

# Preliminary Results

Wednesday 16 February 2005

**Peter Smith**

Chairman

**Andy Harrison**

Chief Executive

**Richard Pennycook**

Finance Director

**Highlights of the year**

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**Opportunities and issues**

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**Financial summary**

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**Prospects**

## 2004 highlights

- Continuing revenues up by 8%
- Underlying profits up by 12%
- Profit before tax\* up from £86.7m to £88.6m
- Debt reduced by £15m to £139.8m
- Dividend up 6.2% to 25.8p

# 2004 highlights

## Revenue Growth

- Total Roadside ↑ 6%
- Motoring Services ↑ 29%
- Business Solutions ↑ 6%
- LVL ↑ 17%

## Profit Growth

- Continuing growth in Roadside and Motoring Services
- Business Solutions ↑ 271%
- LVL ↑ 16%

## Strategic

- Financial Services; big opportunity
- Paccar; value maximised
- Disposals; MHS, Isuzu, Universal

# RAC's vision – the best motoring services provider

## Delivering inspirational service

- by being a great place to work
- and Six Sigma quality programme

## Growth through leveraging our brands and customer base

- in Consumer and in B2B

# Highlights - delivering inspirational service



Fleet Excellence awards –

**Service Supplier of the Year  
and the Best in**

Driver Training - BSM

Accident Management - RAC Business Solutions

Vehicle Leasing - LVL

Fleet Software - RAC Software Solutions

Vehicle Recovery - Roadside



**J D Power No.1 In Roadside**

**RAC**

# Highlights - being a great place to work

## Colleague Satisfaction Survey

	2002	2003	2004
<i>Satisfaction</i>	70%	71%	<b>73%</b>
<i>Response rate</i>	73%	87%	<b>86%</b>

# Leveraging our brands and customer base

## Consumer

- Grow our membership base
- Expand Motoring Services

## Business Services

- Grow in 5 target sectors:
  - Motor manufacturers
  - Insurance
  - Airside
  - Defence
  - Utilities



# Challenges in 2004

## Consumer

- Accelerating Roadside revenue growth

## RAC Auto Windscreens

- Financial performance

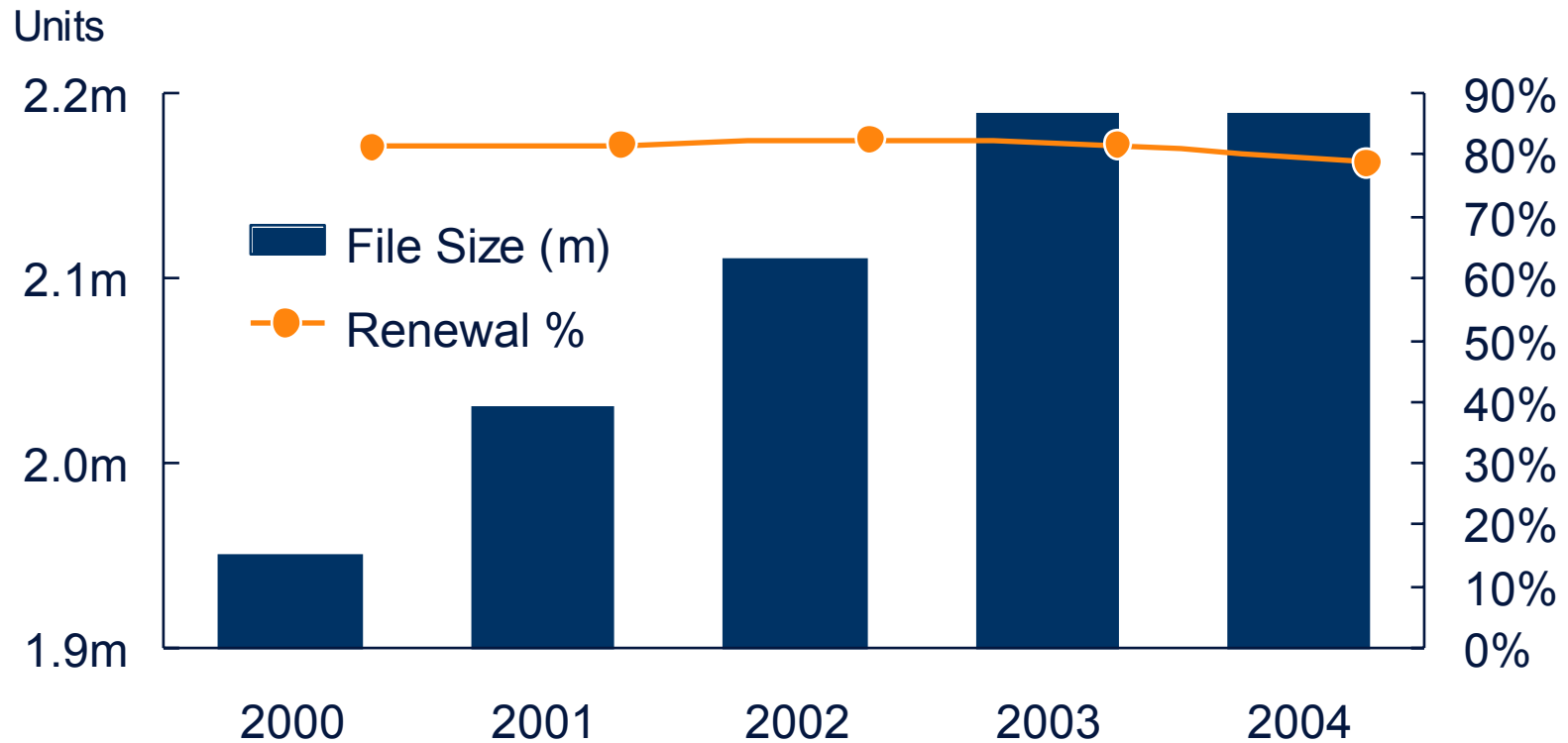
# Roadside revenues

## Continuing growth

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<i>Consumer</i>	3%
<i>Business Solutions</i>	13%
Total Roadside revenues	6%

