, to aggregate facilities of £725 million) and the senior secured notes and revolving credit facilities (arranged in January 2022, repayable in mid-2027, in the amount of £475 million and £65 million respectively).

Due to the nature of the Group's business model, which mainly relates to leases of between three to five years to large corporate customers, the degree of visibility over our future earnings is high. As a result, we believe our success during the Covid-19 pandemic is a direct result of our robust strategy to diversify our group. We further believe that Zenith is well positioned to navigate any further periods of disruption caused by the Covid-19 pandemic, the current macroeconomic environment and the challenges posed by current constraints in the automotive supply chain.

More details of our strategy and these risks are included in the Strategic Report of the consolidated accounts of the group.

The directors continue to closely monitor the potential impacts of any further disruption caused by Covid-19, macroeconomic factors and the current constraints in the automotive supply chain. We have not identified any material adjustments to balances included in these financial statements.

On this basis, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

Zenith Automotive Holdings Limited

Notes to the financial statements

For the six months ended 30 September 2022

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 1, Accounting Policies, in its Annual Report and Financial Statements for the year ended 31 March 2022, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Credit loss provisioning

The Group considers the determination criteria for significant increase or decrease in credit risk to be a key judgement within expected credit losses that may have a significant risk of causing material adjustment. However, given the particularly low level of credit losses experienced by the Group over many years, the Group does not expect any credit losses on receivables. The credit underwriting process on corporate customers is robust, and the Group focuses on the prime credit segment of the corporate market. Similarly, the Group focuses on the prime and super-prime segment of consumer creditworthiness in the personal contract hire market. In addition, the asset-backing of the receivables in question (by a hard asset, a vehicle) reduces any loss given a default. In assessing whether the credit risk of an asset has significantly increased or decreased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Key source of estimation uncertainty

Residual values

When pricing a lease, the estimate of what a vehicle will be worth at the end of the lease is called the residual value. The Group reviews the residual values of its leased assets on an ongoing basis with reference to independent market data and prevailing economic conditions. We use sophisticated technology and risk management techniques to manage residual value and maintenance risk and our risk positions and exposures are constantly reassessed and adjusted accordingly. As such, residual values held in the financial statements of this Group are believed to be redeemable and free from impairment.

Maintenance provision

The Group regularly reviews its provisioning for future maintenance costs. The amount recognised as a provision is the best estimate of consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Extensive analysis is undertaken regularly based on a substantial amount of historic evidence to ensure the provisioning level is appropriate.

We use sophisticated technology and risk management techniques to manage maintenance risk and our risk positions and exposures are constantly reassessed and adjusted accordingly. As such provisions in the balance sheet in place to cover expected future expenditure on maintenance contracts are believed to be adequate but not excessive.

The provision at 30 September 2022 amounts to £22.6 million (30 September 2021: £19.1 million; 31 March 2022: £20.4 million).

Zenith Automotive Holdings Limited

Notes to the financial statements

For the six months ended 30 September 2022

Impairment of goodwill and intangible assets

The Group regularly reviews for new indicators of impairment, where none are found no impairment testing is undertaken; where such indicators are found the Group undertakes an estimation of the value in use of the cash-generating units to which goodwill and acquired intangible assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. This includes an assessment of Covid-19 and an estimate of reasonably possible sensitivities in reaching the conclusions of the review. The carrying amount of goodwill at the balance sheet date was £355.9 million (30 September 2021: £378.7 million; 31 March 2022: £367.2 million). No impairment loss was recognised during the year ended 31 March 2022, nor the period ended 30 September 2022 (30 September 2021: £nil). The carrying amount of acquired intangible assets at the balance sheet date was £337.8 million (30 September 2021: £369.9 million; 31 March 2022: £349.4 million).

3. TURNOVER

	Six months ended 30 September 2022 £'000	Six months ended 30 September 2021 £'000
An analysis of the Group's turnover by class of business is set out below:		
Long term leases	179,311	149,446
Vehicle sales	91,219	81,902
Other*	48,191	43,013
	318,721	274,361

*Other turnover includes fleet management and outsource fees, daily rental and other miscellaneous income.

The Group's turnover was all derived from operations within the United Kingdom.

