Zenith
Intelligent Vehicle Solutions

BUSINESS UPDATE

Q2 & H1 RESULTS TO SEPTEMBER 2022

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AGENDA

1. **Q2 & H1 business update**
2. **Financial performance**
3. **Closing remarks, Q&A**

Presenters:

Tim Buchan	CEO
Mark Phillips	CFO
Martin Holland	Deputy CFO

Q2 & H1 TO SEPT 2022: HIGHLIGHTS

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BUSINESS HIGHLIGHTS

- Robust operating and financial performance, despite the “macro”
- Increased fleet by 4k from June to Sept 2022 to 168k vehicles
- Order bank remains strong (>16k units in total)
- Recently increased our securitisation facilities by £250m to £975m, and extended to November 2025
- ZenAuto was profitable in Q2*, on schedule
- Supply chain easing, but continues to impact deliveries (and terminations)
- Consumer confidence impacts ZenAuto demand as consumers go “risk off”
- Similar trend on smaller scale in salary sacrifice – but mitigated by favourable BIK environment
- Autumn Statement removed BIK “cliff edge” and supports transition to BEV

FLEET DYNAMICS

TOTAL FLEET

Sep 2022	168,167
FY22	162,041
FY21	147,203

FUNDED FLEET

Sep 2022	71,988
FY22	70,155
FY21	66,744

CORPORATE FUNDED FLEET: BEVs

Oct 2022	26%
FY22	19%
FY21	9%
FY20	2%

ORDER BOOK TRENDS

CORPORATE ORDER BOOK

Sep 2022	14,771
FY22	12,241
FY21	5,499

CORPORATE ORDERS: CHANGING FLEET

BEV AS % OF ORDERS
58%

BEV + HYBRIDS AS %
78%

MOST POPULAR BEV ON ORDER
Audi Q4

// * £0.2m profit at EBITDA level

ROBUST OPERATIONAL PERFORMANCE DESPITE THE CURRENT MACRO-ECONOMIC CONDITIONS

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CORPORATE

- **Funded fleet up** by ~1k units in Q2
- **Termination volumes down** 15% versus Q1 and down 36% versus Q2 of last year
- **Supply chain challenges** limit key-for-key exchanges and depress deliveries and terminations
- RV Profits/unit **remain at elevated levels**

Effects of current "macro" environment

- **Robust performance** via contracted and recurring incomes
- No impact yet on RV Profits, i.e. on used vehicle market prices / demand
- Cautious on prospects for **used vehicle demand / prices in FYQ4**. Prices may soften, but fundamentals continue to support prices in medium term
- **Salary Sacrifice** orders are robust, but **affected by consumer confidence**
- Positive changes in **Autumn Statement. Longer runway in "dash to electric" (2028)**

COMMERCIAL

- Managed fleet and **total fleet up** marginally in Q2 (<1k units)
- RV Profits are less sizeable than in Corporate, but up materially in Q2 and in YTD
- **Supply chain challenges** similar to Corporate, but lower "churn" and longer vehicle lives, **impact is mitigated**

Effects of current "macro" environment

- **Stable performance** via fleet management
- **Sector focus** supports performance, e.g. non-discretionary areas such as grocery
- **Trailer rental utilisation is down** on last year's peak, e.g. driven by lower goods transportation given the current consumer environment

CONSUMER

- **ZenAuto fleet reached 10k units**. New advert and social marketing assets launched
- ZenAuto fleet +14% this year, below expectations: supply chain and confidence
- **ZenAuto profitable in Q2**
- White Label has grown fleet by **8%** since Y/E, but growth slowed in Q2 (similar dynamics to ZenAuto)

Effects of current "macro" environment

- **Consumers deferring major purchases**
- Website traffic and other indicators are down, **order intake down**
- However, we believe that this is a **deferral of demand** and prospects remain healthy
- **Customer defaults remain at historic lows**, but we remain alert