# Consumer - membership



- Membership growth of 4% pa 2000-2003
- 2004 dip in renewal rate, due to process issues
- Renewal rate now back to 82% - membership returned to growth

# Consumer - Roadside revenues

## Competitive position remains strong

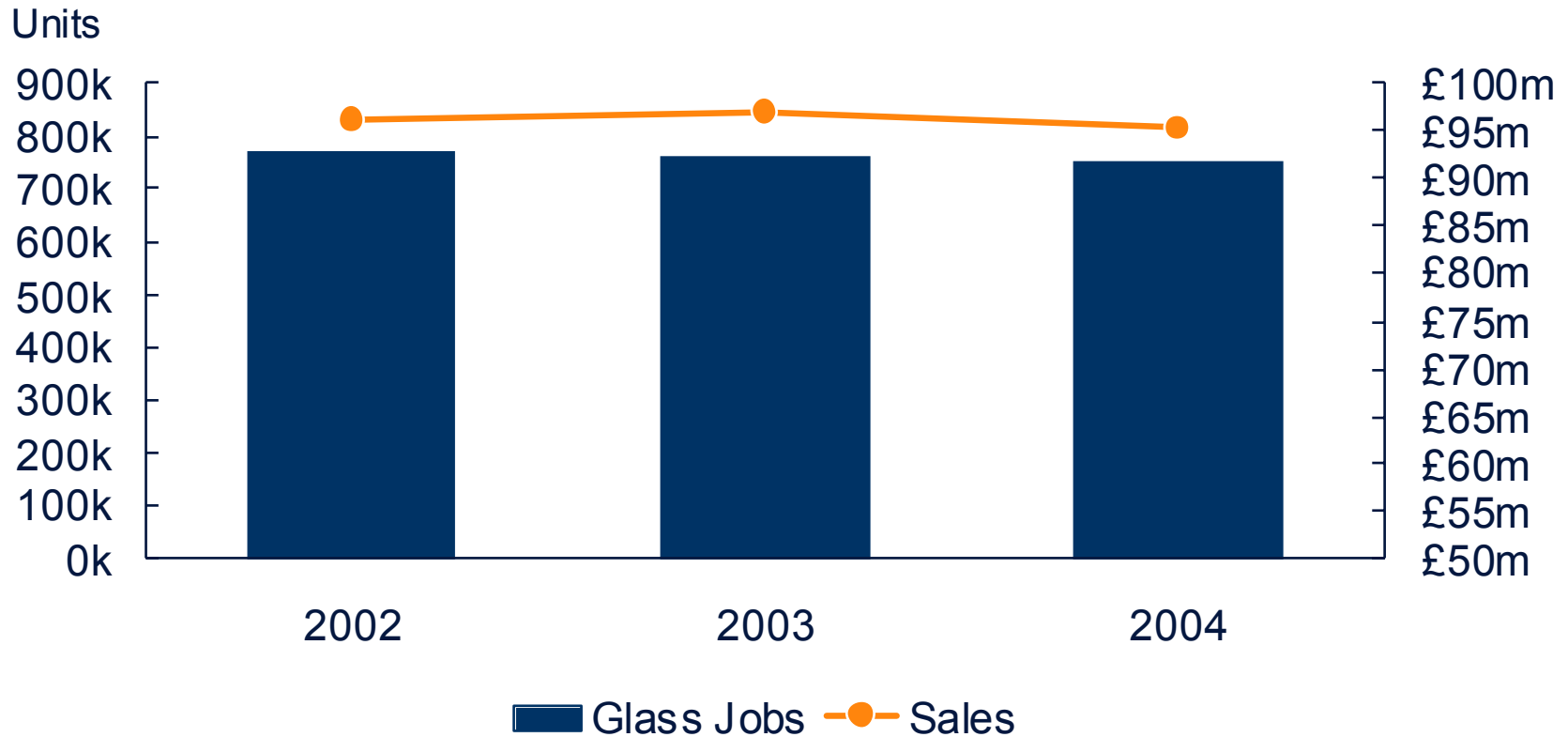
- New member acquisition up 9% on 2003
- Market share maintained
- Roadside service at record levels

## Consumer - process issues resolved

	2004 peak	January 2005
Payment Failures		
- credit card	22%	8%
- direct debit	7%	3%
Abandoned call rate	25%	6%

- Renewal rate in December 2004 and January 2005 back up to 82%
- Membership returned to growth

# RAC Auto Windscreens - generates substantial value



- Good business in a mature market
  - Generated £44m cash flow since acquisition
  - Delivered a 10% return on capital in 2004

## RAC Auto Windscreens - insurance sales

- 3 major insurance companies chose to single source
- Auto Windscreens was minor supplier and squeezed out
- Profits impacted by financial and operational gearing
- We are the leader in the fleet market

# RAC Auto Windscreens - improvement plans

## Revenues

- Won CIS business
- New insurance proposition

## Efficiency

- New working practices
- Process improvement

## Profits

- Expected to be stable



# Opportunities arising in 2004

- Major financial services opportunity
- Continuing growth and the potential deregulation of legal services
- Continuing growth in Business Services

# Major Financial Services opportunity

- Financial Services is important
  - AA £50m profit
  - Saga £60m profit
- 2004 RAC regained control: good progress
  - Sales up 59%
  - Integration ahead of schedule and costs below budget
  - On track for 450k policies by end of integration phase
  - Organic growth in 2004 of 16%
  - Renewal rate of 80%, amongst industry best

