Zenith H1 FY24 Financial Results

Resilient performance and steady fleet growth against an increasingly challenging macroeconomic background

Leeds, 27 November 2023: Zenith, the UK's largest independent truck-to-car vehicle leasing and fleet management company, today published its financial results for the second quarter and first half of the 2024 financial year.

Financial performance:

- Total fleet up 0.9% YoY to 169,644 units, up 1.0% QoQ.
- Funded fleet up 8.1% YoY to 77,814 units, up 0.7% QoQ.
- Deliveries up 30% and termination volumes up 36%[1] in H1 FY24 YoY, as the fleet returns to a normal replacement cycle and the share of battery electric vehicles (BEVs) increases.
- Average termination profit per vehicle down 24.7% YTD YoY.
- Turnover: £386.0m up 21.1%YoY (H1 FY23: £318.7m).
- Gross profit: £70.6m[2] down 1.3% YoY (H1 FY23: £71.5m).
- Operating expenses: £36.6m up 12.7% YoY (H1 FY23: £32.5m) driven primarily by inflation.
- EBITDA: £34.0m[2] down 13.0% YoY (H1 FY23: £39.0m).
- LTM[3] EBITDA[2] £74.3m (LTM to 30 September 2022: £74.5m).
- Cash position at 30 September 2023: £63.5m[4], with an available, undrawn revolving credit facility of £65.0m, giving liquidity of £128.5m.
- £1.5bn of asset financing facilities, with total headroom of £284m.

Business performance:

- New car registrations continued to grow, rising 20% in the year to September 2023.
- Maintained a healthy order bank at 9,130[1] vehicles, down from 12,015 at the end of March 2023 as pressures continue to ease in the vehicle supply chain.
- Order lead times declined by 29% YoY to 147 days[5].
- Battery electric vehicle (BEV) fleet continued to grow, comprising 37% of the funded fleet and 41% of the order bank at 30 September 2023[1].
- The Corporate division achieved a number of new customer wins, reflecting the strong demand for its company-sponsored schemes and as corporates take advantage of the BIK[6] tax environment as they transition to BEVs on their journeys to net zero.

[1] Excluding managed fleet and commercial vehicles
[2] Excluding the adjustment relating to the reassessment of residual values on the funded fleet and exceptional items
[3] Last twelve months
[4] Excluding cash held within Special Purpose Vehicles of £22.4m
[5] Q2 FY24 average order lead time
[6] Benefit-in-Kind

- **The Consumer division** remained profitable and is adapting to weaker direct-to-consumer demand in the challenging macro environment by building on its partnerships. Developments include extending the contract with our largest White Label Solutions partner, Santander Consumer Finance, until the end of 2026, and launching a new BEV PCH[7] partner scheme.
- **The Commercial division** continues to grow its fleet management portfolio through new customer wins[8] following a number of significant tender processes. Trailer utilisation has softened reflecting weaker consumer demand affecting the logistics and parcel volumes.

Leadership changes:

- Tim Buchan, as he approaches 60, has announced his intention to retire as Zenith's CEO at the end of 2024, and transition to a non-executive director on the Group Holding Board alongside Bridgepoint. Tim will continue to lead as CEO until a successor is appointed.
- To enable the business to maximise its scale and joint operations, the Corporate and Consumer divisions will be brought together and led by Ian Hughes, CEO of the Corporate division. We will continue to report the financial performance of these units separately.
- Andrew Kirby, currently acting CEO of the Consumer Division and CEO of our rental business has decided to leave the business next year to take up a new leadership role outside of the automotive industry.

Tim Buchan, Zenith chief executive officer, commented:

"I am very proud of how Zenith is performing against this tough economic backdrop. Our diversified business with operations across commercial, corporate and consumer segments has meant that, during our first half we have been able to deliver more fleet growth, strengthen our cash position and win new customers. Our fleet today stands at more than 170,000 vehicles. It is also reassuring to see the SMMT[9] forecasting an increasing growth rate in registrations for the next two years.

"We continue to adapt and invest in our business for the future as we navigate increasingly difficult macro issues, including a challenging consumer environment resulting in weaker used car prices and reduced utilisation of our trailer rental fleet.

"We remain committed to our mission of eliminating tailpipe emissions by supporting our customers' transition to electric and other zero emission vehicles. We are continuing to

[7] Personal Contract Hire
[8] New customer wins in the period included fleet management contracts with Travis Perkins and Wales & West Utilities, totalling 5,000 units
[9] SMMT (Society of Motor Manufacturers and Traders), new car registrations report, October 2023

invest in our single asset management platform, continuing our focus on our ESG[10] initiatives and consistently striving to improve customer outcomes.