ORDER BANK GREW IN Q2, BUT RECENTLY FLATTENING

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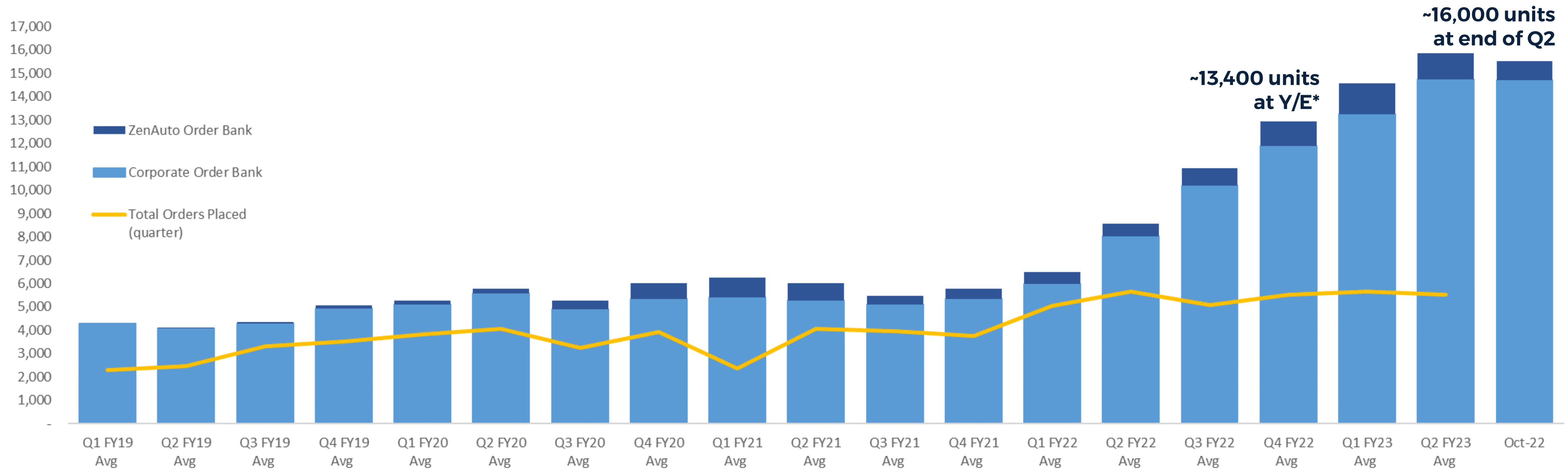
CORPORATE & ZENAUTO ORDER BANK (number of vehicles)



- Order intake has flattened in Q1 and Q2, but still at very positive levels
- Combined with the supply chain easing moderately, this has caused the order bank to flatten

SUPPLY CHAIN CHALLENGES HAVE EASED IN Q3 BUT THE UNWIND IS GRADUAL

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LEAD TIMES BY Q2

AVERAGE LEAD TIME AT ORDER:

~110-130 days pre-Covid

~210 days Jan 2022

~240 days after Ukraine

~200 days Sep to Oct 2022

AVERAGE OBSERVED TIME TO DELIVERY:

+110 to +130 extra days
during semiconductor shortage (2021/22)

+5-10 extra days in Q2

LONGEST LEAD TIMES:
>500 days

ORDER INTAKE VERSUS SUPPLY

Since end of Sept:

Number of deliveries has overtaken new order intake (Corporate)

