



02 March 2022

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

J.P. Morgan Securities plc and Banco Santander S.A. (London Branch) as Borrower Hedge Counterparties

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 consolidated audited results of RAC Bidco Limited ("Group") for the year ended 31 December 2021.

A summary of the Group's performance for the year ended 31 December 2021 ("2021") is set out below.

2021 highlights

- Overall membership rose by 0.2 million to 12.9 million (12.7 million), driven by healthy new business flows in Breakdown Services and continued reduction of Consumer breakdown churn, reaching a record low of 14.5% (2020:15.0%)
- Group revenue grew by 5% to £653m (2020: £624m) reflecting growth in membership and the return to normality of pay-on-use volumes from our Business breakdown customers
- EBITDA before exceptional items increased by £13m (5%) to £254m (2020: £241m) whilst operating profit also increased by £9m (7%) to £135m (2020: £126m)
- EBITDA margin remained at 39% (2020: 39%) as a result of strong cost control despite a challenging Covid-19 operational environment
- Net cash flow from operating activities was £226 million (2020: £222 million), with a cash conversion ratio of 89% (2020: 92%). Capital investment of £49 million (2020: £54 million) ensures we continue to be well invested as we enter the next stage of RAC's growth
- Following our rating uplift by S&P in June 2021, we successfully secured a new Senior Term Facility ("the 2021 STF"), the proceeds of which were used to redeem the outstanding Class B1 Notes and to prepay part of the 2020 STF.
- Following the announcement of the Silver Lake transaction in November 2021 RAC issued £345m of Class B2 Notes. These funds are currently being held in escrow and will be released upon the successful completion of the Silver Lake transaction, expected in March 2022.

Outlook

Given strong trading performance, continued robust operating cash generation and the resilient response to challenges thrown up by the Covid-19 pandemic the Group continues to be well positioned for further growth in 2022.

Regulatory and business update

Business Update

- No changes in RAC Bidco Ltd Group structure in 2021, with no acquisitions or disposals
- No change in “Permitted Business”
- On 3 September 2021, Kelly Bowden was appointed as Company Secretary
- On 6 September 2021, it was announced the Silver Lake had entered into an agreement to become a co-shareholder alongside RAC’s longstanding shareholders GIC and CVC Strategic Opportunities I, a longer term investment fund managed by CVC Capital Partners (“CVC”). The transaction has received all the necessary approvals and is expected to complete in March 2022.

Regulatory/Legislative Update

RAC has recently successfully implemented a wide range of regulatory driven changes required as a result of the FCA’s final report on its market study into the pricing of home and motor insurance which introduced a package of changes to enhance competition, ensure consumers will receive fair value, and increase trust in these markets. RAC expects that the scope of regulatory change will continue to be wide and to be introduced at pace by the regulators, notably with the introduction later this year of the Consumer Duty rules by the FCA.

The Group has planned accordingly and is well placed to respond to the continued regulatory change.

Capital Expenditure

- Capital Investment remained on target with £49 million invested (2020: £54 million)
- Of this amount, £24 million (2020: £24 million) relates to customer acquisition intangibles and contract costs (i.e. includes commissions paid to third parties for sales)
- £25 million (2020: £30 million) relates to capex investment comprising Investment and Maintenance Capex across a number of areas, including:
 - Development of the “Long Term Policy” Consumer proposition
 - Further enhancement of MyRAC introducing dynamic presentation of customer rewards, launch of online upgrade capability development, and the release of “MyRAC Lite” opening up digital registration to our corporate customer base.
 - significant investments in continuing to develop our insurance operating platform for the future, including in house pricing models, ongoing development of our unique data assets, and preparations for the changes in pricing practices regulation.

Current Financing Position

S&P upgraded the Investment Grade Rating of the Group’s Class A1 and Class A2 Notes from BBB-(sf) to BBB (sf) and the Rating of the Group’s Class B1 Notes from B (sf) to B+ (sf), both of which were announced by S&P on 22 April 2021. The Class B1 Notes were subsequently repaid on 31 July 2021.