# Major Financial Services opportunity

- Strong and trusted brand
  - resonance in motoring financial services
- A competitive proposition
- Small market share of 0.5% for motor insurance

# Major Financial Services opportunity

- Untapped membership file (2% have RAC insurance)
- Motor Insurance renewal dates will reduce cost of customer acquisition
- Access to the young driver market
  - 150,000 BSM pupils
- Big motor claims handler
- Many motoring 'touchpoints' - breakdown, glass replacement, personal injury claims, driver training

# Continuing growth in Legal Services

## Performance in 2004

- Sales up 46%
- Legal Expense Insurance (LEI) policies sold up 14%
- Personal Injury (PI) cases handled up by 10%

## Legal Services opportunity

- LEI penetration of car insurance only 50% (12.5m policies) - RAC share 19%
- Sell LEI directly to members
- Scope to grow our market share of PI market – currently 6%
- Margins very high; some pressure inevitable, especially from insurance companies, re-examining their business models
- Proposed deregulation may allow RAC to handle all claims

## Increased marketing investment already planned

- 2005 will see a £5m increase in direct marketing to support these high growth areas
- Partly funded by cost reduction programme end 2004

# Continuing growth in Business Services

£m	<u>2003</u>	<u>2004</u>	<u>Target Market</u>
Defence	74	71	200
Insurance	105	107	500
Vehicle manufacturers	79	103	300
Airside	13	17	50
Utilities	5	5	50
<b>Total</b>	<b><u>276</u></b>	<b><u>303</u></b>	<b><u>1100</u></b>

## Growth 10%

- Defence – continuing success
- Vehicle Manufacturers – LVL Ford contract
- Business Solutions
- Airside – BA contract going well



# Continuing growth in Business Services

- 'C' vehicles
  - expected signature end Q1
  - full implementation end 2006
- White label opportunities in Contract Hire
- Vehicle Solutions opportunities
- Continuing growth in LVL and RAC Business Solutions

# Summary

- Underlying profits continue to grow strongly
- Continuing sales growth in Consumer and Business Services
- Roadside renewal rate improvement - membership growing
- Auto Windscreens responding to action
- Big opportunities in Legal Services and Financial Services

**Richard Pennycook**

Finance Director

## Financial review - revenue summary

£m	<u>2003</u>	<u>2004</u>	<u>%</u>
Consumer Services	353.1	374.8	6
Business Solutions	160.8	169.8	6
LVL	207.2	241.8	17
Manufacturer Support Services	677.1	720.2	6
Other	3.3	2.5	-24
<b>Total – continuing operations</b>	<b>1,401.5</b>	<b>1,509.1</b>	<b>8</b>

## Financial review - operating profit summary

£m	<u>2003</u>	<u>2004</u>	<u>%</u>
Consumer Services	51.3	47.5	-7
Business Solutions	1.4	5.2	271
LVL	19.6	22.7	16
Manufacturer Support Services	32.0	26.8	-16
Other	-5.7	-4.7	-17
<b>Total continuing operations</b>	<b>98.6</b>	<b>97.5</b>	<b>-1</b>
Discontinued operations	-2.5	-	-
<b>PBIET</b>	<b>96.1</b>	<b>97.5</b>	<b>1</b>
Interest	-9.4	-8.9	-5
<b>PBET</b>	<b>86.7</b>	<b>88.6</b>	<b>2</b>

# Financial review - underlying profit growth

£m	<u>2003</u>	<u>2004</u>	<u>%</u>
Reported PBET	86.7	88.6	2
Leyland contribution	-21.8	-17.4	
End of DAF contract	-3.8	-	
Discontinued operations	2.5	-	
<b>Continuing business</b>	<b>63.6</b>	<b>71.2</b>	<b>12</b>

## Financial review - Consumer revenues

£m	<u>2003</u>	<u>2004</u>	<u>%</u>
Roadside	198.7	205.4	3
<i>BSM</i>	31.8	34.9	10
<i>Legal Services</i>	10.3	15.0	46
<i>Financial Services</i>	8.7	13.8	59
<i>Other</i>	6.7	10.5	57
Motoring Services	57.5	74.2	29
RAC Auto Windscreens	96.9	95.2	-2
<b>Total Revenue</b>	<b>353.1</b>	<b>374.8</b>	<b>6</b>

## Financial review - Consumer profits

£m	<u>2003</u>	<u>2004</u>	
Reported PBET	51.3	47.5	
After charging:			
- restructuring	-	2.5	One off
- AXA integration	-	1.9	One off
- IMD implementation	-	2.0	Recurring



## Financial review - Business Services profit

£m	<u>2003</u>	<u>2004</u>	<u>%</u>
RAC Business Solutions	1.4	5.2	271
Lex Vehicle Leasing	19.6	22.7	16
Manufacturer Support Services	32.0	26.8	-16
<b>Business Services - trading profit *</b>	<b>53.0</b>	<b>54.7</b>	<b>3</b>
- end of DAF contract	-3.8	-	
- normal Leyland contribution/other	-10.0	-7.4	
- additional Leyland margin	-11.8	-10.0	
<b>Business Services - underlying profit</b>	<b>27.4</b>	<b>37.3</b>	<b>36</b>

\* continuing operations

# Lex Vehicle Leasing - impairment provision

£m

Impairment provision – December 2003 16.3

Created with Ford acquisition 2.5

Utilised in the year -1.0

**Impairment provision – December 2004 17.8**

## Financial review - goodwill and exceptional items

£m	<u>2003</u>	<u>2004</u>
Goodwill amortisation	-5.6	-7.8
VAT refund	-	3.0
Interest on VAT refund	-	3.3
Leyland parts termination	-	4.5
Exiting from Mechanical Handling	-53.7	-11.2
Exiting from Isuzu/other	-2.5	-3.9
Profit on disposal of fixed assets	0.8	1.2
<b>Total</b>	<b>-61.0</b>	<b>-10.9</b>

