ZENITH ANNOUNCES FINANCIAL RESULTS FOR THE THIRD QUARTER

Zenith, the UK's leading independent leasing, fleet management and vehicle outsourcing business, today announces its unaudited third quarter (Q3) financial results for the period ended 31 December 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. The third quarter saw record delivery numbers compared to recent years.
- Total fleet size remained at 168,000 units, though the funded fleet, which generally carries higher margins, increased by c.2,500 units to 74,000 units.
- Despite an improved supply of vehicles, lower than expected numbers of deliveries led to fewer end-of-contract terminations as customers were less able to replace their vehicles.
- Termination volumes in Corporate were down 26% year on year and down 6% on Q1, but up 10% on Q2. We believe that this is a deferral of activity and income to later periods, not a permanent change.
- Order book decreased to 14,300 units at the end of Q3, with gradually improving supply.
- Order intake has been slightly lower in Q3 compared to the prior quarter. ZenAuto and the salary sacrifice segment of Corporate saw lower orders as a result of shifts in consumer confidence, although in salary sacrifice this has been 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 BEV favourable benefit in kind rates on BEVs in the Autumn Statement as we mentioned in the H1 update which is most welcome.
- BEVs now represent 27% of the Corporate fleet and approximately 56% of our order intake in the quarter.
- ZenAuto fleet size now sits at just under 11,000 units.

Financial Highlights

- Q3 saw the signing with our existing lenders of an extension to Zenith's securitisation facilities out to November 2025 and upsizing by a further £250m giving the company additional headroom and demonstrating the underlying strength of the business.
- Securitisation programme now is an aggregate £975m, sized to fund the anticipated unwinding of our order book as supply chains improve and underlying fleet growth.

Quarter ended December 31, 2022

- Turnover year on year grew by £35.6m to £163.9m.
- Gross profit of £37.4m up 12.8% year on year; with profit growth driven by Corporate and Consumer relating to continued high Residual Value profits, a growing fleet size and increased rental activity.
- Adjusted EBITDA (excluding ZenAuto) grew by +£0.7m to £20.1m year on year as a result of continued high Residual Value profits, strong short term rental demand and growth of 'in life' income.

Year to date ended December 31, 2022

- Gross profit of £108.9m up 8.8% year on year; with strong profit growth in Consumer, driven by growth in ZenAuto's fleet.
- Adjusted EBITDA (excluding ZenAuto) down 0.6% or £0.4m year on year with increases in gross profit from trading being offset by increases in operational expenses, in particular staff costs as

we invest in the capacity and capabilities of the group, in anticipation of future fleet growth when the existing order bank unwinds.

- Strong balance sheet with cash position of £8.2m and an undrawn credit facility of £65.0m, giving liquidity of £73.2m.

LTM as 31 December 2022

- LTM Adjusted EBITDA of £77.9m is up £1.8m (+2.4%) on the £76.1m as at Dec 2021.

Change of accounting estimates

As briefed at our Q1 results, we have re-assessed RVs and, as part of that, the 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 £10.1m in Q3 and £28.7m for the nine months to December 31, 2022. This has been 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 robust quarter of trading which underscores a solid performance over the nine months to the end of December 2022. The macro environment continued to be in a state of turmoil, but the group's strategy of concentrating on long-term and profitable contracts with credit-worthy customers continues to deliver predictable and stable earnings against the difficult economic backdrop.

"I was delighted to see our funded fleet size increase across all three divisions; these fleets deliver the long-term high-quality earnings around which we have built our business. It was great to see supply chains start to free up following the Covid pandemic, semiconductor shortages, and the impact of the war in Ukraine on manufacturer supply chains. Encouragingly, we saw high volumes of deliveries of new vehicles and leases to customers, with record highs in November and December, normally seasonally quiet months.

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

"We have a good mix of business across the group. So, while the resale prices of second-hand electric vehicles have been in the news recently, I am reassured by the blend of traditional fuel types that will form the majority of our vehicle disposals over the next two years. I am also confident that the BEV markets will reach equilibrium. This change will be assisted by a growing understanding of the lower costs of maintaining and fuelling electric vehicles, alongside what we hope will be falling electricity prices and much greater investment in charging infrastructure across the UK. Indeed, we are already seeing an early return of buyers for these second-hand BEVs.

"Finally, as always, I would like to thank my fantastic colleagues at Zenith for their excellent work and commitment, and for the continued support of our customers and partners."

Contact:

For any investor relations queries, please contact investor.relations@zenith.co.uk
For all other enquiries, please contact Headland Consultancy:
Andy Rivett-Carnac/ Marta Parry-Jones +44 7968 997 365, Zenith@headlandconsultancy.com

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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 nine months to December 31, 2022, and to December 31, 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 as a change in accounting estimates, with a subsequent impact on our profit and loss account for the nine months ended December 31, 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 nine months ended December 31, 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 December 31, 2022, we had approximately 168,000 vehicles under management, with approximately 74,000 vehicles in our funded fleet and approximately 94,000 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 as reported in our last audited annual report and accounts.