"I'd like to take this opportunity to thank all our employees for their hard work, dedication and commitment and our customers and partners for their continued support and confidence in Zenith."

[10] Environmental, Social and Governance

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1. Presentation of financial information

This report summarises consolidated financial and operating data derived from the unaudited consolidated financial statements of Zenith Automotive Holdings Limited, the parent company of Zenith Finco plc. The summary financial information provided herein has been derived from our records for the accounting periods for the six months to 30 September 2023, and to 30 September 2022, and for the year ended 31 March 2023, which are maintained in accordance with FRS 102 and FRS 104.

We have presented certain non-FRS information in this quarterly report. This information includes "EBITDA" and other measures derived therefrom, which represents earnings before interest, tax, depreciation, amortisation, impairment, the adjustment relating to the reassessment of residual values on funded fleet and exceptional items.

Under FRS 102, we are obliged to re-assess residual values (RVs) of fixed assets, and therefore depreciation, where there has been an indication of change to those residual values, such as changes in market prices. The significant and sustained increase in used vehicle prices which emerged during the Covid-19 period obliged us to re-assess (and re-set) residual values on our funded fleet to the extent that those assets are accounted as fixed assets. We made this re-assessment as at 1 April 2022, as a change in accounting estimates, with an impact on our profit and loss account for the subsequent quarters.

We present this change in isolation and draw the reader's attention to the change, because it is currently a material adjustment to our reported performance and position. We believe that gross profit and EBITDA, as adjusted to exclude this change in accounting estimates, are more representative and appropriate measures of our operating results, profitability, and ability to service debt.

We believe metrics derived from EBITDA are meaningful for investors because they provide an analysis of our operating results, profitability, and ability to service debt. Measures derived from EBITDA are also used by management to track our business development, establish operational and strategic targets, and make important business decisions. EBITDA is the measure commonly used by investors and other interested parties.

Comparative information has been provided, where appropriate, for the audited year ended 31 March 2023, and the unaudited six months ended 30 September 2022.

References to "Zenith", "Zenith Group" and "the Group" refer to Zenith Automotive Holdings Limited and all of its subsidiaries.

Due to rounding, certain numbers presented throughout this report may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Disclaimer

This report is for information purposes only and does not constitute an offer to sell or the solicitation of an offer to buy securities. This report does not contain all of the information that is material to an investor.

Forward looking statements

This report contains “forward-looking statements” as that term is defined by the U.S. federal securities laws and within the meaning of the securities laws of certain other jurisdictions. These forward-looking statements include, without limitation, those regarding our intentions, beliefs or current expectations concerning our future financial condition or performance, result of operations and liquidity; our strategy, plans, objectives, prospects, growth, goals and targets; future developments in the markets in which we participate or are seeking to participate; and anticipated regulatory changes in the industry in which we operate.

These statements often include words such as “anticipate”, “believe”, “could”, “estimates”, expect”, “forecast”, “intend”, “may”, “plan”, “projects”, “should”, “suggests”, “targets”, “would”, “will” and other similar expressions. These statements are not guarantees of performance or results. Many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those expressed in the forward-looking statements and projections.

We undertake no obligation to review or confirm analysts’ expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this report.

2. Management's discussion and analysis of financial condition and results of operations

Key performance indicators

We use a range of commercial, financial, and other KPIs to monitor our business, including fleet size and growth (including the breakdown of managed and funded fleet) and financial metrics such as gross profit, EBITDA, cash and cash conversion.

Fleet size and growth

	As of 30 September, 2023	As of 30 September 2022	As of 30 June 2023	As of 31 March 2023
Funded Fleet	**77,814**	71,988	77,290	76,034
Managed Fleet	**91,830**	96,199	90,700	92,258
Total Fleet	**169,644**	168,187	167,990	168,292

The size of our fleet grew by 0.9% compared to 30 September 2022 and by 1.0% compared to 30 June 2023, to 169,644 units. Our funded fleet, which carries a higher margin than our managed fleet, grew by 8.1% year-on-year and by 0.7% in the three months since 30 June 2023. The Corporate division accounted for the majority of the funded fleet growth; rising by 12.3% year-on-year, with the funded fleet in the Consumer division also rising by 5.5% year-on-year, and the Commercial fleet declining by 1.0%. The managed fleet, totalling 91,830 units, grew 1.2% in the quarter but declined 4.5% year-on-year, with declines across all divisions but mostly within the Corporate division due to the non-renewal of a fleet management customer.