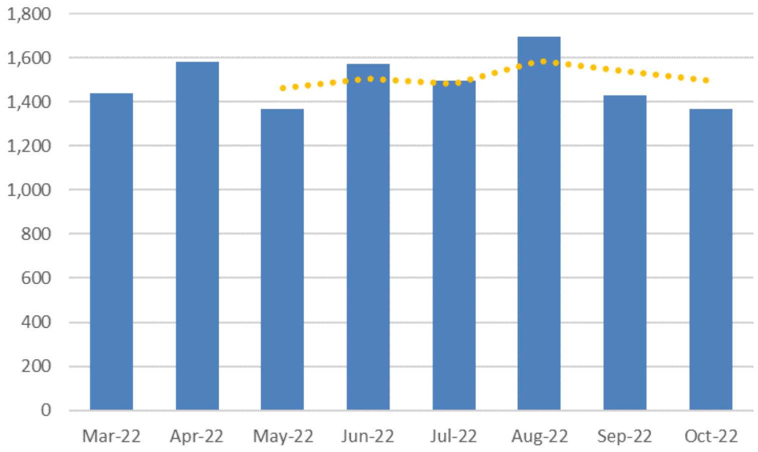
i.e. ratio of orders taken to deliveries of vehicles to dealerships for our customers

On a static order book, "par" would be 1x – i.e. a new order is offset by one delivery

CORPORATE ORDER TRENDS

LAST TWO MONTHS ORDERS AS % of YTD AVERAGE

(6%) down, but still ~1,400 orders pcm



OUR NATURAL HEDGES & HOW THEY TYPICALLY UNFOLD

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VARIATION OR RISK

Shortage of vehicle supply, delays to delivery and fleet growth

- Knock-on impact on delivery- and disposal-related incomes
- Fewer termination volumes (lower RV profits – volume variance)
- Lower fleet growth → margin & churn delayed to later periods

NATURAL HEDGE EFFECT

Delays to delivery…indicates lack of supply

- Lack of supply pushes used vehicle prices up: higher RV Profits, but lower volumes
- Existing vehicles goes into extension, favourable margin
- Higher car rentals used as a substitute (i.e. a "lead in" vehicle)

Higher cost of new vehicles

- Caused by restricted supply or by greater mix of BEVs

→ **Higher purchase cost implied higher lease margin / unit**

- Vehicles priced on % yield, rather than £/unit margins
- As long as RVs move in-line, little impact on affordability – if RV do not move in-line, financing element is relatively small part of total cost of ownership
- Leasing more attractive in times of rising prices versus buying outright as customer only pays depreciation plus interest

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Lower cost of new vehicles

- e.g. reducing cost of BEVs over time

→ **Lower up-front cost stimulates demand, driving volume**

- Drives growth in Consumer BEVs demand and salary sacrifice in Corporate
- Lower price of vehicles implies expanding supply, indicating space for discounts on large purchase commitments (e.g. in ZenAuto) and faster growth

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Inflation impacts new car prices, fixed maintenance net incomes and overheads

- Majority of our funded fleet is on maintenance contracts
- Inflation in parts, tyres and labour costs impacts profitability of maintenance contracts
- Higher car prices
- Higher overheads (mainly salaries)

→ **Inflation generates growth in nominal values of other assets / incomes**

- Trailer and car rental prices
- Used vehicle prices (RV profits)
- New vehicle purchase prices (comments re. yield above) → higher £ margins mitigate maintenance cost and salary inflation to large extent

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Channel diversification

- If Corporate leasing becomes less attractive (e.g. adverse BIK changes)