# Financial review - operating cash flow

<b>£m</b>	<b><u>2003</u></b>	<b><u>2004</u></b>
Operating profit before goodwill	38.9	73.3
Interest paid	-10.5	-6.2
Tax paid	-13.6	-19.8
Working capital	-4.5	5.2
Capital expenditure - net	36.3	5.4
Dividends from jvs and associates	15.2	18.5
LVL - Ford funding	-	-14.0
<b>Operational cash flow</b>	<b>61.8</b>	<b>62.4</b>

## Financial review - cash flow

£m	<u>2003</u>	<u>2004</u>
Operational cash flow	61.8	62.4
Disposals/ (acquisitions)	90.0	-15.1
Dividends paid	-26.9	-28.4
Purchase of ESOS shares	-	-7.7
Other movements	3.0	3.3
<b>Net reduction in debt</b>	<b>127.9</b>	<b>14.5</b>
Closing debt	154.3	139.8
Average debt in period	211.0	145.9

# Financial review - effect of Paccar disengagement

£m	<u>2002</u>	<u>2003</u>	<u>2004</u>
Lex Auto Logistics PBIT	24.5	23.5	15.5
Of which:			
DAF contribution	7.1	3.8	-
Normal Leyland contribution	10.7	10.0	7.4
Additional Leyland margin	8.4	11.8	10.0
<b>Pro forma LAL ex Paccar</b>	<b>-1.7</b>	<b>-2.1</b>	<b>-1.9</b>

- Excludes £18m exceptional termination payment
  - £4.5m in 2004; £13.5m in 2005
- Cost base being restructured in 2005 to offset lost contribution

# Pensions

- RAC maintains an open defined benefit scheme
- Actions were taken in 2003 to address the deficit, with additional annual company contributions of £5m and a similar level of contribution increase for members
- Approximately half the company contribution (c£11m) goes towards deficit closure
- Actuarial valuation in 2004 resulted in an unchanged level of funding for 2005
- Further review will take place when actuarial profession issues new guidance on life expectancy

# Financial review - IFRS summary

- Affecting RAC and UK plcs
  - Share options (IFRS 2) - executive and SAYE
  - Pensions (IAS 19)
  - Financial instruments (IAS 39)
- Affecting LVL, Transfleet and Legal
  - Leases (IAS 17)
    - profit recognition towards end of contract
    - reduces short term earnings (timing difference only)
    - reduces RV impact
  - Revenue recognition (IAS 18)
    - Claims handling revenues advanced
  - Profit impact broadly neutral

Full briefing for investor community –  
April 12 2005



# Summary

- Strong underlying profit growth
  - Up 12% pa over last 3 years
- Expect continuing growth in Consumer and Business Services
- Roadside renewal rate is improving
  - membership growing
- Auto Windscreens is responding
- Big Financial Services opportunity
- Cashflow remains strong



# Additional Material

Preliminary Announcement  
16 February 2005

## Roadside – No.1 in breakdown and service excellence

	2003	2004	%
Revenue	£198.7m	£205.4m	3
Member	2.19m	2.19m	-
Renewal Rate	83%	80%	-3%

- Continuing revenue growth
- Leading edge technology underpins service awards
- Best ever service levels
  - Customer satisfaction 86.9% (2003: 86.5%)

# Motoring Services continues to grow strongly

## BSM Sales

2003 : £31.8m

2004 : £34.9m

- Sales growth: 10%
- Record number of instructors: 3,039 - (2,817)
- Record number of pupil starts: 157k - (145k)