Financial KPIs

(£000)	For the three months ended 30 September		For the six months ended 30 September		For the year ended 31 March
	2023	2022	**2023**	2022	2023
Turnover	**197,286**	161,030	**386,041**	318,721	688,117
Gross profit[1]	**35,179**	36,712	**70,556**	71,488	146,972
EBITDA[1]	**17,430**	20,392	**33,970**	39,026	79,405
Adjusted operating cash flow[2][3][4]	**28,918**	23,798	**42,333**	31,528	63,071
Cash conversion %[2][5][6]	**n/m**	n/m	**124.6%**	80.8%	79.4%

(1) Gross profit and EBITDA are shown on a like-for-like basis across the periods: that is, before the impact of the change in accounting estimates of residual values of our funded fleet, which is explained further below, and before exceptional items.
(2) The adjusted operating cash flow for the year ended 31 March 2023 shown above is £6.1m lower than that stated in the Group's financial statements. The difference relates to prepaid financing costs incorrectly being treated as interest paid. Adjusted operating cash flow is reconciled to our statutory measures in the Glossary.
(3) Adjusted operating cash flow for the year ended 31 March 2023 includes a one-off VAT claim of £12.5m, adjusting for this the cash conversion would be 63.7% for the year ended 31 March 2023.
(4) To enable comparability between periods, adjustments have been made to purchases of non-fleet fixed assets and changes in working capital. This has resulted in changes in the Adjusted operating cash flow numbers above but no impact to Cash flow before acquisitions and corporate financing (see Pg. 21)
(5) The adjustment noted in (2) above also has an impact on the Cash Conversion figure for the year ended 31 March 2023, which has been amended from 87.1%.
(6) Cash conversion is based on EBITDA.

Our financial performance in the most recent quarter and half year to 30 September 2023, versus the comparative periods, is explained below. For reconciliations of statutory to non-statutory and KPI-based measures of performance, see Glossary.

Results of operations

The table below sets out a summary of our income statement for the periods presented.

(£000)	For the three months ended 30 September		For the six months ended 30 September		For the year ended 31 March
	2023	2022	2023	2022	2023
Turnover	**197,286**	161,030	**386,041**	318,721	688,117
Cost of sales (excluding changes to accounting estimates of RVs of fleet fixed assets)[1]	**(162,107)**	(124,318)	**(315,485)**	(247,232)	(541,145)
Gross profit (excluding changes to accounting estimates of RVs of fleet fixed assets)[1]	**35,179**	36,712	**70,556**	71,488	146,972
Changes to accounting estimates of RVs of fleet fixed assets[2]	**1,641**	7,241	**2,420**	18,555	30,821
Gross profit[1,2]	**36,820**	43,953	**72,976**	90,043	177,793
Operating expenses	**(17,749)**	(16,320)	**(36,586)**	(32,462)	(67,567)
Operating profit before depreciation of owned tangible fixed assets, amortisation of goodwill and intangible assets and exceptional items, and before changes to accounting estimates of RVs of fleet fixed assets ("EBITDA")	**17,430**	20,392	**33,970**	39,026	79,405
Depreciation of owned fixed assets	**(1,728)**	(1,706)	**(3,468)**	(3,402)	(6,370)
Amortisation of goodwill	**(6,090)**	(6,128)	**(12,181)**	(12,209)	(24,359)
Amortisation of intangible assets	**(7,619)**	(6,693)	**(15,237)**	(13,387)	(26,806)
Operating exceptional items[3]	**(83)**	-	**(83)**	-	(4,434)
Changes to accounting estimates of RVs of fleet fixed assets[2]	**1,641**	7,241	**2,420**	18,555	30,821
Operating profit	**3,552**	13,107	**5,422**	28,584	48,257
Finance costs (net)	**(30,524)**	(28,843)	**(61,023)**	(56,397)	(116,783)
Finance costs (senior notes and RCF)[4]	**(9,884)**	(9,969)	**(19,755)**	(18,863)	(35,459)
Finance costs (on Shareholder instruments)[5]	**(20,640)**	(18,874)	**(41,268)**	(37,534)	(81,324)
Loss before taxation	**(26,972)**	(15,736)	**(55,601)**	(27,814)	(68,526)
Tax charge	**(293)**	(356)	**(586)**	(712)	(2,839)
Loss for the financial period attributable to the shareholders of the group	**(27,265)**	(16,092)	**(56,187)**	(28,526)	(71,365)

(1) We recognise in cost of sales the costs we incur in respect of assets subject to securitised contracts or hire purchase contracts, such as interest payable on the funding of long-term leases of such assets and depreciation of such assets over the course of their respective lives. Gross profit is on a like-for-like basis across the periods: that is, before the impact of the change in accounting estimates of residual values of our funded fleet, which is explained further below, and before exceptional items.