→ **Demand switches to consumer channels**

- i.e. ZenAuto, White Label

INDEPENDENT FORECAST: DEFICIT IN NEW CAR REGISTRATIONS TO CONTINUE IN 2023

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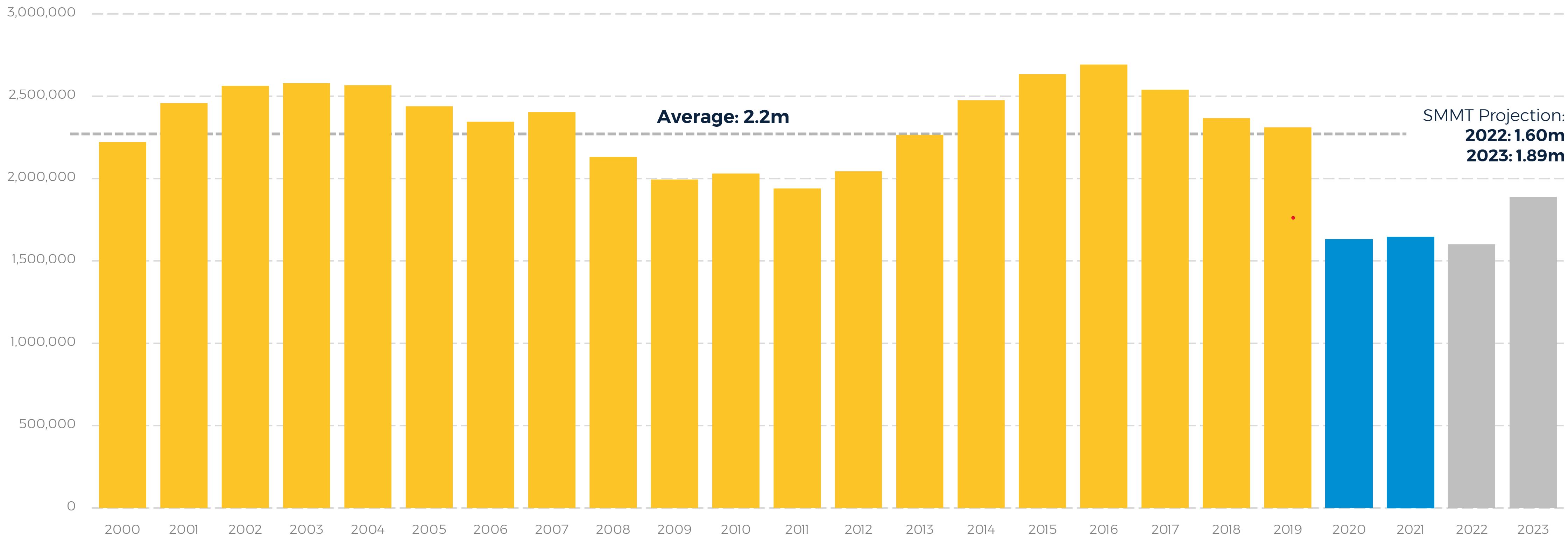
Market on course for 40 year record low on new vehicle registrations in 2022, the lowest since 1982 (source: SMMT October 2022 registrations)



SMMT: UK new car registrations since 2000

Approx. 2.5m new vehicle registrations, equivalent to a year of supply versus pre-Covid times, is now “missing” from the second hand vehicle market