# Motoring Services continues to grow strongly

## Legal Services Sales

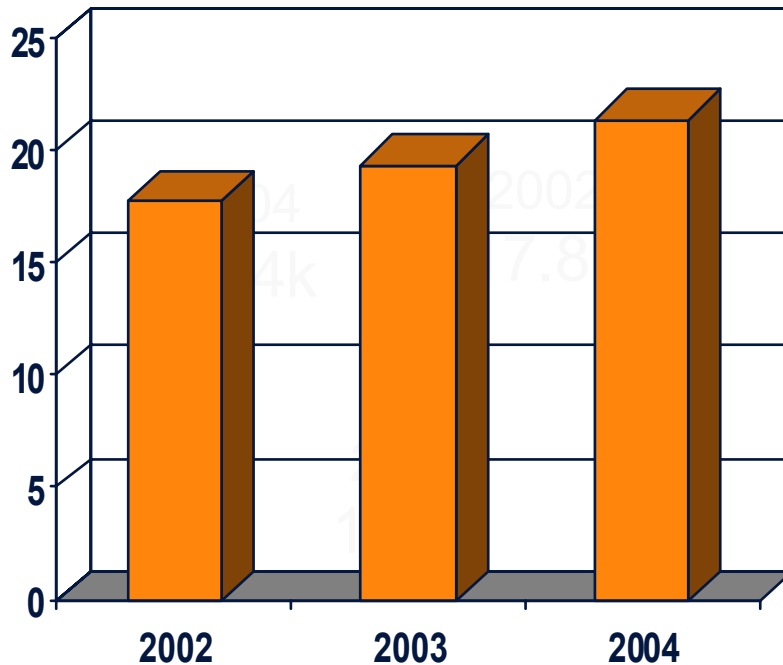
2003 : £10.3m

2004 : £15.0m

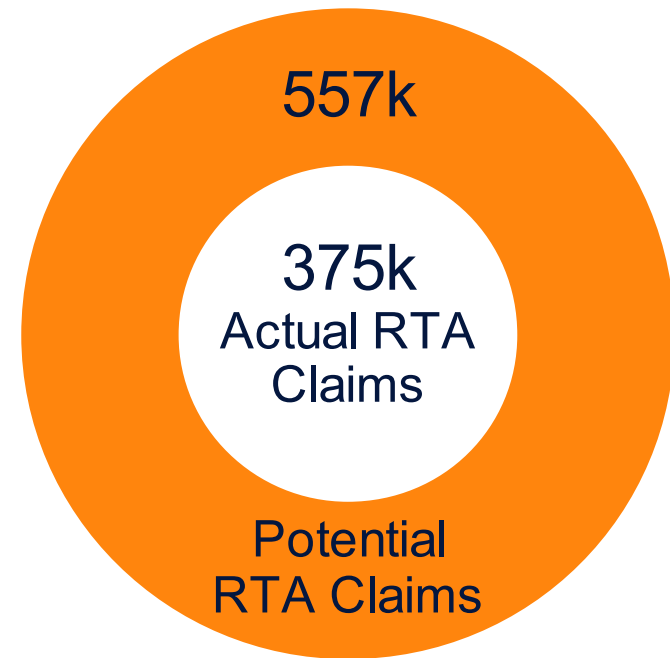
- Strong sales growth continues - up 46%
- 21.4k PI claims handled - up 10%
- In-house legal team increased by 55% to 45
- 2.4m legal expense policies sold - up 14%

# Personal injury market place

## RAC personal injury cases handled



## Market potential \*



\* Source: Datamonitor Personal Injury Report 2004

# Motoring Services continues to grow strongly

## Financial Services Sales

2003 : £8.7m

2004 : £13.8m

- Total sales grow by 59%
- Like for like sales grow by 16%
- Total policy base reaches 276k - up 4%
- Industry leading renewal rates achieved
- AXA Direct transaction on track - but early days

# Business Solutions performs well

£m	2003	2004	%
Revenue	160.8	169.8	6
Profit	1.4	5.2	271

- New contracts and services
  - driver license verification
  - customer management centre (Kia)
  - centralise booking service (Vauxhall & Daimler Chrysler Fleet Services)
  - growth in France
    - accident management launched

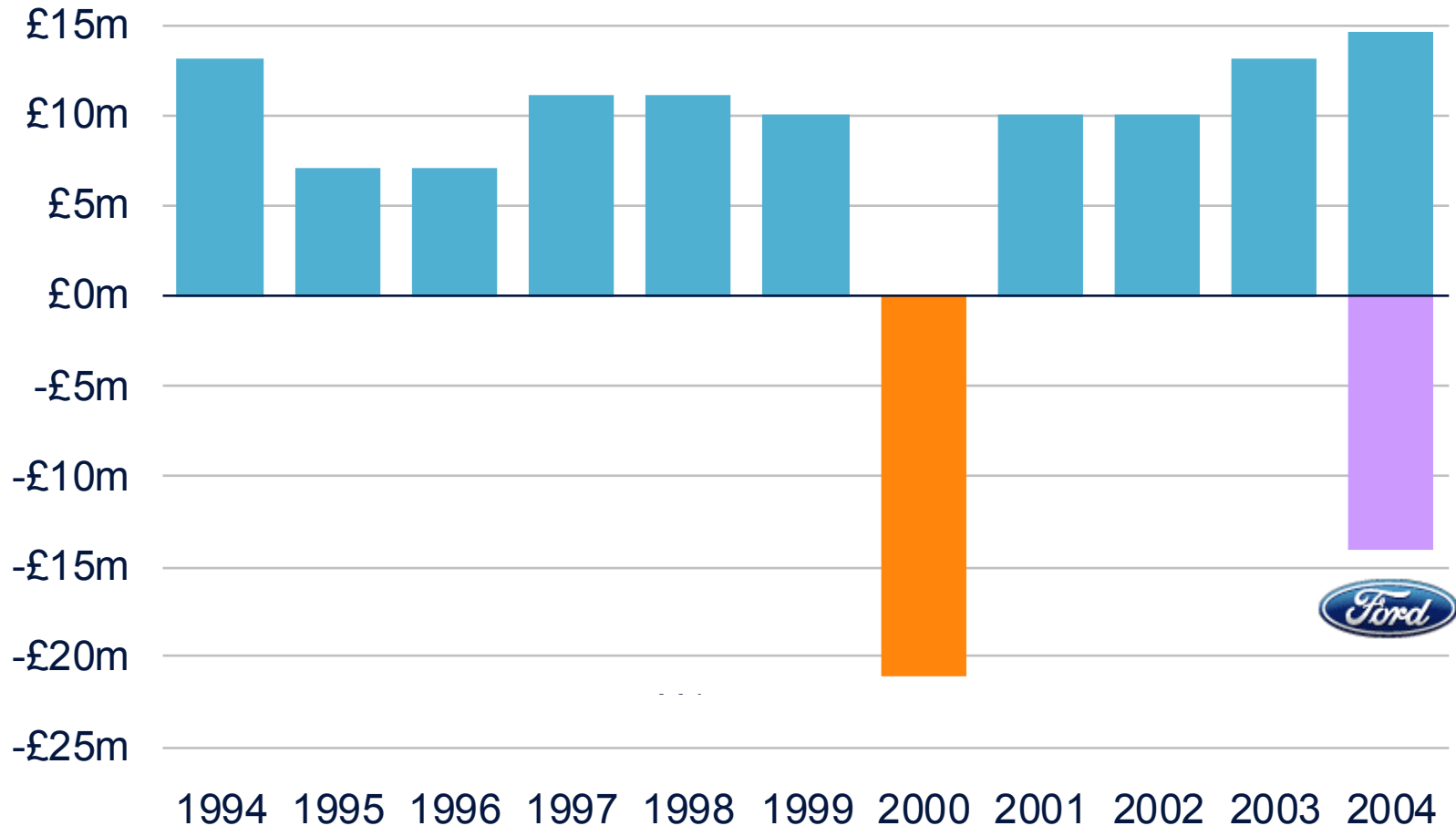


# Lex Vehicle Leasing continues to grow

£m	2003	2004	%
Revenue	207.2	241.8	17
Profit	19.6	22.7	16
Fleet size	102.3	123.6	21