(2) We isolate the impact of the change in accounting estimates on vehicle assets to aid the reader of the accounts to understand the underlying performance of the business, as well as to demonstrate the impact of a single, large, and subjective item. We explain this adjustment in the narrative below.

(3) Operating exceptional items are costs that do not relate to the Group's normal business operations and which in management's judgement are considered material individually or in aggregate (if of a similar type) due to their size or frequency. The exceptional costs in the period to 30 September 2023 relate to one off redundancy payments in the Commercial division. The exceptional costs in the period to 31 March 2023 relate to 2 items: 1) the write-down of new vehicle stocks purchased for the ZenAuto and salary sacrifice selling channels, and 2) market assessment and due diligence costs connected with two potential acquisitions which were considered but aborted.

(4) Finance costs (senior notes and RCF) includes charges under the current £475 million senior secured notes and £65 million revolving credit facilities issued / arranged in January 2022, and costs incurred in operating the day-to-day banking of the business.

(5) Finance costs (on shareholder instruments) include non-cash shareholder Loan Note and Preference Share interest payable under the terms of those instruments. Interest on these balances is rolled on an annual basis. The other cost in this line is historic payments made to set up finance facilities which are amortised over the life of the facilities.

Divisional performance summary

The tables below present a summary of turnover and gross profit of each division. (These figures are presented prior to the impact of the change in accounting estimates for fleet depreciation.)

Corporate

(£000)	For the three months ended 30 September		For the six months ended 30 September		For the year ended 31 March
	2023	2022	**2023**	2022	2023
Turnover	**130,776**	96,523	**252,222**	190,112	390,218
Gross profit(1)	**22,151**	22,665	**45,677**	44,468	93,909
Fleet (units)	**56,057**	52,756	**56,057**	52,756	53,517

Commercial

(£000)	For the three months ended 30 September		For the six months ended 30 September		For the year ended 31 March
	2023	2022	**2023**	2022	2023
Turnover	**44,477**	45,459	**88,344**	95,456	211,296
Gross profit	**8,018**	8,483	**14,336**	16,726	32,403
Fleet (units)	**48,305**	49,515	**48,305**	49,515	46,767

Consumer

(£000)	For the three months ended 30 September		For the six months ended 30 September		For the year ended 31 March
	2023	2022	**2023**	2022	2023
Turnover	**22,032**	19,048	**45,475**	33,153	86,602
Gross profit(1)	**5,010**	5,564	**10,543**	10,294	20,659
Fleet (units)	**65,282**	65,916	**65,282**	65,916	68,008

(1) For the three months ended 30 September 2022 Corporate and Consumer gross profit have been restated to enable comparability. The previously reported balances were £24.6m and £3.5m respectively. This restatement had no impact on the Group's primary financial statements, including its reported earnings for the three months ended 30 September 2022 and the key performance indicators.

Comparison of results of operations for the three months ended 30 September 2023 and 2022

Turnover

Turnover increased by £36.3m, or 22.5%, to £197.3m for the three months ended 30 September 2023, from £161.0m for the three months ended 30 September 2022. The increase was a result of the higher value of terminations, which were 40% higher than Q2 FY23, driven by higher termination volumes, which were 50% higher in the quarter compared to the previous year, with lower average proceeds per vehicle, primarily on BEVs. Lease revenue also increased, rising 16.9% year-on-year, driven by higher fleet size and also a rise in average monthly rentals. Rental income in the Corporate division also increased, rising 20.4% on higher rates, albeit volumes were lower year-on-year. These increases offset declines mostly in the Commercial division's trailer rental business as a result of lower utilisation levels year-on-year.

Corporate

Turnover in the Corporate division increased by £34.3m, or 35.5%, to £130.8m for the three months ended 30 September 2023, from £96.5m for the three months ended 30 September 2022.

The total Corporate fleet size increased by 6.3% year-on-year to 56,057 units and 1.2% quarter-on-quarter. The growth was driven by the funded fleet, which grew 12.3% year-on-year to 49,668 units. The managed fleet, comprising 11% of the Corporate fleet, declined by 25.2% year-on-year principally as a result of a fleet management customer not renewing their contract.

The increase in turnover in the second quarter of FY24 was primarily due to the increase in lease revenue from the higher fleet size and higher proceeds on the sale of leased vehicles, which increased 48.2% year-on-year, driven by a similar increase in the number of terminations. Terminations in the prior year period were abnormally lower due to the shortage of replacement vehicles. The short-term rental business continued to benefit from increased pricing year-on-year, however volumes have started to decline as the shorter lead times for new vehicles, combined with the higher availability in the market for new vehicles has reduced the demand for interim rentals. The Corporate order book declined by 1,367 units over the quarter to 9,025 units, as increased market supply enabled the realisation of orders into the fleet, and deliveries in the quarter exceeded the volume of new orders.