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 December 31
	2020	2021	2022	2021	2022
Funded Fleet...	54,112	66,744	70,155	68,066	**74,480**
Managed Fleet	89,534	80,459	91,886	89,949	**93,732**
Total Fleet...	143,646	147,203	162,041	158,015	168,212

We increased the size of our fleet to December 31, 2022, by 6,171 units or 4% versus March 31, 2022. This reflects growth from December 31, 2021, of 10,197 units or 6%. We delivered growth in both funded and managed units with most of the growth being in funded units which carry a higher margin, and we are pleased to report that all of the three divisions showed growth across their funded books, despite the poor macro backdrop.

Financial KPIs

Zenith Automotive Holdings Limited (£000)	For the three months ended December 31		For the nine months ended December 31		For the twelve months ended December 31
	2021	2022	2021	2022	2022
Turnover	128,275	163,907	402,636	482,628	669,049
Gross profit	33,165	37,422	100,147	108,910	145,007
Adjusted EBITDA, before ZenAuto	19,385	20,058	59,673	59,308	77,868
Adjusted Operating Cash Flow	3,330	(2,473)	40,270	10,324	20,657
Cash conversion %	n/m	n/m	67%	18%	27%

Cash conversion is based on EBITDA, i.e. including the results of ZenAuto. Cash conversion excludes the positive impact in the nine months ended December 31, 2022, of the deferral of VAT under the Government's Covid-19 VAT deferral scheme. There was no impact of this scheme in the nine months ended December 31, 2022, because the deferred VAT was repaid in full by February 2022.

Our financial performance in the most recent period to December 31, 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 December 31		For the nine months ended December 31		For the twelve months ended December 31
	2021	2022	2021	2022	2022
Turnover	**128,275**	**163,907**	**402,636**	**482,628**	**669,040**
Cost of sales (excluding changes to accounting estimates of RVs of fleet fixed assets)	(95,110)	(126,485)	(302,489)	(373,717)	(524,104)
Gross profit (excluding changes to accounting estimates of RVs of fleet fixed assets) [1]	**33,165**	**37,422**	**100,147**	**108,910**	**144,945**
Changes to accounting estimates of RVs of fleet fixed assets	-	10,122	-	28,662	28,662
Gross profit[1]	**33,165**	**47,544**	**100,147**	**137,572**	**173,608**
Operating expenses	(15,234)	(17,497)	(42,934)	(49,959)	(68,441)
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	**17,930**	**30,047**	**57,213**	**87,613**	**105,167**
Depreciation of owned fixed assets	(1,713)	(1,704)	(4,792)	(5,105)	(5,678)
Amortisation of goodwill	(6,081)	(6,092)	(18,244)	(18,300)	(24,416)
Amortisation of intangible assets	(6,660)	(6,692)	(19,980)	(20,079)	(26,739)
Operating exceptional items[2]	(25)	-	(63)	-	-
Operating profit	**3,451**	**15,560**	**14,134**	**44,129**	**48,334**
Finance costs (net)	(27,673)	(29,162)	(81,763)	(85,559)	(122,559)
Finance costs (previous term Facilities and revolving credit facility)[3]	(10,502)	(10,278)	(30,431)	(29,141)	(42,205)
Finance costs (on shareholder instruments)[4]	(17,172)	(18,884)	(51,332)	(56,418)	(80,354)
Loss before taxation	**(24,222)**	**(13,602)**	**(67,629)**	**(41,429)**	**(74,225)**
Tax charge on loss	(200)	(358)	(19,712)	(1,071)	(216)
Loss for the financial period attributable to the shareholders of the group	**(24,422)**	**(13,960)**	**(87,341)**	**(42,500)**	**(74,441)**

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 December 31		For the nine months ended December 31		For the twelve months ended December 31
	2021	2022	2021	2022	2022
Turnover	81,463	102,515	265,515	292,626	403,266
Gross profit	20,863	24,331	66,097	68,799	92,588

Commercial

(£000)	For the three months ended December 31		For the nine months ended December 31		For the twelve months ended December 31
	2021	2022	2021	2022	2022
Turnover	37,969	44,051	112,474	139,508	210,647
Gross profit	8,915	8,219	24,641	24,945	33,044

Consumer

(£000)	For the three months ended December 31		For the nine months ended December 31		For the twelve months ended December 31
	2021	2022	2021	2022	2022
Turnover	8,843	17,341	24,648	50,494	55,136
Gross profit	3,386	4,871	9,409	15,166	19,375

Comparison of results of operations for the three months ended December 31, 2021, and 2022

Turnover

Turnover increased by £35.6 million, or 27.8%, to £163.9 million for the three months ended December 31, 2022, from £128.3 million for the three months ended December 31, 2021.

