Mid-Year Update – AA Limited

For the six months to 31 July 2024

Date: 16 October 2024

General overview

Strong performance in our underlying business has delivered growth in all our financial metrics, including a 70% improvement in profit before tax. Completion of the Stonepeak transaction and paying down of debt has further strengthened the balance sheet making a positive start to FY25.

Highlights

Strong trading performance

- Revenue up 14% to £712m (H1 24: £625m) driven by growth in customers, average income per member and an increase in reinsured revenue in our underwriting business.
- Adjusted EBITDA[1] up 9% to £225m (H1 24: £206m), despite ongoing inflationary and macroeconomic pressures, demonstrating the continued success of our ongoing business transformation and strong cost control.
- As a result, PBT up 70% to £39m.

Strengthened balance sheet

- Stonepeak transaction successfully completed with £155m of B3 Notes subsequently redeemed.
- Overall Group leverage down to 4.5x and senior WBS leverage down to 5.46x, permitting the redemption of a further £14m of B3 Notes.
- £439m of A2 Notes refinanced well ahead of their scheduled repayment date, in line with our ongoing approach to debt maturities.
- Class A Notes upgraded from BBB- to BBB by S&P, with B3 Notes reaffirmed at B+.

Delivering for our customers

- Roadside personal members increased to 3.277m (H1 24: 3.267m), and business customers increased by 4% to 11.117m (H1 24: 10.666m) re-confirming our position as the UK's largest breakdown provider.
- Further investment in our patrol base, reaching 2,759 (H1 24: 2,721) and continuing to protect our service levels and ensuring strong nationwide coverage.
- £34m of capital investment in H1 (H1 24: £47m) to future proof the business and generate material benefits in future years.

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

Stonepeak investment

On 26 July 2024, the transaction previously announced in December 2023 whereby Stonepeak entered into an agreement with Basing TopCo Limited, and its ultimate majority shareholders, TowerBrook Capital Partners and Warburg Pincus, to invest into the AA Limited group completed. As part of Stonepeak's £450m investment, £180m was provided to the wider AA group of which £158m was injected into the AA Intermediate Co Limited group to fund the redemption of £155m notional of Class B3 Notes at a redemption price of 101.625%. The remaining £22m will be used by the wider Group to support the next phase of our growth strategy and pay certain transaction costs associated with the Stonepeak investment.

	Six months ended July 24 (H1 25)	Six months ended July 23 (H1 24)
Revenue (£m)		
Roadside business division	**497**	460
Insurance business division	**215**	165
Total Revenue	**712**	625
Adjusted EBITDA[1] (£m)		
Roadside business division[2]	**195**	178
Insurance business division[2]	**30**	28
Total Adjusted EBITDA	**225**	206
Reported EBITDA[3] (£m)		
Roadside business division[2]	**176**	159
Insurance business division[2]	**16**	15
Total Reported EBITDA	**192**	174
Profit before tax (£m)	**39**	23
Cash		
Operating cash flows (£m)	**190**	174
Cash and cash equivalents (£m)	**194**	172
Membership		
Paid personal members (B2C) (000s)	**3,277**	3,267
Business customers (B2B) (000s)	**11,117**	10,666
Total Motor policies (000s)	**949**	1,010
Renewal rate B2C (%)	**83**	84
Number of patrols	**2,759**	2,721

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

[2] Prior period EBITDA comparatives have been restated to align with the cost allocation methodology used in the Annual Report and Financial Statements 2024.

[3] Reported EBITDA is defined as Adjusted EBITDA excluding the adjustment for amortisation of acquisition cash flows.

Capital expenditure

- Cash capital expenditure of £34m in H1 (H1 24: £47m) reduced after significant previous re-platforming.
- 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 2024:

	Expected maturity date	Interest rate %	Principal £m
Senior Term Facility	10 March 2026	3.49	150
Senior Term Facility	10 March 2026	7.17	15
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	31 January 2028	8.45	400
Class A12 Notes	31 July 2031	6.85	435
Class B3 Notes	31 January 2026	6.50	125
Total loan notes			**2,105**

- The Senior Leverage ratio was 5.46x as at 31 July 2024 (5.7x as at 31 July 2023)
- The Group Leverage ratio was 4.5x as at 31 July 2024 (5.4x at 31 July 2023)
- The Class B Leverage Ratio was 6.0x as at 31 July 2024 (6.6x as at 31 July 2023)
- Class A FCF:DSCR ratio was 2.7x as at 31 July 2024 (2.7x as at 31 July 2023)
- We successfully refinanced £439m of A2 Notes well ahead of their scheduled repayment and in line with the ongoing maturity management programme.
- On 31 July 2024 the AA Limited group redeemed £155m of B3 Notes at a redemption price of 101.625%, thereby reducing the total debt held. The remaining B3 principal balance after this redemption is £125m.
- 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 2025 and 31 January 2026.

AA Intermediate Co Limited group

Consolidated interim financial statements for the AA Intermediate Co Limited for the period ended 31 July 2024 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 trading activities and associated consolidation adjustments 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.

We now expect to meet the broader conditions for making Restricted Payments (as that term is defined in the documentation relating to the WBS). In that context a conditional notice of redemption in respect of our Class B3 Notes was given yesterday, subject to satisfaction of the Condition Precedent set out in that notice.

Outlook

Our transformation continues at pace and we remain confident in the strategy shared in our full-year results. Our focus remains on driving profitable growth from our core business and the momentum from our performance in the first half of the year means we are on track for a strong overall performance this year. We will continue our expansion into wider driving services as we create confidence for drivers, now and in the future.

Jakob Pfaudler
Chief Executive Officer

Tom Mackay
Chief Financial Officer