



RAC Group Limited

RAC House, Brockhurst Crescent, Walsall, WS5 4AW

22 August 2018

INVESTOR REPORT

To: Deutsche Trustee Company Limited as Obligor Security Trustee, Issuer Security Trustee and Class A Note Trustee

BNP Paribas as Initial STF Agent and Initial WCF Agent

RAC Bond Co PLC as Issuer

Barclays Bank PLC as Borrower Hedge Counterparty

Standard & Poor's Credit Market Services Europe Limited as Rating Agency

From: RAC Group Limited as Holdco Group Agent

General Overview

RAC Bond Co PLC has today reported the unaudited consolidated results of RAC Bidco Limited ("Group") for the six months ended 30 June 2018. A summary of the Group's performance for the six months ended 30 June 2018 ("H1 2018") is set out below.

H1 2018 highlights

Significant growth in revenue, EBITDA and operating cashflow:

- Revenue increased by £22 million to £291 million
- EBITDA before exceptional items increased by £8 million to £97 million reflecting £1m of growth from trading and £7m arising on adoption of IFRS 16 'Leases'
- Operating profit increased by £3 million to £36 million inclusive of £1m of benefit from the adoption of IFRS 16 'Leases'
- Operating Cash flow decreased by £3 million to £89 million reflecting the £8 million increase in EBITDA before exceptional items, corporation tax paid of £10 million (H1 2017: £nil), cash costs of exceptional items £3 million higher than the prior period and an increase in cash generated from working capital of £2 million underlining the Group's cash generative business model.
- Operating Cash conversion of 92% remains strong (H1 2017: 103%), the reduction from the prior period due primarily to corporation tax payments of £10 million (H1 2017: £nil) as the Group became corporation tax paying in the second half of 2017.

Robust KPIs:

- Roadside Repair Rate of 79%
- Roadside Membership Retention Rate of 79%
- Net Promoter Score of 95

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Outlook

The Group demonstrated its resilience during the first six months of 2018 and has continued to perform strongly going into the second half of the year. Looking further ahead, we have confidence in our strategy, our refocussed organisation and our ability to grow by continuing to delight our members.

Regulatory and business update

Business Update

- No changes in RAC Bidco Ltd Group structure in H1 2018, with no acquisitions or disposals
- No change in “Permitted Business”
- Board changes:
 - Jo Baker joined as CFO on 29 May 2018
- Senior management team changes:
 - Graham Calder joined as Chief Information Officer on 18 June 2018

Regulatory/Legislative Update

No material regulatory or legislative changes. As set out in the Investor Reports dated 27 February 2018 and 27 September 2017, the Group has been undertaking a programme in respect of customers who have enjoyed dual cover through holding an Individual Membership and roadside cover through an Added Value Bank Account or motor insurance policy, for whom the benefits of holding these separate covers are not clear. This programme reached completion during H1 2018 and the unutilised amount of this provision of £2 million has been released.

During H1 2018 the Group provided £4 million for the estimated costs of a contact and remediation programme for customers whose breakdown renewal documentation did not present renewal information as prominently as it should have done. This programme is expected to be concluded by 31 December 2018.

Capital Expenditure

- Capital Investment on target with £24 million invested in H1 2018 across Tangible and Intangible assets (H1 2017: £26 million)
- Of this amount, £11 million (H1 2017: £13 million) relates to customer acquisition intangibles (i.e. includes commissions paid to third parties for sales)
- Capex investment of £12 million (H1 2017: £10 million) comprising Investment and Maintenance Capex across a number of areas, including:
 - Enhancements to the consumer web journey and contact centre;
 - Patrol growth and rapidly deployable trailer replacement cycle;
 - Information and Data Security;
 - IT infrastructure and systems enhancement and upgrade; and
 - Fleet and Insurance telematics boxes.
- Maintenance Capex of £11 million for the twelve month period ended 30 June 2018

Current Financing Position

There have been no changes in the S&P Investment Grade BBB- (sf) Rating of the Group's Class A1 and Class A2 Notes and the B (sf) Rating of the Group's Class B1 Notes, both of which were reaffirmed by S&P on 19 July 2018.

Interest rate risk on the floating rate Senior Term Facility is 100% hedged through an interest rate swap and the hedge remains effective.

The table below sets out the current funding position as at 30 June 2018:

Facility	£million	Due	Coupon / Interest
Class A1 Notes	300	May 2023/46	4.565%
Class A2 Notes	600	May 2026/46	4.870%
Class B1 Notes	275	November 2022/46	5.00%
Senior Term Facility	280	May 2021	2.750% + LIBOR*
Drawn debt	<u>1,455</u>		

Additional committed undrawn facilities:

Working Capital Facility	50	May 2021	2.750% + LIBOR*
Liquidity Facility	90	Annual renewal	2.250% + LIBOR*

*Includes LIBOR floor

Ratios

We confirm that in respect of this Investor Report dated 22 August 2018, by reference to the most recent Financial Statements that we are obliged to deliver to you in accordance with paragraph 1 (Financial Statements) of Part A (Information Covenants) of Schedule 2 (Holdco Group Covenants) of the Common Terms Agreement:

- (a) the Class A FCF DSCR in respect of the relevant Test Period is equal to 2.91; and
- (b) the amount of Additional Financial Indebtedness raised since the date of the immediately preceding Investor Report was £nil.

(together the *Ratios*).

We confirm that each of the above Ratios has been calculated in respect of the Test Period(s) or as at the Test Dates for which it is required to be calculated under the Common Terms Agreement and is set out overleaf;

Class A FCF DSCR as at 30 June 2018

Class A FCF has been calculated as:

	£m
LTM EBITDA	191.1
Cash tax paid	(18.6)
Increase in working capital	2.8
Minimum capital maintenance spend	(7.5)
Decrease in restricted cash	(0.2)
Class A FCF	167.6

Class A Total Debt Service Charges has been calculated as:

	£m
Accrued interest	56.3
Commitment fees on WCF and LF	1.6
Interest received on cash equivalents	(0.3)
Class A Total Debt Service Charges	57.6

Ratio Class A FCF DSCR at 30 June 2018 2.91

We confirm that:

- (a) no CTA Default or Trigger Event has occurred and is continuing;
- (b) the Borrower is in compliance with the Hedging Policy;
- (c) the amount of Retained Excess Cashflow as at the date of this Investor Report is £nil;
- (d) the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully



.....
D Hobday, Chief Executive Officer
For and on behalf of
RAC Group Limited as Holdco Agent



.....
J Baker, Chief Financial Officer