The increase in turnover was primarily due to higher lease incomes on the higher fleet (especially in the Corporate and Consumer divisions), increased termination profits (both volume and value) and a positive movement in short term rental income.

Within our Consumer division, ZenAuto turnover was the key driver of an increase of £8.3 million (or 126.7%), 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 December 31, 2021, when the ZenAuto fleet was substantially smaller).

Corporate

Turnover of our Corporate division increased by £21.1 million, or 25.8%, to £102.5 million for the three months ended December 31, 2022, from £81.5 million for the three months ended December 31, 2021. Within the Corporate division, the rental business continued to benefit from high vehicle demand from our corporate customers. Lease incomes also increased, driven by a Corporate fleet that has increased by 3,150 units or 6.5%, to 45,996 units (December 31, 2021: 42,846 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 13,551 open orders as at December 31, 2022, from 12,241 orders as at March 31, 2022, and from 10,846 orders as at December 31, 2021. The latest position as at January 31, 2023, is a slight reduction in the order bank to 12,555 open orders as the market stabilises and deliveries start to flow more readily.

Commercial

Turnover increased by £6.1 million, or 16.0%, to £44.1 million for the three months ended December 31, 2022, from £38.0 million for the three months ended December 31, 2021. The increase in Commercial turnover was primarily due to an 18% increase in the funded fleet from 5,425 at 31 December 2021 to 6,378 vehicles at 30 December 2022.

Consumer

Turnover of our Consumer division increased by £8.5 million, or 96.1%, to £17.3 million for the three months ended December 31, 2022, from £8.8 million for the three months ended December 31, 2021. The increase in Consumer turnover was primarily due to the growth in the fleet size in the ZenAuto business (particularly in the brand), and which continues the trend seen to March 31, 2022. The funded fleet increased to 10,575 vehicles by December 31, 2022, from 8,843 vehicles as at March 31, 2022, and from 8,258 vehicles as at December 31, 2021, i.e. a 28% 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, the Ukraine Crisis, 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 £31.4 million, or 33.0%, to £126.5 million for the three months ended December 31, 2022, from £95.1 million for the three months ended December 31, 2021. As with turnover above, the increase in cost of sales was primarily due to higher lease costs on the higher fleet (especially in the Corporate and Consumer divisions), increased termination volumes and an increase in short term rental costs as demand remains high in the corporate division.

Cost of sales represented 77.2% of turnover for the three months ended December 31, 2022, compared to 74.1% of turnover for the three months ended December 31, 2021. The increase in cost of sales as a proportion of turnover between the two periods was predominantly driven by our Consumer division where we have seen tightening of margins as demand slows with the falling consumer confidence.

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

Group

Gross profit increased by £4.2 million, or 12.8%, to £37.4 million for the three months ended December 31, 2022, from £33.2 million for the three months ended December 31, 2021. This was predominantly across the Corporate and Consumer divisions due to increased termination profits (i.e. profits on disposal of vehicles on termination, otherwise known as "Residual Value (RV) profits") where we have seen higher used car resale values but no increase to net book values at termination as residual values are set at the start of the contracts.

Corporate

Gross profit in the Corporate division increased by £3.5 million, or 16.6%, to £24.3 million for the three months ended December 31, 2022, from £20.9 million for the three months ended December 31, 2021.

The key drivers of the growth were an increase in termination profits as rates of profit per unit were maintained at elevated levels as described above.

Commercial

Gross profit in the Commercial division decreased by £0.7 million, or 7.8%, to £8.2 million for the three months ended December 31, 2022, from £8.9 million for the three months ended December 31, 2021. The decrease in Commercial gross profit was primarily due to the impact of reducing trailer utilisation rates within the CVR business, higher maintenance costs and reduced volume of terminations, particularly of trailers (although this is anticipated to reverse in the fourth quarter).

Consumer

Gross profit in the Consumer division increased by £1.5 million, or 43.9%, to £4.9 million for the three months ended December 31, 2022, from £3.4 million for the three months ended December 31, 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 & H1 results announcements, 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 £10.1m 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 £2.3 million, or 14.9%, to £17.5 million for the three months ended December 31, 2022, from £15.2 million for the three months ended December 31, 2021. The increase in operating expenses was primarily due to higher people costs and related overheads as 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.

Other operating expenses not included in these figures and shown below EBITDA in the Results of Operations table above are: 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. The goodwill and intangible assets were created when Bridgepoint acquired the group in 2017 with additions in 2021 when the trade and assets of the Cartwright businesses were acquired.

Finance Costs

Finance costs for the three months ended December 31, 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 5.4%, to £29.2 million for the three months ended December 31, 2022, from £27.7 million for the three months ended December 31, 2021. The increase in finance costs was primarily due to the increased shareholder 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 remained consistent for the three months ended December 31, 2022, with the three months ended December 31, 2021.