4. OPERATING PROFIT

Operating profit is stated after charging:

	Six months ended 30 September 2022 £'000	Six months ended 30 September 2021 £'000
Depreciation of tangible fixed assets		
Owned	2,140	2,144
Company cars	1,262	935
Held under finance leases and hire purchase contracts	50,598	56,703
Amortisation of goodwill	12,209	12,163
Amortisation of intangibles	13,387	13,320
Operating exceptional items	-	38
Change of accounting estimates – fleet depreciation	(18,555)	-

Zenith Automotive Holdings Limited

Notes to the financial statements

For the six months ended 30 September 2022

5. FIXED ASSETS

a) Goodwill

The total net book value of goodwill is £355.9 million (30 September 2021: £378.8 million; 31 March 2022: £367.2 million). Other than amortisation, there have been no material movements in the period.

b) Intangible assets

Intangible assets include customer contracts (arising on the acquisition of Contract Vehicles Limited in 2017) and software development costs. Management has considered indicators, compared actual performance to forecasts (please see the annual report and financial statements for the year ended 31 March 2022 for further details) and have concluded that no indicators of impairment exist at the reporting date. The total net book value of intangible assets is £350.0 million (30 September 2021: £369.9 million; 31 March 2022: £363.4 million). Other than amortisation, there have been no material movements in the period.

c) Tangible fixed assets

Tangible fixed assets include freehold land & buildings, vehicles leased to customers and equipment, fixtures & fittings.

The net book value of tangible fixed assets at 30 September 2022 was £829.6 million (30 September 2021: £597.0 million; 31 March 2022: £726.1 million). The increase since 31 March 2022 is largely due to additions of £243.4 million offset by depreciation of £54.0 million and disposals of £85.9 million. There were no additions or disposals in the period that were individually material. The movement in fixed assets includes the effect of a change in accounting estimates for the residual values of a cohort of our vehicles, which is further described in Management's Discussion & Analysis, accompanying these financial statements.

d) Capital commitments

At the end of the period the Group had contracted capital commitments of £651.0 million (30 September 2021: £297.6 million; 31 March 2022: £546.5 million) relating to the purchase of vehicles for leasing to its customers. These commitments are expected to be met within the next 12 months. The Group had no other capital commitments.

e) Contingent liabilities

At 30 September 2022 the Group was committed to the future purchase of vehicles with a cost of £77.2 million (30 September 2021: £18.4 million; 31 March 2022: £49.0 million).

Zenith Automotive Holdings Limited

Notes to the financial statements

For the six months ended 30 September 2022

6. DEBTORS

	As at 30 September 2022 £'000	As at 30 September 2021 £'000	As at 31 March 2022 £'000
Amounts falling due within one year:			
Trade debtors	35,272	55,822	49,129
Amounts receivable under finance leases	-	-	-
Amounts receivable under hire purchase contracts	6,338	5,801	4,308
Amounts receivable under securitised contracts	15,664	13,542	14,406
Vehicles subject to repurchase agreements	8,386	7,412	7,352
Other debtors	4,633	12,260	18,011
Corporation tax	1,732	611	1,803
Fair value of hedging instruments	31,167	153	10,133
Prepayments and accrued income	21,896	28,810	21,176
VAT	6,886	-	8,889
	<hr/>	<hr/>	<hr/>
	131,974	124,411	135,207
	<hr/>	<hr/>	<hr/>
Amounts falling due after more than one year:			
Amounts receivable under hire purchase contracts	16,590	14,787	14,251
Amounts receivable under securitised contracts	25,481	24,556	28,420
Vehicles subject to repurchase agreements	35,498	28,580	29,564
Prepayments and accrued income	6,773	2,799	2,878
	<hr/>	<hr/>	<hr/>
	84,342	70,722	75,113
	<hr/>	<hr/>	<hr/>
	216,316	195,133	210,320
	<hr/>	<hr/>	<hr/>