- Strong growth in core fleet (8%)
- Ford integration successfully completed - other white label opportunities
- Residual values more favourable than projected

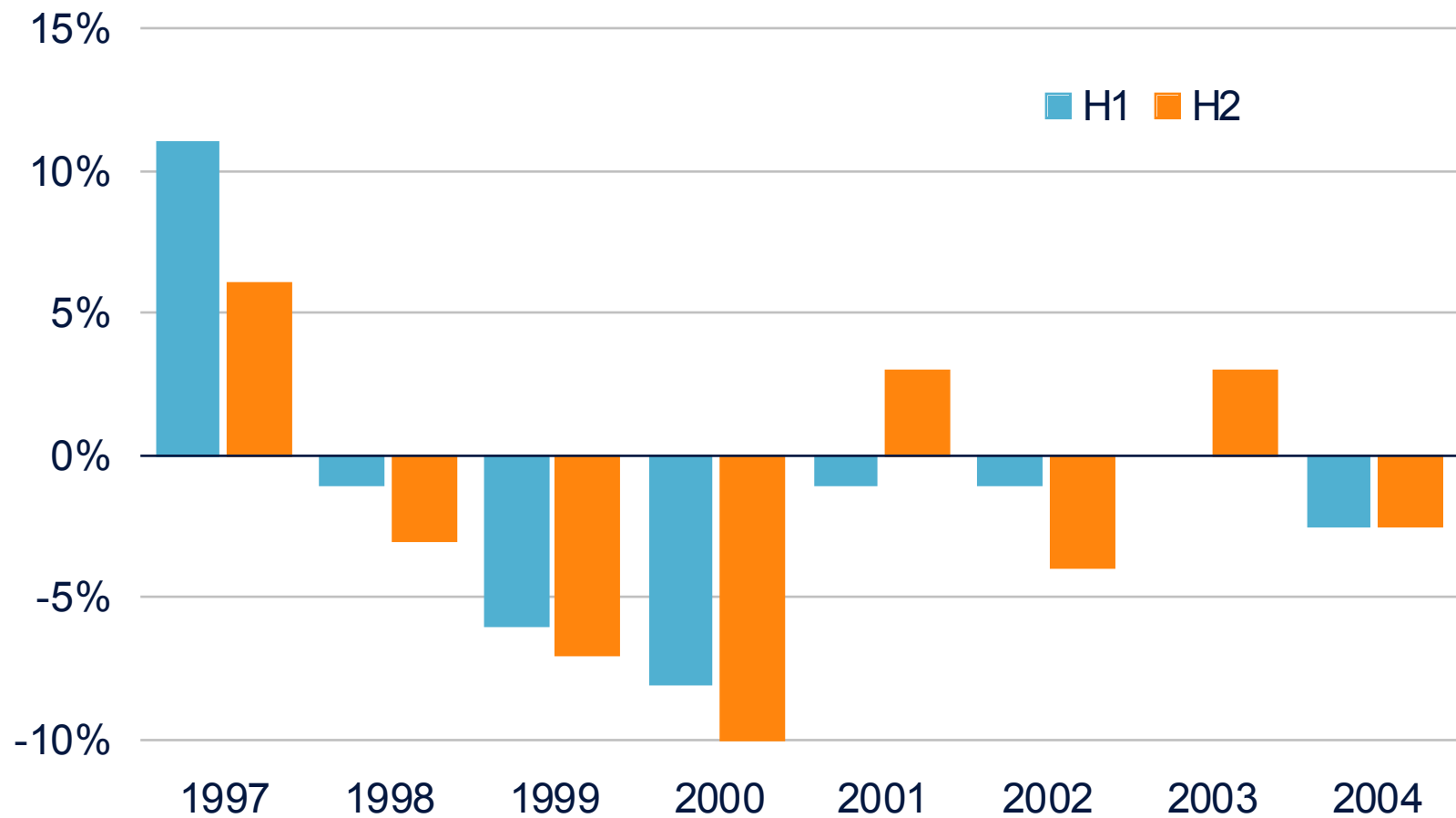
# Lex Vehicle Leasing - cash flow



Cumulative contribution to RAC –  
£72m (RAC share)



# Annual % change in the CAP composite



# Profit & Loss

£m	<u>2003</u>	<u>2004</u>	<u>%</u>
<b>PBIET</b>	<b>96.1</b>	<b>97.5</b>	<b>1</b>
Interest	-9.4	-8.9	-5
<b>PBET</b>	<b>86.7</b>	<b>88.6</b>	<b>2</b>
Goodwill amortisation	-5.6	-7.8	
Operating exceptional items	-30.2	10.8	
Exceptional items	-25.2	-13.9	
<b>PBT</b>	<b>25.7</b>	<b>77.7</b>	<b>202</b>
Taxation	-16.2	-25.2	56
<b>PAT</b>	<b>9.5</b>	<b>52.5</b>	<b>453</b>

# Balance sheet

£m	<u>2003</u>	<u>2004</u>
Fleet assets	10	-
Goodwill	501	534
Other fixed assets/investments	222	234
Working capital/other	-180	-200
<b>Capital employed</b>	<b>553</b>	<b>568</b>
Net debt	-154	-140
<b>Shareholders' funds</b>	<b>399</b>	<b>428</b>