Commercial

Turnover decreased by £1.0m, or 2.2%, to £44.5m for the three months ended 30 September 2023, from £45.5m for the three months ended 30 September 2022.

The total fleet size in the Commercial division declined by 2.4% year-on-year, mostly in the managed fleet, which declined by 3.2%, and accounts for approximately two thirds of the fleet. The funded fleet also declined by 1.0% as customers consolidated their fleets in response to lower end market demand reducing demand for trailers. Quarter-on-quarter, the total fleet size was up 5.0%, driven by an increase in the managed fleet, which grew by 8.6% largely due to the successful rollout of the new contract with Wales & West Utilities, which added over 2,300 units at the end of the quarter. This was partially offset by a decline in the funded fleet, being largely a controlled de-fleet of low yielding rental trailers due to reducing market demand.

Turnover in the Commercial division was broadly flat in the second quarter of FY24 compared to the prior year primarily due to growth in the lease rental income, offset by a decline in revenue from trailer rentals as utilisation rates were lower than the prior year due to weaker consumer confidence, softening the demand for trailer rentals. The rental fleet utilisation rate in September 2023 was 79%; 8 percentage points lower than September 2022. Volumes of terminations were 55% higher than prior year, as we commenced our initiative to reduce excess capacity in our fleet. However, revenue from terminations declined year-on-year principally due to the mix of vehicles being disposed, with a high proportion of the terminations being low value trailers. These declines were partially offset by a rise in in-life income.

Demand for our commercial fleet management services remains strong, with a good pipeline of new business opportunities, driven in part by a continued higher level of tendering opportunities.

Consumer

Turnover in our Consumer division increased by £3.0m, or 15.7%, to £22.0m for the three months ended 30 September 2023, from £19.0m for the three months ended 30 September 2022.

The total fleet size was down compared to the prior year and the prior quarter, driven by the decline in the managed fleet, (which accounted for 84% of the total fleet) on weaker consumer demand. The funded fleet, which comprises the ZenAuto business, was up 5.5% year-on-year but down 3.4% vs the prior quarter.

Turnover increased in the second quarter of FY24 year-on-year principally due to the increase in termination volumes in our ZenAuto business, which were up 65%, driving proceeds from vehicle sales up by 24%. Turnover from lease rental also increased year-on-year due to higher fleet numbers and higher average monthly rentals. However, the order bank for ZenAuto decreased by 63% in the quarter to 105 units as the level of deliveries outpaced orders. Orders were down 56% quarter-on-quarter and 83% year-on-year due to weak consumer confidence and continued supply challenges.

Cost of sales, excluding the impact of changes in accounting estimates and exceptional items

Cost of sales increased by £37.8m, or 30.4%, to £162.1m for the three months ended 30 September 2023, from £124.3m for the three months ended 30 September 2022.

Cost of sales represented 82.2% of turnover for the three months ended 30 September 2023, compared to 77.2% of turnover for the three months ended 30 September 2022.

The increase in cost of sales as a proportion of turnover was primarily due to higher funding costs driven by the higher interest rates between the vehicle order date (where the price is fixed to the customer) and the vehicle delivery/funding date (where the cost to us is fixed), combined with higher costs relating to maintenance services in the Commercial division, lower profitability on our trailer rental operations and higher capital costs of used vehicles sold.

Gross profit, excluding the impact of changes in accounting estimates and exceptional items

Group gross profit decreased by £1.5m, or 4.2%, to £35.2m for the three months ended 30 September 2023, from £36.7m for the three months ended 30 September 2022.

Gross profit, or income, declined in the second quarter of FY24 year-on-year, principally due to lower lease margins combined with lower revenues and higher costs within the Commercial trailer rental business. Profits on the disposal of vehicles was flat at £10.7m, with a 50% higher volume of vehicles disposed being offset by a combination of lower proceeds, and higher capital cost per vehicle disposed.

Corporate

Gross profit in the Corporate division decreased by £0.5m, or 2.3%, to £22.2m for the three months ended 30 September 2023, from £22.7m for the three months ended 30 September 2022.

Lease margin declined year-on-year as the impact of higher interest rates on costs offset higher lease revenue from higher fleet volume. This margin erosion was a result of the unhedged and extended period between the vehicle order date (where the price is fixed to the customer) and the vehicle delivery/funding date (where the cost to us is fixed).

RV profits increased by 4.1% year-on-year to £8.3m, with 48% higher volumes of terminations being offset by a fall in average profits year-on-year by 31%, with a decline in profits in all fuel types except petrol vehicles, and BEVs on average being loss-making.