Comparison of results of operations for the nine months ended December 31, 2021, and 2022

Turnover

Turnover increased by £80.0 million, or 19.9%, to £482.6 million for the nine months ended December 31, 2022, from £402.6 million for the nine months ended December 31, 2021.

As with the quarterly results, the increase in turnover YTD was primarily due to higher lease incomes on the higher fleet (especially in the Corporate and Consumer divisions), increased value of termination profits and a positive movement in short term rental income.

Termination profits were tempered by a negative volume effect in vehicle sales revenues, with 26% lower termination volumes (improving from the 36% decline at 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.

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 YTD and since the period end, we have seen lead times reduce from the peak in the prior calendar year, shortly following the beginning of Ukraine conflict.

Within our Consumer division, ZenAuto turnover was the key driver with an increase of £24.2 million (or 131.8%), driven by expanding funded fleet (generating lease income) and a higher volume and value of terminations.

Corporate

Turnover of our Corporate division increased by £27.1 million, or 10.2%, to £292.6 million for the nine months ended December 31, 2022, from £265.5 million for the nine months ended December 31, 2021. Within the Corporate division, the short-term rental business continued to benefit from high vehicle demand from our corporate customers. 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 nine months YTD.

Commercial

Turnover increased by £27.0 million, or 24.0%, to £139.5 million for the nine months ended December 31, 2022, from £112.5 million for the nine months ended December 31, 2021. The increase in Commercial turnover was primarily due to a 23% increase in the average funded fleet over the nine-month period compared to the prior year. Furthermore, there was an increase in the volume of terminations from our funded fleet.

Consumer

Turnover of our Consumer division increased by £25.8 million, or 104.9%, to £50.5 million for the nine months ended December 31, 2022, from £24.6 million for the nine months ended December 31, 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 year.

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

Cost of sales increased by £71.2 million, or 23.5%, to £373.7 million for the nine months ended December 31, 2022, from £302.5 million for the nine months ended December 31, 2021. As with turnover above, the increase in cost of sales was primarily due to higher lease costs on the higher fleet (especially in the Corporate and Consumer divisions) and an increase in short term rental costs as demand remains high in the corporate division.

Cost of sales represented 77.4% of turnover for the nine months ended December 31, 2022, compared to 75.1% of turnover for the nine months ended December 31, 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 lease incomes rather than vehicle disposals.

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

Group

Gross profit increased by £8.8 million, or 8.8%, to £108.9 million for the nine months ended December 31, 2022, from £100.1 million for the nine months ended December 31, 2021. The main component of the positive variance was the contribution via termination income 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 £5.8 million of the £8.8 million change for the current versus pervious half year.

Corporate

Gross profit in the Corporate division increased by £2.7 million, or 4.1%, to £68.8 million for the nine months ended December 31, 2022, from £66.1 million for the nine months ended December 31, 2021.

Within Corporate, the key drivers of the increase were a growth in termination profits (i.e. profits on disposal of vehicles on termination, otherwise known as “Residual Value (RV) profits”), due to high rates of profit per unit despite a reduction in the volume of terminations. There has also been an increase in short term rental income where we have seen increased demand.

Commercial

Gross profit in the Commercial division increased by £0.3 million, or 1.2%, to £24.9 million for the nine months ended December 31, 2022, from £24.6 million for the nine months ended December 31, 2021, with higher termination profits being offset by lower utilisation rates on trailers and higher maintenance costs.

Consumer

Gross profit in the Consumer division increased by £5.8 million, or 61.2%, to £15.2 million for the nine months ended December 31, 2022, from £9.4 million for the nine months ended December 31, 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 £28.7 million during the nine months to date. 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 £28.7 million, from a charge of £95.5 million on that population of assets, had the residual values not been re-set, to a charge of £66.8 million for the nine months ended December 31, 2022. This compares to depreciation charges on the funded fleet for the nine months ended December 31, 2021, of £81.3 million.

Operating Expenses

Operating expenses increased by £7.0 million, or 16.4%, to £50.0 million for the nine months ended December 31, 2022, from £42.9 million for the nine months ended December 31, 2021. The increase in operating expenses was primarily due to higher people costs and related overheads 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 (£0.9 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.

Other operating expenses not included in these figures and shown below EBITDA in the Results of Operations table above are: 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. The goodwill and intangible assets were created when Bridgepoint acquired the group in 2017 with additions in 2021 when the trade and assets of the Cartwright businesses were acquired.

Finance Costs

Finance costs for the nine months ended December 31, 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 £3.8 million, or 4.6%, to £85.6 million for the nine months ended December 31, 2022, from £81.8 million for the nine months ended December 31, 2021. The increase in finance costs was primarily due to the increased shareholder loan note and preference share interest, because the underlying balances increased after the annual compounding of interest (£5.1 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 £18.6 million, to a charge of £1.1 million for the nine months ended December 31, 2022, from a charge of £19.7 million for the nine months ended December 31, 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 December 31, 2022, we had drawn £657 million on our securitisation facilities (March 31, 2022: £533 million). We had also drawn £149 million on our RV facilities (March 31, 2022: £139 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 £1,130 million (£975 million in respect of bifurcated and non-bifurcated securitisation facilities, plus £155 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 December 31, 2022, we had drawn £94 million of funding commitments pursuant to back-to-back hire purchase agreements with financiers (March 31, 2022: £74 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 December 31, 2022, we had utilised £119 million of agency funding (March 31, 2022: £106 million).