*Closing net debt is after offsetting £36m of ring fenced cash and investments*

## Financial ratios

	<u>2003</u>	<u>2004</u>
Interest cover	10.2	11.0
Net debt/EBITDA	1.3	1.2
Underlying tax rate	28%	28%
EPS (p) (pre exceptionals)	54.4	55.7
Dividend per share (p)	24.3	25.8
Dividend cover	2.2	2.2

## Capital expenditure (1 of 2)

£m	<u>2003</u>	<u>2004</u>
<b>Mechanical Handling</b>		
Additions	-19.2	-1.8
Disposals	5.1	1.8
Depreciation	52.3	3.4
(Profit) / loss on disposal	-0.5	-
<b>Net capital expenditure</b>	<b>37.7</b>	<b>3.4</b>
<b>BSM</b>		
Additions	-33.1	-39.2
Disposals	30.7	34.9
Depreciation	0.7	0.4
(Profit) / loss on disposal	0.1	0.1
<b>Net capital expenditure</b>	<b>-1.6</b>	<b>-3.8</b>

## Capital expenditure (2 of 2)

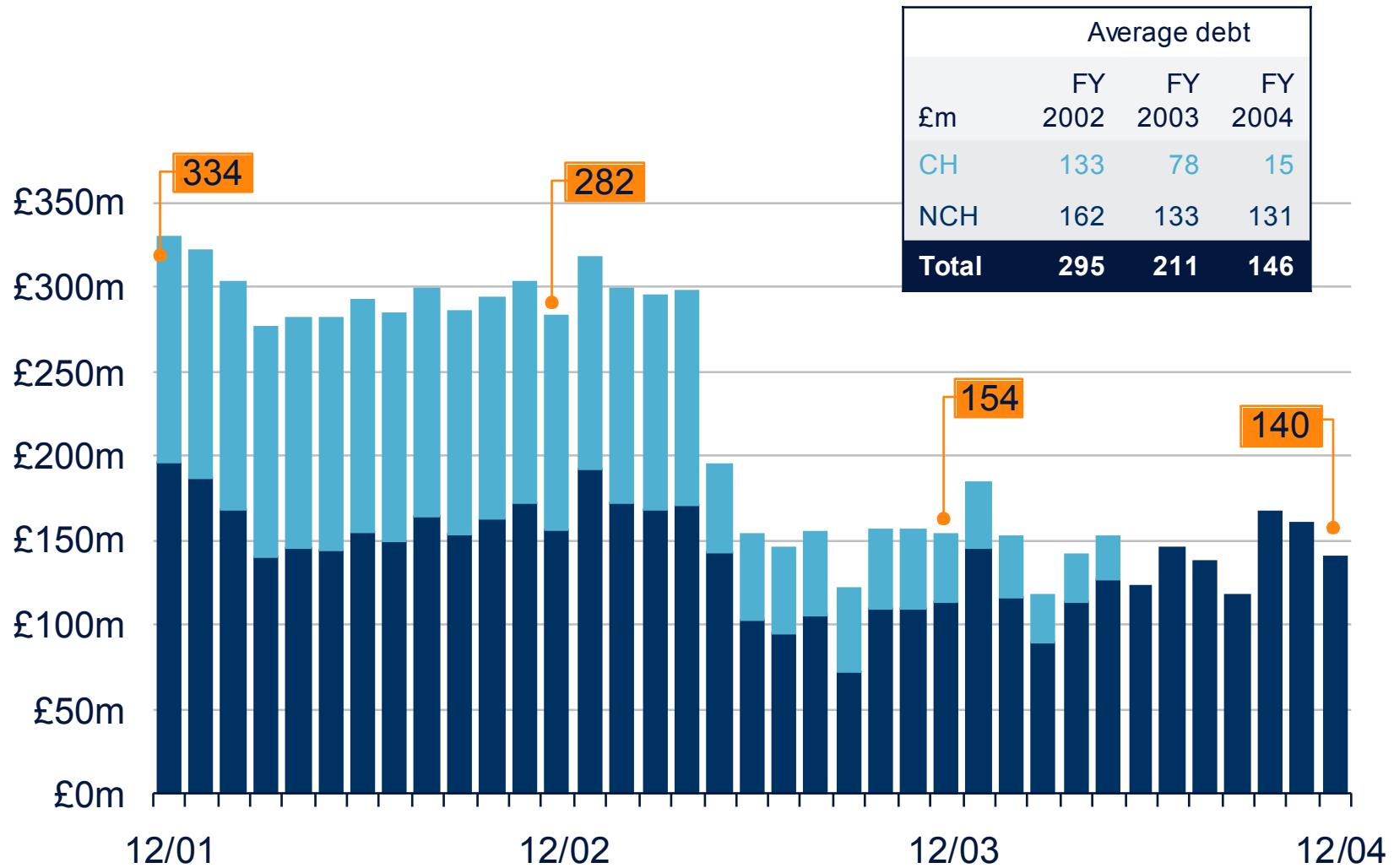
£m	<u>2003</u>	<u>2004</u>
<b>Rest of Group</b>		
Additions	-37.4	-29.9
Disposals	12.6	8.7
Depreciation	24.2	28.4
(Profit) / loss on disposal	0.8	-1.4
<b>Net capital expenditure</b>	<b>0.2</b>	<b>5.8</b>
<b>Total</b>		
Additions	-89.7	-70.9
Disposals	48.4	45.4
Depreciation	77.2	32.2
(Profit) / loss on disposal	0.4	-1.3
<b>Net capital expenditure</b>	<b>36.3</b>	<b>5.4</b>