USED VEHICLE INDICATORS: DEMAND IS SOFTER BUT STILL ABOVE 2019 LEVELS

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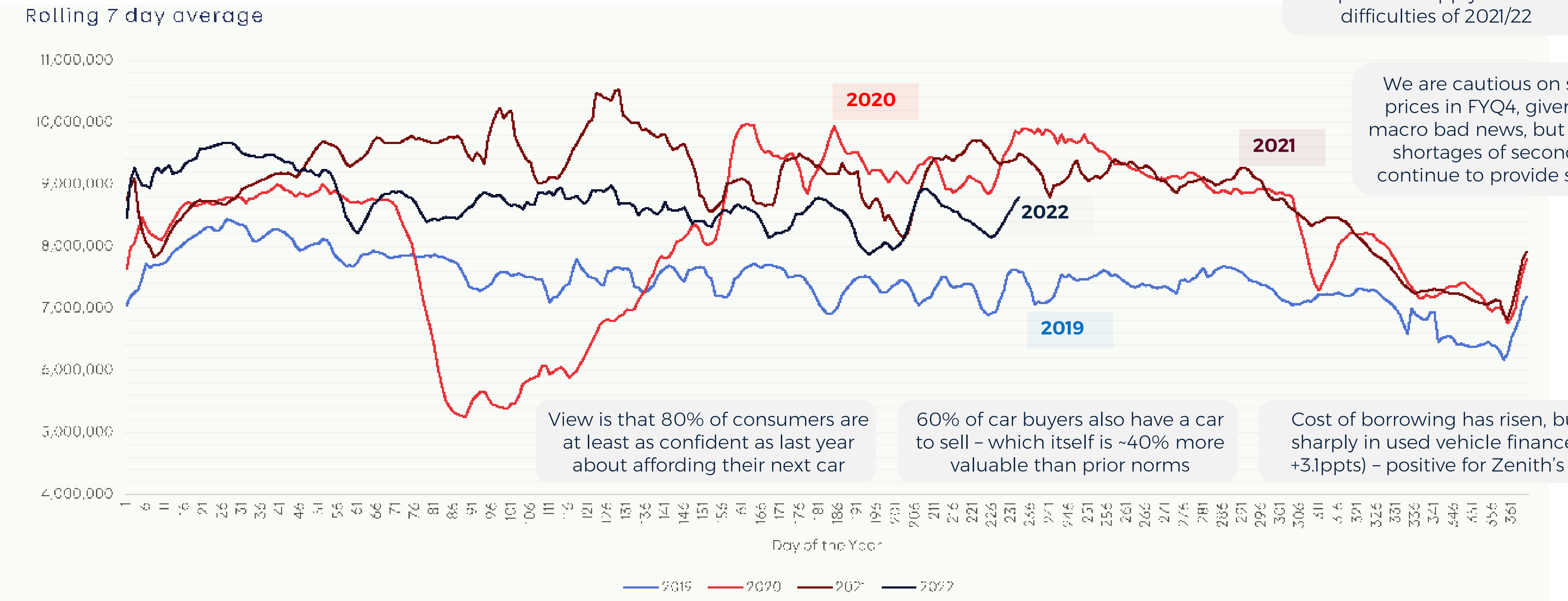
Chart: Daily Ad views per year

2019 is a reasonable proxy for a "normal year", i.e. pre-Covid, pre- the supply chain difficulties of 2021/22



We are cautious on second hand car prices in FYQ4, given likely weight of macro bad news, but underlying supply shortages of second hand cars will continue to provide support for prices

View is that 80% of consumers are at least as confident as last year about affording their next car

60% of car buyers also have a car to sell – which itself is ~40% more valuable than prior norms

Cost of borrowing has risen, but much less sharply in used vehicle finance (+1.3ppts vs. +3.1ppts) – positive for Zenith's remarketing

Source: Autotrader (daily ad views only)

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SUMMARY FINANCIAL PERFORMANCE