Extension of, and increase to, our securitisation facilities

During the quarter, 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 (the latter remains a £125m facility) by approximately 15 months, such that the revolving periods on both facilities now run to November 2025. The securitisations together amount to £975m of facilities, supported by a further £155m of RV facilities as mentioned in the section above.

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 December 31, 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 December 31, 2022, of £22.1 million (March 31, 2022: £60.2 million), of which £13.9 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 December 31, 2022, of £8.2 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 December 31		For the nine months ended December 31	
	2021	2022	2021	2022
Net cash inflow from operating activities	43,846	42,719	125,080	115,009
Tax (paid) / received	(1,412)	(898)	(822)	(3,380)
Net cash flows used in investing activities	(91,048)	(123,213)	(154,759)	(249,154)
Net cash flows (used in)/from financing activities	37,632	37,035	36,295	99,480
Net increase in cash & cash equivalents	**(10,982)**	**(44,357)**	**5,794**	**(38,045)**
Cash and cash equivalents at start of period	35,989	66,480	19,213	60,168
Cash and cash equivalents at end of period	**25,007**	**22,123**	**25,007**	**22,123**

Net cash flow from operating activities

Net cash inflow from operating activities decreased by £1.1 million, to a £42.7 million inflow for the three months ended December 31, 2022, from a £43.8 million inflow for the three months ended December 30, 2021. This decrease 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 £10.1 million, to a £115.0 million inflow for the nine months ended December 31, 2022, from a £125.1 million inflow for the nine months ended December 31, 2021. This decrease 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 £0.5 million, to a £0.9 million payment for the three months ended December 31, 2022, from a £1.4 million outflow for the three months ended December 31, 2021, as we closely manage the quarterly tax payments to avoid an overpayment.

Cash flows used in tax changed by £3.1 million, to a £3.4 million payment for the nine months ended December 31, 2022, from a £0.8 million payment for the nine months ended December 31, 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 nine months ended December 31, 2021).

Net cash used in investing activities

Net cash flows used in investing activities increased by £32.2 million, to a cash outflow of £123.2 million for the three months ended December 31, 2022, from a cash outflow of £91.0 million for the three months ended December 31, 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 £94.4 million, to a cash outflow of £249.2 million for the nine months ended December 31, 2022, from a cash outflow of £154.8 million for the nine months ended December 31, 2021, for the reasons described above in respect of the three months ended December 31, 2022.

Net cash flow (used in)/from financing activities

Net cash flows (used in)/from financing activities changed by £0.6 million, to a cash inflow of £37.0 million for the three months ended December 31, 2022, from a cash inflow of £37.6 million for the three months ended December 31, 2021. There was no drawdown or repayment of the group's current revolving credit facilities in the three months ended December 31, 2022, nor in the three months ended December 31, 2021. The level of interest paid in the three months to December 31, 2022, increased to £16.6 million, from £7.7 million for the three months ended December 31, 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 £63.2 million, to a cash inflow of £99.5 million for the nine months ended December 31, 2022, from a cash inflow of £36.3 million for the nine months ended December 31, 2021. There was no drawdown or repayment of the group's current revolving credit facilities in the nine months ended December 31, 2022, though the group repaid £20.0 million of the previous revolving credit facility in the nine months ended December 31, 2021. The level of interest paid increased to £30.2 million for the period ended December 31, 2022, from £27.1 million for the nine months ended December 31, 2021, due to the increased non utilisation costs on the securitisation facilities and additional costs of the stock facility. The previous senior term debt and revolving credit facilities were refinanced in January 2022.

Off balance sheet arrangements

At December 31, 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 December 31, 2022, the outstanding balance of vehicles subject to repurchase arrangements through agency arrangements was £53.9 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 nine months ended December 31**		**For the twelve months ended December 31**
	2020	**2021**	**2022**	**2021**	**2022**	**2022**
Loss for the financial period attributable to the shareholders of the group..	**(102,415)**	**(98,845)**	**(119,282)**	**(87,341)**	**(42,500)**	**(74,441)**
Tax (credit)/ charge on loss......................	5,503	(4,376)	18,858	19,712	1,071	216
Finance costs (on shareholder investment & all other items)................	61,311	66,862	75,268	51,332	56,418	80,354
Finance costs (previous Term Facilities and previous Revolving Credit Facility)..	37,058	37,699	43,495	30,431	29,141	42,205
Operating exceptional items....................	-	359	63	63	-	-
Changes to accounting estimates of RVs of fleet fixed assets..	-	-	-	-	(28,662)	(28,662)
Amortisation of intangible assets	25,516	26,365	26,639	19,980	20,079	26,738
Amortisation of goodwill	23,873	24,102	24,360	18,244	18,300	24,416
Depreciation of owned fixed assets	5,299	5,909	5,364	4,792	5,105	5,677
Adjusted EBITDA	**56,145**	**58,075**	**74,766**	**57,213**	**58,952**	**76,505**
Add back: Adjusted EBITDA loss for ZenAuto...	2,204	3,392	3,467	2,460	357	1,364
Adjusted EBITDA excluding ZenAuto	**58,349**	**61,467**	**78,232**	**59,673**	**59,308**	**77,867**

