Mid-Year Update – AA Limited

For the six months to 31 July 2023

Date: 9 October 2023

General overview

"Continued growth in our membership and customer base along with increasing income paid per personal member has enabled us to deliver growth in both our EBITDA and operating cashflow."

Adoption of IFRS 17

The Group adopted IFRS 17 on 1 February 2023, which replaces IFRS 4 ‑ Insurance Contracts. IFRS 17 was applied retrospectively and to opening balances as at 1 February 2022 and as a result comparative information has been restated. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance and reinsurance contracts.

Highlights

- H1 24 Revenue increased 10% to £625m (H1 23: £568m[1]) driven by growth in B2C and B2B member numbers, core pricing increases in line with inflation and increase in reinsured revenue in the underwriter.
- H1 24 Adjusted EBITDA[2] increased 2% to £206m (H1 23: £202m[1]) despite significant inflationary and macroeconomic pressures, demonstrating the continued success of the ongoing transformation programme.
- H1 24 Reported EBITDA[3] increased 1% to 174m (H1 23: £172m[1]).
- In H1 24, Paid personal members increased 1% to 3.267m (H1 23: 3.219m), and business customers increased by 12% to 10.666m (H1 23: 9.521m) re-confirming us as the UK's largest breakdown provider.
- H1 24 income paid per personal member increased by 4% to £194 (H1 23: £186), substantially offsetting our cost to serve.
- Motor insurance policies increased 4% to 1,010k (H1 23: 969k[4]).
- We successfully refinanced £550m of A7 notes well ahead of their scheduled repayment and in line with the ongoing maturity management programme.
- Owing to group performance, on 17 August 2023 the AA Limited group was able to repurchase and subsequently cancel £61m of A2 Notes for cash consideration of £60m, thereby reducing the total debt held.
- We invested £47m of cash capital in H1 (H1 23: £39m) to future proof the business and generate material benefits in future years.

[1] Prior period comparatives have been restated on the adoption of IFRS 17.

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

[3] Profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of other intangible assets, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.

[4] During the year we have revised the basis of policies to show policies in force rather than twelve month rolling policies. As a result, the total motor policies have been restated.

	Six months ended July 23 (H1 24)	Six months ended July 22 (restated)[1] (H1 23)
Revenue (£m)		
- Roadside	**460**	431
- Insurance	**165**	137
Adjusted EBITDA[2] (£m)		
- Roadside	**173**	176
- Insurance	**33**	26
Reported EBITDA[3] (£m)		
- Roadside	**154**	157
- Insurance	**20**	15
Profit before tax (£m)	**23**	40
Membership		
- Paid personal members (B2C) (000s)	**3,267**	3,219
- Business customers (B2B) (000s)	**10,666**	9,521
- Total Motor policies[4] (000s)	**1,010**	969
Renewal rate B2C (%)	**84**	84
Number of patrols	**2,721**	2,657
Net cash from operations (£m)	**149**	121
Cash and cash equivalents (£m)	**172**	135

[1] Prior period comparatives have been restated on the adoption of IFRS 17.

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

[3] Profit after tax on a continuing basis as reported, adjusted for depreciation, amortisation of other intangible assets, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.

[4] During the year we have revised the basis of policies to show policies in force rather than twelve month rolling policies. As a result, the total motor policies have been restated.

Outlook

The AA Limited Group continues to show positive momentum despite the ongoing challenging economic and competitive environment. The Roadside business continues to deliver revenue growth from growth in B2C membership and B2B customers as well as income per paid personal member. The Insurance market has seen strong price inflation and our in house Insurance underwriter has increased prices in line with this, growing profit at the same time through managing commission rates and balancing our renewal rates with new business.

Our transformation programme is delivering strongly against Horizon 2 (Extending the business) with key milestones delivered including launching our refreshed brand identity and media campaign, improvements in the digital customer journey, improvements in our data capability and insights delivering savings and improvements in our tiered Insurance proposition offers, following our replatforming of our systems. We have also moved into delivery in Horizon 3 (Monetizing innovation) through the launch of our new connected car proposition (AA-X), which is now live in three trial areas.

As we approach the second half of our financial year, we remain focused on driving our transformation and developing further propositions for customers, with ensuring the health of our business by delivering further efficiency savings and assessing our pricing strategy to manage cost inflation in a sustainable manner.

Capital expenditure

- Cash capital expenditure of £47m in H1 (H1 23: 39m) ensures we continue to be well invested as we finalise on Horizon 1 and deliver on Horizon 2 and Horizon 3, generating significant benefits.
- This includes replacing core systems, new digital propositions and upgrades to our data and operational infrastructure.

Financing position

The table below sets out the current funding position as at 31 July 2023:

	Expected maturity date	Interest rate %	Principal £m
Senior Term Facility	10 March 2026	3.48	150
Senior Term Facility	10 March 2026	7.17	15
Class A2 Notes	31 July 2025	6.27	500
Class A8 Notes	31 July 2027	5.50	325
Class A9 Notes	31 July 2028	3.25	270
Class A10 Notes	31 July 2029	7.38	385
Class A11 Notes	6 February 2028	8.45	400
Class B3 Notes	31 January 2026	6.50	280
Total loan notes			**2,325**

- The Senior Leverage ratio was 5.7x as at 31 July 2023 (6.1x as at 31 July 2022)
- The Class B Leverage Ratio was 6.6x as at 31 July 2023 (7.1x as at 31 July 2022)
- Class A FCF:DSCR ratio was 2.7x as at 31 July 2023 (2.8x as at 31 July 2022)
- On 17 August 2023 the AA Limited group repurchased and cancelled £61m of A2 Notes for cash consideration of £60m, thereby reducing the total debt held. The remaining A2 principal balance after this redemption is £439m.
- The Group has fully hedged all its exposure to variable interest rates and 100% of its forecast diesel usage for the years ending 31 January 2024 and 31 January 2025.

AA Intermediate Co Limited group

Consolidated interim financial statements for the AA Intermediate Co Limited for the period ended 31 July 2023 have been published in line with the requirements of our debt documents and contain more detail on the trading performance of that group.

The whole business securitization (WBS) financing structure applies to the AA Intermediate Co. group. The AA Limited group is larger than the AA Intermediate Co. group as it includes Insurance Underwriting activities. Other than these activities there are only immaterial differences between Revenue and Adjusted EBITDA for the two groups. In addition, there are differences in the balance sheets due to intercompany, working capital and cash balances.

Jakob Pfaudler	**Tom Mackay**
Chief Executive Officer	**Chief Financial Officer**