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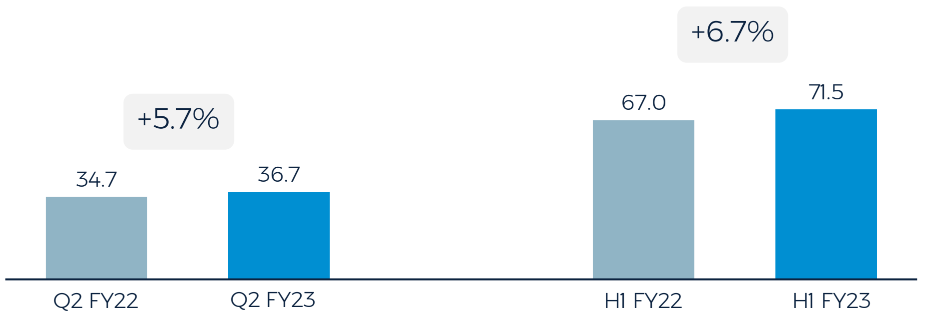
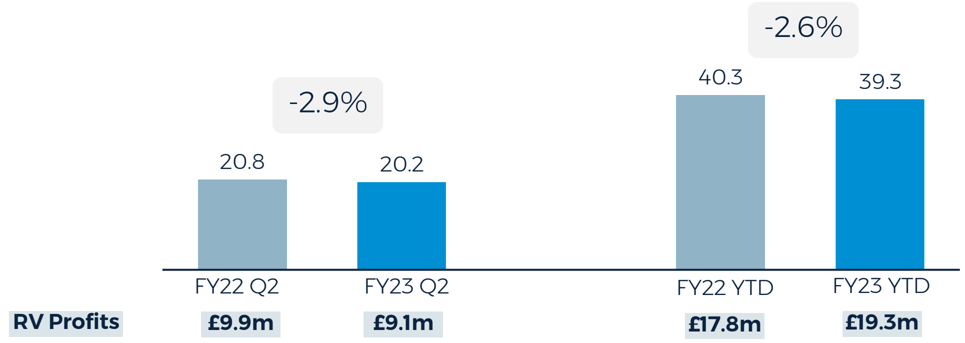
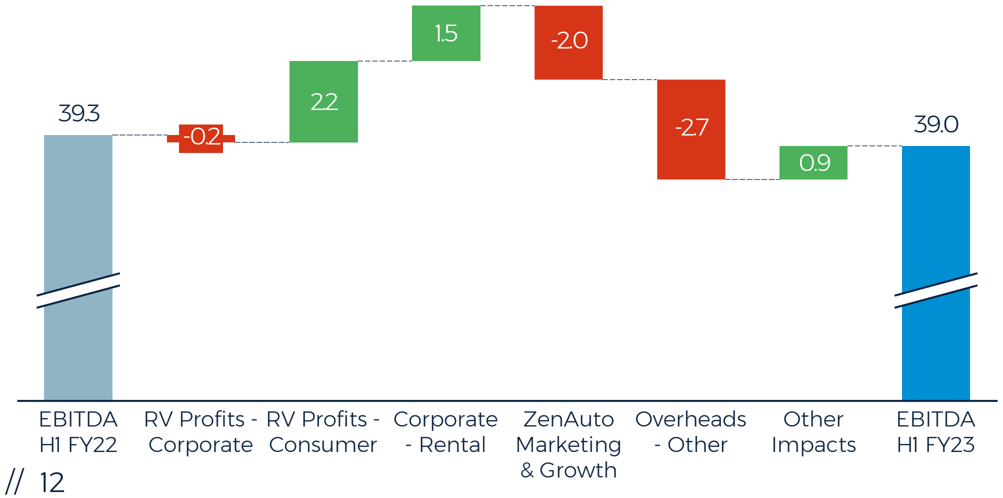
GROSS PROFIT (£m)



ADJUSTED EBITDA, i.e. PRE- ZENAUTO (£m)



EBITDA BRIDGE YTD Vs. PRIOR YEAR (£m)



CASH FLOW & CONVERSION (£m, %)

<u>Cash conversion</u>	H1 FY22	H1 FY23
Adjusted EBITDA	39.3	39.0
Adjusted Operating Cash Flow	31.2	34.3
Adjust for VAT	(4.2)	-
Adjusted Operating Cash Flow	27.0	34.3
Cash conversion	69%	88%

VAT relates to UK Government's Covid-19 VAT deferral scheme, which was deferred from FY20 and repaid in FY22

PROFIT & LOSS ACCOUNT, Q2

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Financial summary: P&L Q2

GBPm	Q3 to Sep-21	Q3 to Sep-22	*Change (£m)*	*Change (%)*
Turnover	**129**	**161**	**32**	***19.6%***
% growth		***24.4%***		
COGS[1]	**(95)**	**(124)**	**(30)**	
% revenue	***(73.2%)***	***(77.2%)***		
Income / Gross Profit	**34.7**	**36.7**	**2.0**	***5.5%***
% margin	***26.8%***	***22.8%***		***(4.0 ppts)***
Operating Expenses	**(15)**	**(16)**	**(2)**	
% revenue	***(11.2%)***	***(10.1%)***		
Reported EBITDA[2]	**20.2**	**20.4**	**0.2**	***1.0%***
% margin	***15.6%***	***12.7%***		***(2.9 ppts)***
ZenAuto loss	**0.6**	**(0.2)**	**(0.2)**	
Adjusted EBITDA	**20.8**	**20.2**	**(0.6)**	***(3.0%)***
% margin	***16.1%***	***12.5%***		***(3.5 ppts)***