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 nine months ended December 31	
	2020	2021	2022	2021	2022
Net increase in cash & cash equivalents	52,540	(54,355)	40,955	5,794	(38,045)
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	27,146	30,247
Corporation tax paid / (received)...................	4,063	2,301	1,156	822	3,380
Purchase of fixed assets.........................	8,143	8,294	10,217	7,843	11,704
Senior debt refinancing: fees and expenses	-	-	8,761	8,011	3,038
Securitisation refinancing: fees and expenses...	-	-	8,011	-	-
Adjusted Operating Cash Flow	37,115	68,336	50,603	40,271	10,324

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

Zenith Automotive Holdings Limited (£000)	For the three months ended December 31		For the nine months ended December 31		For the twelve months ended December 31
	2021	**2022**	**2021**	**2022**	**2022**
EBITDA	**17,930**	**19,925**	**57,213**	**58,952**	**76,504**
Change in Working capital, including vehicle funding and payments	(8,791)	(43,898)	(16,880)	(48,628)	(55,847)
Exceptional items	(25)	-	(63)	-	-
Adjusted Operating Cash Flow	**9,115**	**(23,972)**	**40,270**	**10,324**	**20,657**
Purchase of fixed assets	(2,965)	(2,891)	(7,843)	(11,704)	(14,078)
Corporation tax (paid) / received	(1,412)	(898)	(822)	(3,380)	(3,714)
Cash Flow before acquisitions and corporate financing	**4,738**	**(27,761)**	**31,605**	**(4,760)**	**2,865**
Pro forma credit enhancement adjustment	-	-	29,346	-	-
Acquisition Cash Flows	-	-	-	-	-
Financing - bank loans raised (previous revolving credit facility and senior term debt)...	-	-	(20,000)	-	40,685
Financing - interest paid (previous revolving credit facility and senior term debt)	(7,708)	(16,596)	(27,146)	(30,247)	(34,635)
Securitisation refinancing: fees and expenses....	(8,011)	-	(8,011)	-	-
Senior debt refinancing: fees and expenses....	-	-	-	(3,038)	(11,799)
Net cash flow (Change in Net Cash and Cash Equivalents)	**(10,982)**	**(44,357)**	**5,794**	**(38,045)**	**(2,885)**

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 nine months ended 31 December 2022

Information to accompany the condensed interim financial statements

For the nine months ended 31 December 2022

Condensed consolidated statement of profit and loss account

For the nine months ended 31 December 2022

	Note	Nine months ended 31 December 2022 £'000	Nine months ended 31 December 2021 £'000
Turnover	**3**	**482,627**	**402,636**
Cost of sales		(345,055)	(302,489)
Gross profit		**137,572**	**100,147**
Operating expenses		(93,446)	(86,013)
Operating profit before depreciation of owned tangible fixed assets, amortisation of goodwill and intangible assets and exceptional items		**58,951**	**57,213**
Depreciation of owned tangible fixed assets		(5,106)	(4,792)
Amortisation of goodwill		(18,301)	(18,244)
Amortisation of intangible assets		(20,080)	(19,980)
Operating exceptional items		-	(63)
Change of accounting estimates – fleet depreciation		28,662	-
Operating profit	**4**	**44,126**	**14,134**
Finance costs (net)		(85,558)	(81,763)
Loss before taxation	**4**	**(41,432)**	**(67,629)**
Tax charge on loss		(1,071)	(19,712)
Loss for the financial period attributable to the shareholders of the group		**(42,503)**	**(87,341)**

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 nine months ended 31 December 2022

	Nine months ended 31 December 2022 £'000	Nine months ended 31 December 2021 £'000
Loss for the financial period	(42,503)	(87,341)
Hedge gains arising during period (net of tax impact)	6,094	5,714
Total comprehensive expense attributable to the shareholders of the group	**(36,409)**	**(81,627)**