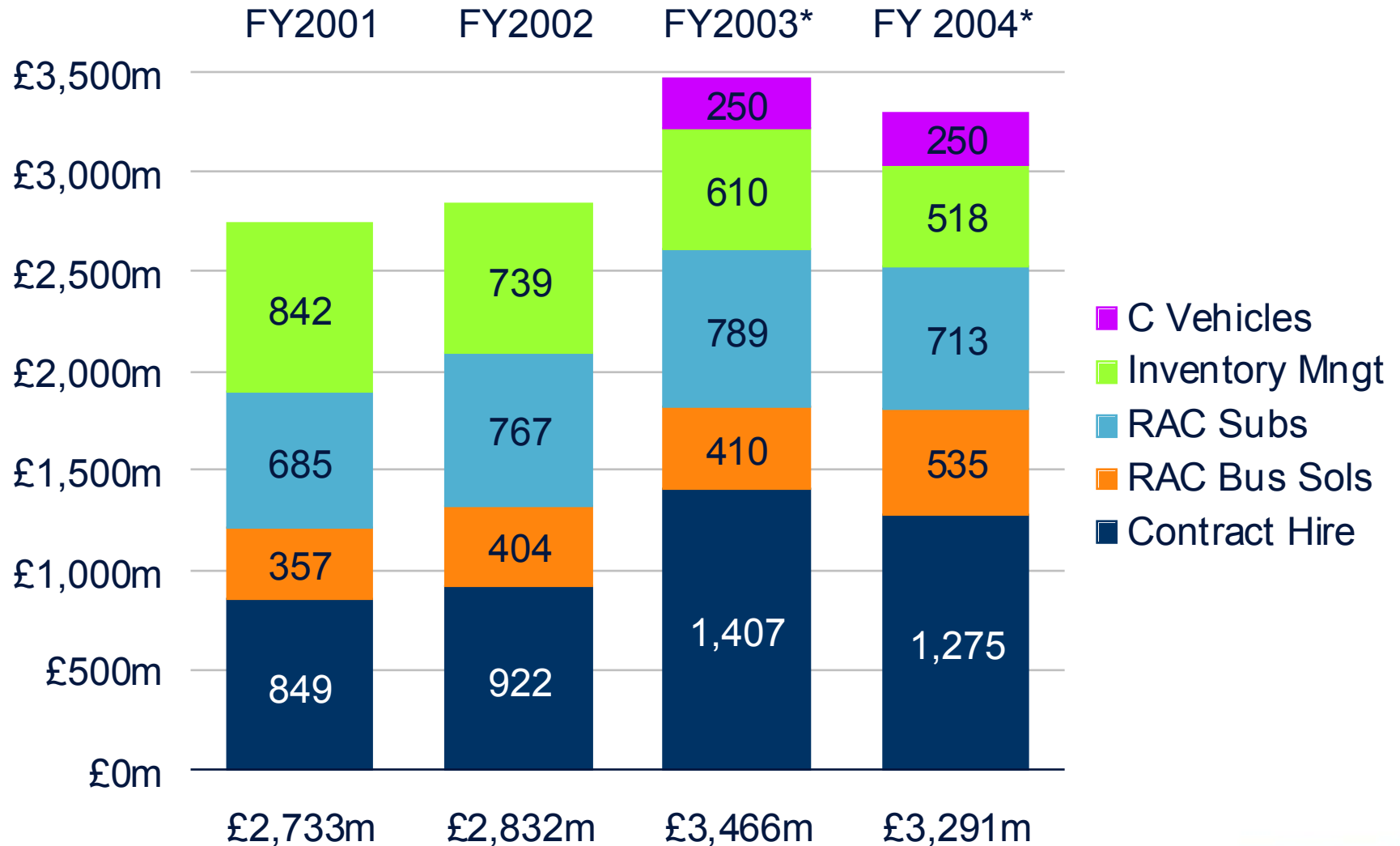
# 2003 restated

£m	Industrial Solutions	Manufacturer Support Services	Discontinued Operations
<b>Turnover</b>			
Reported 2003	117.0	627.9	56.9
Transfleet	-78.3	78.3	-
Mechanical Handling	-38.7	-	38.7
Multipart Universal	-	-8.8	8.8
Isuzu	-	-20.3	20.3
<b>Reported 2004</b>	<b>-</b>	<b>677.1</b>	<b>124.7</b>
<b>Profit &amp; Loss</b>			
Reported 2003	-1.4	31.2	-0.3
Transfleet	-0.7	0.7	-
Mechanical Handling	2.1	-	-2.1
Multipart Universal	-	0.3	-0.3
Isuzu	-	-0.2	0.2
<b>Reported 2004</b>	<b>-</b>	<b>32.0</b>	<b>-2.5</b>

# Average debt



# Growing long term business



\* Includes C Vehicles - currently preferred bidder

## Joint ventures / associates - profile

£m	<u>2003</u>	<u>2004</u>
RAC Equity		
Lex Vehicle Leasing	40.1	56.7
Transfleet	9.6	10.4
Hyundai Car Finance	5.9	5.8
Debt (RAC share)		
Lex Vehicle Leasing	321.4	391.1
Transfleet	53.4	39.7
Hyundai Car Finance	87.3	84.3

# Business Services Revenue by Division

£m	<u>MSS</u>	<u>LVL</u>	<u>Cons'er</u>	Bus <u>Solu'ns</u>	<u>Total</u>
Defence	50	18	2	1	71
Insurance	8	0	9	90	107
Vehicle Manufacturers	24	27	0	52	103
Airside	17	0	0	0	17
Utilities	2	3	0	0	5
<b>Total</b>	<b>101</b>	<b>48</b>	<b>11</b>	<b>143</b>	<b>303</b>