Commercial

Gross profit in the Commercial division decreased by £0.5m, or 5.5%, to £8.0m for the three months ended 30 September 2023, from £8.5m for the three months ended 30 September 2022.

The decline was mostly due to lower activity in the trailer rental business, driving a reduction in utilisation of our owned trailers and also due to lower in-life income as our managed fleet declined year-on-year. Profits on the sale of vehicles and trailers were down 34% to £0.8m, as a result of a combination of higher capital cost of vehicles disposed and lower total proceeds. Offsetting these declines, lease margin increased, with lease revenues increasing at a faster rate than the associated costs.

Consumer

Gross profit in the Consumer division decreased £0.6m, or 10.0% to £5.0m for the three months ended 30 September 2023, from £5.6m for the three months ended 30 September 2022.

Gross profit decreased in the quarter, as a result of a combination of factors: i) lower lease margin, as growth in lease costs offset growth in lease revenues; ii) lower in-life income, driven by lower managed fleet size and iii) a one-off income from tax credits in the prior year period totalling £400k.

RV profits were up marginally to £1.7m driven by an increase in termination volumes, which were up 65%, offsetting a decline in average termination profits.

Changes in depreciation due to a change in accounting estimates

Under FRS 102 (as under international accounting standards), we are obliged to reassess RVs of fixed assets, and therefore depreciation, where there has been an indication of change to those RVs, such as changes in market prices. The significant and sustained increase in used vehicle prices (mainly during the year ended 31 March 2022) obliged us to reassess (and reset) RVs on our funded fleet to the extent that those assets are accounted as fixed assets. We have made this reassessment as at 1 April 2022, and then tracked this cohort of vehicles on a quarterly basis as a change in accounting estimates, with a subsequent impact on our gross profit and operating profit (via reduced fleet depreciation) for the quarter ended 30 September 2023 of £1.6m. This has had no impact on our cash flow, tax position or the borrowing base under any of our vehicle funding facilities. We present this change in isolation and draw the reader's attention to the change, because it is a material adjustment to our reported performance and position. We believe that EBITDA, as adjusted to exclude this change in accounting estimates, is a more representative and appropriate measure of our operating results, profitability, and ability to service debt. It also has no impact on the commercial decisions or positions that we take on pricing RVs or writing new business. We will continue to report the same turnover and profit KPIs in our own internal Board reporting, and to our investors, which we believe are more closely aligned to underlying earnings and cash flows.

Operating Expenses

Operating expenses increased by £1.4m, or 8.8%, to £17.7m for the three months ended 30 September 2023, from £16.3 million for the three months ended 30 September 2022.

Operating expenses were higher mainly due to increased people costs associated with a cost-of-living pay increase of 5% awarded in April 2023, and the additional headcount from our investment in our capacity and extending the capabilities of the group. Costs associated with our IT operations, services and infrastructure also increased, reflecting inflationary rises and additional IT services we've adopted to increase the performance of our business.

Operating expenses also include: depreciation of owned fixed assets (i.e. depreciation of non-fleet related assets, such as computer hardware and software, fixtures and fittings and similar fixed assets); and amortisation of acquired intangibles and amortisation of goodwill, both of which are non-cash items, driven by the intangible assets created (like goodwill) when Bridgepoint acquired the business in 2017.

EBITDA

EBITDA decreased by £3.0m to £17.4m for the three months ended 30 September 2023 from £20.4m for the three months ended 30 September 2022.

Gross profit fell in all divisions driven by the challenging economic backdrop, notably higher interest rates, inflation and lower consumer demand combined with higher overheads, which increased year-on-year principally due to the higher salary and technology costs, driven by the cost-of-living pay increase and inflation, and resulting in a decline in EBITDA.

Finance Costs

Finance costs increased by £1.7m, or 5.8%, to £30.5m for the three months ended 30 September 2023, from £28.8m for the three months ended 30 September 2022. The increase in finance costs was primarily due to the increased Loan Note and Preference Share interest, due to the increase in the underlying balances from the annual compounding of non-cash interest.

Tax Charge

The tax charge decreased by £0.1m, to a charge of £0.3m for the three months ended 30 September 2023, from a charge of £0.4 million for the three months ended 30 September 2022.

Comparison of results of operations for the six months ended 30 September 2023 and 2022

Turnover

Turnover increased by £67.3m, or 21.1%, to £386.0m for the six months ended 30 September 2023, from £318.7m for the six months ended 30 September 2022. The increase was a result of the higher value of terminations for the group, which were 34% higher than the six months to 30 September 2022 driven by higher termination volumes, which were 35% higher compared to the previous year. Lease revenue also increased, rising 23.7% year-on-year, and was up across all divisions. Rental income in the Corporate division was higher driven by both a higher number of rental days, but also a result of year-on-year price increases. These increases offset declines mostly in the Commercial division's maintenance and trailer rental business as a result of the weak end market conditions noted above.