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

Condensed consolidated statement of financial position

As at 31 December 2022

	Note	As at 31 December 2022 £'000	As at 31 December 2021 £'000	As at 31 March 2022 £'000
Fixed assets				
Goodwill	5	349,790	372,293	367,201
Intangible assets	5	343,298	363,219	363,380
Tangible assets	5	928,411	630,715	726,127
		1,621,499	1,366,227	1,456,708
Current assets				
Inventory		1,089	920	1,058
Debtors				
– due within one year	6	145,296	133,118	135,207
– due after one year	6	95,084	84,027	75,113
Cash at bank and in hand		22,123	25,007	60,168
		263,592	243,072	271,546
Creditors: amounts falling due within one year	7	(538,713)	(463,174)	(406,426)
Net current liabilities		(275,121)	(220,102)	(134,880)
Total assets less current liabilities		1,346,378	1,146,125	1,321,828
Creditors: amounts falling due after more than one year	8	(1,485,383)	(1,220,256)	(1,423,503)
Provisions for liabilities		(107,907)	(109,115)	(108,828)
Net liabilities		**(246,912)**	**(183,246)**	**(210,503)**
Capital and reserves				
Called up share capital		271,546	271,546	271,546
Share premium account		2,444	2,444	2,444
Hedging reserve		13,694	2,899	7,600
Profit and loss account		(534,596)	(460,135)	(492,093)
Shareholders' deficit		**(246,912)**	**(183,246)**	**(210,503)**

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

Consolidated statement of changes in equity

As at 31 December 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	-	-	(87,341)	-	(87,341)
Hedges of variable interest rate risk	-	-	-	6,854	6,854
Deferred tax charge	-	-	-	(1,140)	(1,140)
Total comprehensive expense	-	-	**(87,341)**	**5,714**	**(81,627)**
At 31 December 2021	**271,546**	**2,444**	**(460,135)**	**2,899**	**(183,246)**
Loss for the financial period	-	-	(31,941)	-	(31,941)
Hedges of variable interest rate risk	-	-	-	6,754	6,754
Deferred tax charge	-	-	-	(2,053)	(2.053)
Reassessment of goodwill on acquisition	-	-	(17)	-	(17)
Total comprehensive expense	-	-	**(31,958)**	**4,701**	**(27,257)**
At 31 March 2022	**271,546**	**2,444**	**(492,093)**	**7,600**	**(210,503)**
Loss for the financial period	-	-	(42,503) -		(42,503)
Hedges of variable interest rate risk	-	-	-	6,773	6,773
Deferred tax charge	-	-	-	(679)	(679)
Total comprehensive expense	-	-	**(42,503)**	**6,094**	**(36,409)**
At 31 December 2022	**271,546**	**2,444**	**(534,596)**	**13,694**	**(246,912)**

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.

Condensed consolidated cash flow statement

For the nine months ended 31 December 2022

	Nine months ended 31 December 2022 £'000	Nine months ended 31 December 2021 £'000
Operating profit	**44,126**	**14,134**
Adjustment for:		
Depreciation charges	81,908	93,719
Amortisation of goodwill and intangibles	38,381	38,576
Profit on sale of tangible fixed assets	(35,036)	(21,084)
Operating cash flow before movement in working capital	129,379	125,345
Capital repayment received from finance lessees	4,301	13,526
Decrease / (increase) in debtors	(3,137)	8,695
(Increase) / decrease in stock	(31)	64
Decrease in creditors	(17,323)	(25,655)
Increase in provisions	1,820	3,105
Net cash inflow from operating activities	**115,009**	**125,080**
Income tax (paid) / received	**(3,380)**	**(822)**
Cash flows from investing activities		
Proceeds from sale of operating lease assets	178,777	128,436
Purchase of operating lease assets	(88,408)	(10,038)
Purchase of operating lease assets (funded)	(339,523)	(273,157)
Net cash flows from investing activities	**(249,154)**	**(154,759)**
Cash flows from financing activities		
Repayments of borrowings	(209,796)	(209,716)
Drawdown of funding	339,523	273,157
Interest paid	(30,247)	(27,146)
Net cash flows from financing activities	**99,480**	**36,295**
Net increase in cash and cash equivalents	**(38,045)**	**5,794**
Cash and cash equivalents at start of the year	**60,168**	**19,213**
Cash and cash equivalents at end of the period	**22,123**	**25,007**

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 £13,911,000 (31 December 2021: £11,248,000; 31 March 2022: £9,283,000) that are not freely available for use by the Group.

Notes to the financial statements

For the nine months ended 31 December 2022

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The financial information for the nine-month period ended 31 December 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 £975 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.

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 31 December 2022 amounts to £22.2 million (31 December 2021: £22.0 million; 31 March 2022: £20.4 million).

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 £349.8 million (31 December 2021: £372.3 million; 31 March 2022: £367.2 million). No impairment loss was recognised during the year ended 31 March 2022, nor the period ended 31 December 2022 (31 December 2021: £nil). The carrying amount of acquired intangible assets at the balance sheet date was £332.0 million (31 December 2021: £355.3 million; 31 March 2022: £349.4 million).