Zenith Automotive Holdings Limited

Notes to the financial statements

For the six months ended 30 September 2022

7. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	As at 30 September 2022 £'000	As at 30 September 2021 £'000	As at 31 March 2022 £'000
Obligations under finance leases and hire purchase contracts	68,873	36,422	55,862
Obligations under securitised contracts	318,516	289,895	231,704
Vehicles subject to repurchase agreements	8,386	7,412	7,352
Trade creditors	30,786	39,839	43,473
VAT	-	2,768	-
Other taxation and social security	1,743	1,131	2,531
Corporation tax	-	-	-
Withholding tax	-	428	-
Other creditors	21,630	16,403	21,375
Fair value of hedging instruments	-	-	-
Accruals and deferred income	56,895	49,720	44,129
	506,829	444,018	406,426

8. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	As at 30 September 2022 £'000	As at 30 September 2021 £'000	As at 31 March 2022 £'000
Bank loans	-	425,902	-
Senior secured notes	465,883	-	464,923
Obligations under finance leases and hire purchase contracts	32,060	26,696	18,918
Obligations under securitised contracts	391,908	282,295	435,334
Vehicles subject to repurchase agreements	35,498	28,580	29,564
Loan notes	308,274	279,167	308,040
Accruals and deferred income	188,167	146,377	166,724
	1,421,790	1,189,017	1,423,503

Zenith Automotive Holdings Limited

Notes to the financial statements

For the six months ended 30 September 2022

9. NET SENIOR DEBT

	As at 1 April 2021	Cash flows	Other non- cash charges	As at 30 September 2021
Cash at bank and in hand	19,213	16,776	-	35,989
Senior term debt	434,316	-	-	434,316
Senior revolving facility	20,000	(20,000)	-	-
Unamortised loan arrangement costs	(10,097)	-	1,684	(8,413)
Net senior debt	425,006	(36,776)	1,684	389,914
	As at 1 April 2022	Cash flows	Other non- cash charges	As at 30 September 2022
Cash at bank and in hand	60,168	6,312	-	66,480
Senior secured notes	475,000	-	-	475,000
Senior revolving facility	-	-	-	-
Unamortised loan arrangement costs	(10,077)	-	960	(9,117)
Net senior debt	404,755	(6,312)	960	399,403

A breakdown and reconciliation of the Group's net senior debt as at 31 March 2022 can be found in note 20 to the audited financial statements for the year ended 31 March 2022.

Net senior debt includes cash and cash equivalents and bank loans drawn under the Group's senior facilities agreement (term loan and revolving credit facilities), but excludes amounts payable to shareholders of £579.8m (loan notes and preference shares), finance leases and vehicle funding £855.2m (including amounts drawn under the Group's securitisation arrangements).

10. RELATED PARTY TRANSACTIONS

A related party is either an individual with control or significant influence over the Group, or a company that is linked to the Group by investment or a related individual. Our primary related parties are our key management personnel.

Key management personnel are considered to be the Group's directors, who are members of either or both of the Group holding board or leadership board.

There were no transactions with directors for the periods covered by these consolidated financial statements, other than remuneration in connection with their roles (and as disclosed in the annual report and accounts for the financial year ended 31 March 2022).

Pursuant to the Investment Agreement between the Group, Bridgepoint and the management shareholders, Bridgepoint has appointed two directors to Topco's Board who provide financial oversight, monitoring services and other advisory services to the Group, for which Bridgepoint is entitled to an annual monitoring fee of £125,000 per director plus reasonable expenses. For the six months ended 30 September 2022 we paid a monitoring fee of £125,000 (six months ended 30 September 2021: £125,000; year ended 31 March 2022: £250,000).

Zenith Automotive Holdings Limited

Notes to the financial statements

For the six months ended 30 September 2022

11. ULTIMATE CONTROLLING PARTY

At 31 March 2022 and 30 September 2022, the largest and smallest group in which the results of the Company were consolidated are these Group accounts.

According to the register of members maintained by Zenith Automotive Holdings Limited, a number of limited partnerships comprising the Bridgepoint Europe V Fund, which are managed by Bridgepoint Advisers Limited, and hold securities through a nominee company, BEV Nominees Limited, held a significant interest in the ordinary shares of the Company at the balance sheet date and continue to do so at the date of this report. The directors of Zenith Automotive Holdings Limited deem there not to be an ultimate controlling party as none of the investors in the Bridgepoint Europe V Fund has an effective ownership of more than 20% of the issued share capital of the Company.