Comments

- Q2 has continued the pattern described in the Q1 results
- i.e. lower deliveries and lower terminations as a result of supply chain challenges, but higher RV profits (on a per unit basis) and higher rental incomes in both Corporate (brokerage) and Commercial (trailer rental)
- Income / Gross Profit growth is driven by each of the three divisions
  - +£1m up in Corporate, +£0.5m up in both Commercial and Consumer
  - Fleet growth drives growth in the Consumer division, whereas Corporate and Commercial are both impacted positively by vehicle disposal rates and growth of in-life incomes (e.g. Corporate rental)
- Higher overheads reflect investment into the business to:
  - Support marketing and invest in people and platform in ZenAuto
  - Recruit and retain colleagues, particularly in areas that support the growth of our fleet (much of which is latent in the order bank, but still requires servicing of the customers / drivers)
- ZenAuto EBITDA loss of £0.6m in Q2 in prior year improved to a profit of £0.2m in Q2 of the current year
  - Given that the business is still nascent and developing its book towards maturity, we continue to remove the ZenAuto results for Adjusted EBITDA

Notes: Prepared under UK GAAP
1. COGS represent i) securitisation and other funding costs, and vehicle depreciation where applicable, included in Lease Margin, ii) pass-through costs of in fleet management expenses and other in life income sources (i.e. where Zenith takes commission), and iii) the direct costs of our owned workshops and depots (in Commercial division)
2. Excludes impact of goodwill amortisation, amortisation of acquired intangibles and exceptional items

PROFIT & LOSS ACCOUNT, Q2 YTD

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Financial summary: P&L Q2 YTD

GBPm	Q2 YTD to Sep-21	Q2 YTD to Sep-22	*Change (£m)*	*Change (%)*	LTM to Sep-22
Turnover	**274**	**319**	**44**	***13.9%***	**633**
% growth		***16.2%***			
COGS[1]	**(207)**	**(247)**	**(40)**		**(493)**
% revenue	***(75.6%)***	***(77.6%)***			***(77.8%)***
Income / Gross Profit	**67.0**	**71.5**	**4.5**	***6.3%***	**141**
% margin	***24.4%***	***22.4%***		***(2.0 ppts)***	***22.2%***
Operating Expenses	**(28)**	**(32)**	**(5)**		**(66)**
% revenue	***(21.4%)***	***(20.2%)***			
Reported EBITDA[2]	**39.3**	**39.0**	**(0.3)**	***(0.7%)***	**74.5**
% margin	***14.3%***	***12.2%***		***(2.1 ppts)***	***11.8%***
ZenAuto loss	**1.0**	**0.2**	**(0.8)**		**2.7**
Adjusted EBITDA	**40.3**	**39.3**	**(1.0)**	***(2.6%)***	**77.2**
% margin	***14.7%***	***12.3%***		***(2.4 ppts)***	***12.2%***

Comments

- YTD trading reflects the moderate growth profile in the key driver of earnings: Funded Fleet
- Income / Gross Profit has grown steadily by 6% YTD
  - Funded fleet growth has tended to be at moderately lower margins than the existing fleet and the de-fleeting vehicles (driven by recent interest rates rises which impact cost of funds of assets in the period before funding is hedged), and
  - Incomes driven by vehicle turnover activity have been affected by lower volumes of deliveries and terminations
  - e.g. Corporate termination volumes down 15% on Q1, and down 36% on Q2 in the prior year