Corporate

Turnover in the Corporate division increased by £62.1m, or 32.7%, to £252.2m for the six months ended 30 September 2023, from £190.1m for the six months ended 30 September 2022.

The increase in turnover in the first six months of FY24 was primarily due to an increase in lease revenue, and higher proceeds on the sale of leased vehicles, which increased 31.8% year-on-year, driven by a similar increase in the number of terminations. Revenues from short term rental, which grew 24% year-on-year continued to benefit from increased pricing year-on-year, however volumes started to decline towards the end of the six-month period as the shorter lead times for new vehicles, combined with the higher availability in the market for new vehicles has reduced the demand for interim rentals.

Commercial

Turnover decreased by £7.1m, or 7.5%, to £88.3m for the six months ended 30 September 2023, from £95.5m for the six months ended 30 September 2022.

Turnover in the Commercial division was lower compared to the prior year primarily due to a growth in the lease rental being offset by lower maintenance revenues from a lower managed fleet size. Revenues from trailer rentals were also lower due to the lower utilisation rates year-on-year. Across the six-month period, volumes of terminations were 33% higher than prior year, however termination revenues declined by 11% due to disposal mix towards lower value trailers noted above.

Consumer

Turnover in our Consumer division increased by £12.3m, or 37.2%, to £45.5m for the six months ended 30 September 2023, from £33.2m for the six months ended 30 September 2022.

Turnover increased in the six-month period principally due to the increase in termination volumes in our ZenAuto business which were up 77% year-to-date, resulting in termination revenues rising by 56%. Turnover from lease rental also increased year-on-year due to higher fleet numbers and the increase in rentals charged as a result of the increase in interest rates. These increases were offset by a decline in revenues in the White Label Solutions business, which was driven by a decline in the size of the fleet due to the continued declining consumer demand for big-ticket items.

Cost of sales, excluding the impact of changes in accounting estimates and exceptional items

Cost of sales increased by £68.3m, or 27.6%, to £315.5m for the six months ended 30 September 2023, from £247.2m for the six months ended 30 September 2022.

Cost of sales rose principally as a result of higher lease costs driven by increased interest rates year-on-year. The cost associated with vehicles terminated also rose, driven by both a rise in volumes but also a rise in the average cost of the vehicle disposed year-on-year.

Cost of sales represented 81.7% of turnover for the six months ended 30 September 2023, compared to 77.6% of turnover for the six months ended 30 September 2022.

The increase in cost of sales as a proportion of turnover was primarily due to higher funding costs not fully passed through to customers due to the lag between order and delivery date, and lower margins on vehicles sold. This lower margin was driven by a combination of higher capital costs of used vehicles sold and lower used vehicle selling prices across all fuel types but principally BEVs, which were loss making on average over the period, and contributed to an increased share of the disposal volumes due to the rise in the share of BEVs within the fleet.

Gross profit, excluding the impact of changes in accounting estimates and exceptional items

Group gross profit decreased by £0.9m, or 1.3%, to £70.6m for the six months ended 30 September 2023, from £71.5m for the six months ended 30 September 2022.

Gross profit, or income, for the first six months of FY24 was broadly flat year-on-year, with declines in the Commercial division, principally from lower profits on our trailer rentals and maintenance operations, combined with lower lease margins. These declines were partially offset by higher in-life incomes in the Corporate division and continued performance of our short term rental business. Profits on disposal of vehicles for the first six months of FY24 was up 1.1% at £22.2m, with a 35% higher volume of vehicles disposed being offset by a combination of lower average proceeds, and higher capital cost per vehicle disposed.

Corporate

Gross profit in the Corporate division increased by £1.2m, or 2.7%, to £45.7m for the six months ended 30 September 2023, from £44.5m for the six months ended 30 September 2022.

The key driver of income growth was higher income from in-life services, which were principally driven by benefits of purchasing initiatives and rebates. Income from short term rental also continued to increase with a higher contribution to profits from higher rates and higher rental days. This growth was partly offset by lower margins on leases due to the impact of higher interest rates on new leases. Profit on termination of vehicles was broadly flat in the year-to-date period, with termination volumes 30% higher being offset by a decline in average profitability, particularly for our BEV disposals, which were loss making, on average, for the first half of the year.

Commercial

Gross profit in the Commercial division decreased by £2.4m, or 14.3%, to £14.3m for the six months ended 30 September 2023, from £16.7m for the six months ended 30 September 2022.