On 4 November 2022, the Group issued £345m of Class B2 Notes which were rated B+ (sf)

Interest rate risk on the floating rate Senior Term Facility is appropriately hedged in accordance with the Hedging Policy set out in the Common Terms Agreement through an interest rate swap and the hedge remains effective.

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RAC Group Limited Registered in England (00229121). Registered Offices RAC House, Brockhurst Crescent, Walsall WS5 4AW.

The table below sets out the current funding position as at 31 December 2021:

Facility	£million	Due	Coupon / Interest
Class A1 Notes	300	May 2023/46	4.565%
Class A2 Notes	600	May 2026/46	4.870%
Class B2 Notes	345	November 2027/46	5.25%
Senior Term Facility	161	January 2025	2.500% + LIBOR*
Senior Term Facility	170	July 2025	1.800% + SONIA
Senior Term Facility	95	July 2028	2.500% + SONIA
Drawn debt	1,671		
<u>Additional committed facilities:</u>			
Working Capital Facility	50	January 2025	2.500% + LIBOR*
Liquidity Facility	90	Annual renewal	2.250% + LIBOR*

*Includes LIBOR floor.

On 1 January 2022, the Group transitioned its remaining LIBOR based debt to be SONIA based. No other changes were made to the debt instruments

Ratios

We confirm that in respect of this investor report dated 02 March 2022, 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 3.67; and
- (b) the amount of Additional Financial Indebtedness raised since the date of the immediately preceding Investor Report was £nil¹;

(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 below:

¹ As previously announced, RAC issued £345 million of Class B2 Notes in November 2021. The proceeds from this issuance are currently held in escrow and will constitute Additional Financial Indebtedness when released from escrow and on-lent under the Class B2 IBLA, which is expected on 11 March 2022. For the avoidance of doubt, as these are Class B2 Notes their proceeds will not in any case constitute Class A Additional Financial Indebtedness (i.e. indebtedness under any Class A Authorised Credit Facility).

Class A FCF DSCR for the year ended 31 December 2021

Class A FCF has been calculated as:

	£m
EBITDA ²	239.8
Cash tax paid	(18.2)
Decrease in working capital	(8.2)
Minimum capital maintenance spend	(7.5)
Increase in restricted cash	(0.0)
Class A FCF	205.9

Class A Total Debt Service Charges has been calculated as:

	£m
Accrued interest	54.5
Commitment fees on WCF and LF	1.5
Interest received on cash equivalents	(0.0)
Class A Total Debt Service Charges	56.0

Ratio Class A FCF DSCR at 31 December 2021 **3.67**

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 Excess Cashflow for the preceding Financial Year is £55.3m:

	£m
Free cash flow calculated as above	205.9
Cash payments relating to one-off items	(40.2)
Excess capex above minimum maintenance spend	(41.0)
Debt service costs	(64.9)
Accrued tax not yet paid	(4.5)
Total Excess Cashflow	55.3

² EBITDA of £239.8m is stated excluding the uplift in the consolidated operating profits of the Holdco Group arising as a result of the adoption of IFRS 16 'Leases', details of which are set out in the accounting policies in the consolidated financial statements of RAC Bidco Limited for the year ended 31 December 2021

- (d) the amount of Retained Excess Cashflow as at the date of this Investor Report is £89.7 million;
- (e) we are in compliance with the Obligor Coverage Tests;
- (f) below is a list of the Material Companies:
 - 1. RAC Motoring Services (registered number 01424399);
 - 2. RAC Financial Services Limited (registered number 05171817);
 - 3. RAC Brand Enterprises LLP (registered number OC377385)
- (g) the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully



.....
Dave Hobday, Chief Executive Officer



.....
Jo Baker, Chief Financial Officer

For and on behalf of
RAC Group Limited as Holdco Agent