3. TURNOVER

	Nine months ended 31 December 2022 £'000	Nine months ended 31 December 2021 £'000
An analysis of the Group's turnover by class of business is set out below:		
Long term leases	271,753	224,762
Vehicle sales	134,602	111,508
Other*	76,272	66,366
	482,627	**402,636**

*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:

	Nine months ended 31 December 2022 £'000	Nine months ended 31 December 2021 £'000
Depreciation of tangible fixed assets		
Owned	3,120	3,198
Company cars	1,987	1,690
Held under finance leases and hire purchase contracts	76,737	88,831
Amortisation of goodwill	18,301	18,244
Amortisation of intangibles	20,080	19,980
Operating exceptional items	-	63
Change of accounting estimates – fleet depreciation	(28,662)	-

5. FIXED ASSETS

a) Goodwill

The total net book value of goodwill is £349.8 million (31 December 2021: £372.3 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 £343.3 million (31 December 2021: £363.2 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 31 December 2022 was £928.4 million (31 December 2021: £630.7 million; 31 March 2022: £726.1 million). The increase since 31 March 2022 is largely due to additions of £427.9 million offset by depreciation of £81.9 million and disposals of £143.7 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 £590.0 million (31 December 2021: £395.8 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 31 December 2022 the Group was committed to the future purchase of vehicles with a cost of £30.9 million (31 December 2021: £34.4 million; 31 March 2022: £49.0 million).

6. DEBTORS

	As at 31 December 2022 £'000	As at 31 December 2021 £'000	As at 31 March 2022 £'000
Amounts falling due within one year:			
Trade debtors	40,037	57,591	49,129
Amounts receivable under finance leases	-	-	-
Amounts receivable under hire purchase contracts	10,484	4,621	4,308
Amounts receivable under securitised contracts	15,170	33,252	14,406
Vehicles subject to repurchase agreements	9,322	6,771	7,352
Other debtors	17,709	3,554	18,011
Corporation tax	1,092	938	1,803
Fair value of hedging instruments	16,906	3,579	10,133
Prepayments and accrued income	24,837	22,812	21,176
VAT	9,739	-	8,889
	145,296	133,118	135,207
Amounts falling due after more than one year:			
Amounts receivable under hire purchase contracts	13,981	13,961	14,251
Amounts receivable under securitised contracts	29,131	37,924	28,420
Vehicles subject to repurchase agreements	44,531	29,498	29,564
Prepayments and accrued income	7,441	2,644	2,878
	95,084	84,027	75,113
	240,380	217,145	210,320

7. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	As at 31 December 2022 £'000	As at 31 December 2021 £'000	As at 31 March 2022 £'000
Obligations under finance leases and hire purchase contracts	69,878	59,836	55,862
Obligations under securitised contracts	346,881	291,980	231,704
Vehicles subject to repurchase agreements	9,322	6,771	7,352
Trade creditors	26,163	24,357	43,473
VAT	-	1,739	-
Other taxation and social security	1,340	818	2,531
Corporation tax	-	-	-
Withholding tax	-	144	-
Other creditors	17,278	23,002	21,375
Fair value of hedging instruments	-	-	-
Accruals and deferred income	67,851	54,527	44,129
	538,713	463,174	406,426

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

	As at 31 December 2022 £'000	As at 31 December 2021 £'000	As at 31 March 2022 £'000
Bank loans	-	426,743	-
Senior secured notes	466,361	-	464,923
Obligations under finance leases and hire purchase contracts	35,266	24,313	18,918
Obligations under securitised contracts	431,888	304,240	435,334
Vehicles subject to repurchase agreements	44,531	29,498	29,564
Loan notes	308,390	279,284	308,040
Accruals and deferred income	198,947	156,178	166,724
	1,485,383	1,220,256	1,423,503

9. NET SENIOR DEBT

	As at 1 April 2021	Cash flows	Other non-cash charges	As at 31 December 2021
Cash at bank and in hand	19,213	5,794	-	**25,007**
Senior term debt	434,316	-	-	**434,316**
Senior revolving facility	20,000	(20,000)		**-**
Unamortised loan arrangement costs	(10,097)	-	2,526	**(7,571)**
Net senior debt	**425,006**	**(25,794)**	**2,526**	**401,738**

	As at 1 April 2022	Cash flows	Other non-cash charges	As at 31 December 2022
Cash at bank and in hand	60,168	(38,045)	-	**22,123**
Senior secured notes	475,000	-	-	**475,000**
Senior revolving facility	-	-	-	**-**
Unamortised loan arrangement costs	(10,077)	-	1,438	**(8,639)**
Net senior debt	**404,755**	**38,045**	**1,438**	**444,238**

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 £579.9m (loan notes and preference shares), finance leases and vehicle funding £937.8m (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 nine months ended

31 December 2022 we paid a monitoring fee of £187,500 (nine months ended 31 December 2021: £187,500; year ended 31 March 2022: £250,000).

11. ULTIMATE CONTROLLING PARTY

At 31 March 2022 and 31 December 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.