



RAC Group Limited

RAC House, Brockhurst Crescent, Walsall, WS5 4AW



27 February 2019

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

A summary of performance for the year ended 31 December 2018 ("2018") is set out below.

2018 highlights

Significant growth in revenue, EBITDA and operating cashflow:

- Revenue growth of £34 million to £592 million
- EBITDA growth of £17 million to £207 million
- Operating profit growth of £46 million to £80 million
- Operating Cashflow growth of £7 million to £181 million
- Operating Cash conversion of 87% (2017: 92%)

Robust KPIs:

- Roadside Repair Rate of 80%
- Roadside Membership Retention Rate of 79%

Outlook

We have carried our momentum into 2019, with positive year-on-year growth across the business and we are confident of further progress. We expect to continue to deliver sustainable growth in members, ongoing end to end service improvement, and strong financial performance. We are well positioned and well invested to maintain our trajectory.

Regulatory and business update

Business Update

- No changes in RAC Bidco Ltd Group structure in 2018, with no acquisitions or disposals
- No change in “Permitted Business”
- Board changes:
 - Jo Baker joined as CFO on 29 May 2018

Regulatory/Legislative Update

No material regulatory or legislative changes. During the year the Group made a provision of £3 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 amount was charged to exceptional items in the Income statement and was fully utilised during the year. This programme reached completion in late 2018.

Capital Expenditure

- Capital Investment on target with £53 million invested in 2018 across Tangible and Intangible assets (2017: £50 million)
- Of this amount, £25 million (2017: £25 million) relates to customer acquisition intangibles and contract costs (i.e. includes commissions paid to third parties for sales)
- Capex investment of £28 million (2017: £25 million) comprising Investment and Maintenance Capex across a number of areas, including:
 - Enhancements to the consumer web journey and contact centre;
 - Rapidly deployable trailer replacement cycle;
 - Patrol vehicle “all wheels up” towing capability;
 - Upgrade of our breakdown patrol dispatch system;
 - Information and Data Security;
 - IT infrastructure and systems enhancement; and
 - Fleet and Insurance telematics boxes.
- Maintenance Capex of £8.5 million for the year ended 31 December 2018 (2017: £8.3m).

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 31 December 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 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 27 February 2019, 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 3.02; 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 below;

Class A FCF DSCR for the year ended 31 December 2018

Class A FCF has been calculated as:

	£m
EBITDA ¹	194.8
Cash tax paid	(18.4)
Increase in working capital	0.4
Minimum capital maintenance spend	(7.5)
Decrease in restricted cash	4.1
Class A FCF	173.4

Class A Total Debt Service Charges has been calculated as:

	£m
Accrued interest	56.2
Commitment fees on WCF and LF	1.6
Interest received on cash equivalents	(0.4)
Class A Total Debt Service Charges	57.4

Ratio Class A FCF DSCR at 31 December 2018 3.02

¹EBITDA of £194.8 million 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 2018.

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 £72.1m.

	£m
Free cash flow calculated as above	173.4
Cash payments relating to exceptional items	(6.5)
Excess capex above minimum maintenance spend ²	(26.1)
Debt service costs	(71.2)
Tax paid in this period deducted in the calculation of Excess Cashflow for the previous periods	10.2
Accrued tax not yet paid	(7.7)
Total Excess Cashflow	72.1

²As 2018 is a Bank Debt Sweep Period no investment Capital Expenditure other than the acquisition of customer intangibles has been deducted.

- (d) the amount of Retained Excess Cashflow as at the date of this Investor Report is £72.1 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); and

(g) the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully



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



.....
Jo Baker, Chief Financial Officer