  These factors are offset by:
  - Growing in-life incomes in Corporate Rental
  - Higher incomes from trailer rental y-o-y in Commercial
  - Growth in our consumer books (both ZenAuto and White Label)
- Further investment in our platforms and people (both recruitment and retention) causes higher overheads y-o-y (refer to previous slide)
- Net impact is that EBITDA is broadly flat (down <1%) in Q2 YTD, with the supply chain challenges deferring earnings growth until deliveries and terminations begin to flow more freely
- LTM Adjusted EBITDA of £77.2m is up £3.3m (+4.5%) on the £73.9m as at Sept 2021, at the time we issued our SSNs and RCF package. LTM Income/GP of £141m includes £38.2m of RV Profits (27% of Income)

Notes: Prepared under UK GAAP
1. COGS represent i) securitisation and other funding costs, and vehicle depreciation where applicable, included in Lease Margin, ii) pass-through costs of in fleet management expenses and other in life income sources (i.e. where Zenith takes commission), and iii) the direct costs of our owned workshops and depots (in Commercial division)
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CASH FLOW, YTD

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Financial summary: CASH FLOW YTD

GBPm	FY22 YTD	FY23 YTD	Change (£m)
Reported EBITDA	**39.3**	**39.0**	**(0.3)**
Movements in WC excluding credit enhancement	(0)	(2)	(2)
Credit enhancement	(3)	(3)	0
Change in working capital	**(3)**	**(5)**	**(2)**
Capex	**(5)**	**(9)**	**(4)**
% revenue	***1.8%***	***2.8%***	***1.0%***
Cash flow from operations	**31**	**25**	**(6)**
One-off credit enhancement	**29**	**-**	**(29)**
Tax	**1**	**(2)**	**(3)**
Refinancing costs (senior debt / SSNs)	**-**	**(3)**	**(3)**
VAT deferral scheme (COVID-19)	**(5)**	**-**	**5**
Free cash flow	**56**	**20**	**(36)**
RCF repayments	(20)	-	20
Cash interest	(19)	(14)	6
Net cash flow	**17**	**6**	**(9)**
Net senior debt* (£m)		**419**	

Notes: Prepared under UK GAAP

Comments

- Core cash flow in Q2 YTD is robust, with relatively limited impacts of credit enhancement or working capital during the period
- Capex is higher y-o-y as per previous guidance, and reflects our investment in key platforms and IT transformation programmes
- One-off items are:
  - In the prior period, the inflow of cash arising from the refinancing of the previous securitisation, resulting in higher advance rates, £29m
  - Also in the prior year, the repayment of VAT that was deferred under the government's Covid-19 VAT scheme
  - In the current year to-date, fees and expenses relating to the refinancing of Jan 2022, but paid in the current year
- Cash interest in the current period reflects the new SSN and RCF package and sundry financing costs (i.e. excluding vehicle fleet interest costs)

Funding / liquidity

- Net debt at Sept 2022 was £419m, excluding £10.8m of cash held in the securitisation SPVs. RCF undrawn
- Securitisation: £594m drawn at Sep 2022 (vs. £725m facilities) – however, post-period end:
  - Securitisation upsized by £250m via the existing lenders to an aggregate £975m (incl. RV facilities) to fund order bank unwind and fleet growth
  - The revolving period of both facilities was extended to Nov 2025
  - Stable margins in cost of funds, but some improvement of other terms

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CLOSING REMARKS

PERFORMANCE

- Growth in fleet in Q2
- EBITDA remains stable this year
- Growth via new funded fleet deliveries remains "dormant" in our order bank
- But supply chain conditions are improving, slowly
- Delivering on decarbonisation
- Increased and extended the securitisations to fund our prospective fleet growth and order bank deliveries

OUTLOOK

- Consumer confidence: deferral of major purchases impacts discrete parts of the group
- However, natural hedges and diversification counteract the "macro" effects
- Positive news from Autumn statement on BiK rates on BEVs to 2028 – certainty for our customers / drivers beyond the previous 2025, at low BiK rates (1-5% tax)
- Structural drivers of long-term growth endure
- Approx. 2.4m of "lost registrations" over 2019-2022 will cycle into the market