The decline was mostly due to lower activity in the trailer rental business throughout the period, combined with declining profits in our maintenance operations due to inflationary cost pressures. Profits on the sale of vehicles and trailers was down 32%, with higher number of terminations being offset by weak selling prices. Profits on fleet management declined driven by a lower fleet size. Offsetting these declines, lease margin increased, with lease revenues increasing at a faster rate than the associated costs.

Consumer

Gross profit in the Consumer division increased £0.2m, or 2.4% to £10.5m for the six months ended 30 September 2023, from £10.3m for the six months ended 30 September 2022.

Gross profit increased in the period principally as a result of higher termination profits which were up 34%, driven by higher volumes of terminations, which were up 77% year-on-year. This was offset by a decline in lease margin, due to higher interest rates, and the higher margin leases terminating being replaced by lower margin leases.

Operating expenses

Operating expenses increased by £4.1m, or 12.7%, to £36.6m for the six months ended 30 September 2023, from £32.5 million for the six months ended 30 September 2022.

Operating expenses were higher mainly due to increased people costs and costs associated with our IT operations, services, and infrastructure, reflecting inflationary rises and additional investment into the business to support its future growth. This increase was partially offset by reduced overhead spending within our ZenAuto business, as we respond to the market weakness and lower volumes.

EBITDA

Finance costs

Finance costs increased by £4.6m, or 8.2%, to £61.0m for the six months ended 30 September 2023, from £56.4m for the six months ended 30 September 2022. The increase in finance costs was primarily due to the increased Loan Note and Preference Share interest, due to the increase in the underlying balances from the annual compounding of interest, which accounted for £3.7m of the increase.

Tax charge

The tax charge decreased by £0.1m, to a charge of £0.6m for the six months ended 30 September 2023, from a charge of £0.7 million for the six months ended 30 September 2022.

Facilities funding our fleet

Fleet leasing is a capital-intensive business and requires continuous access to different funding sources at attractive terms in order to maintain attractive margins. We seek to fund most of our funded fleet through securitisation facilities and the remainder with wholesale asset finance arrangements, such as secured back-to-back or hire purchase contracts, RV financing and agency funding. We are able to continue growing the size of our funded fleet due to the undrawn capacity under our securitisation facilities, in particular, but also due to the range of wholesale funding options we maintain.

On 30 September 2023, we had drawn £824.7m on our securitisation facilities (30 September 2022: £597.5 million). We had also drawn £138.4m on our RV facilities (30 September 2022: £154.9m) that are connected to the bifurcated securitisation facility (through which the lease receivables are funded by securitisation and the RV assets are funded by separate bilateral facilities). These drawings compare to an aggregate amount of such securitisation and RV facilities of £1,116.4m (£975.0 million in respect of bifurcated and non-bifurcated securitisation facilities, plus £141.4m of RV facilities for the bifurcated programme).

Back-to-back hire purchase funding is an arrangement whereby we buy a vehicle through a hire purchase contract funded by a financier and lease it on contract hire to customers on corresponding terms. As of 30 September 2023, we had drawn £136.2m of funding commitments pursuant to back-to-back hire purchase agreements with financiers (30 September 2022: £88.5m).

Agency funding is an arrangement whereby we contract as disclosed or undisclosed agent for a third party which finances the vehicle purchase and, in most instances, holds legal title to the vehicle. As of 30 September 2023, we had utilised £151.3m of agency funding (30 September 2022: £125.6m).

In respect of the back-to-back funding and agency funding, there has not been a material change in the scale or nature of those facilities since 31 March 2023. The scale or nature of the securitisation and RV funding has also not materially changed over the same period.

Liquidity

Our principal source of liquidity on an ongoing basis, including for the purposes of funding credit enhancement costs in respect of our securitisation facilities, is expected to be our operating cash flows.

As part of the refinancing of our senior term debt in January 2022, we entered into a revolving credit facility in an aggregate amount of £65.0 million. As at 30 September 2023, this was undrawn. As such, the financial covenant test under that facility was not tested.

The group had an aggregate cash balance as at 30 September 2023, of £85.8 million (30 September 2022: £66.5m, 31 March 2023: £72.2m), of which £22.4m (30 September 2022: £10.8m, 31 March 2023: £18.3m) relates to cash balances held within the special purpose vehicles that are part of our securitisation structures. Therefore, the group had freely available cash resources at 30 September 2023, of £63.5m (30 September 2022: £55.7m, 31 March 2023: £53.9 million), in addition to the undrawn capacity on the £65.0 million revolving credit facility.

Bond purchases

We may, from time to time, purchase our notes for cash in open-market purchases and/or privately negotiated transactions upon such terms and at such prices as we may determine. We will evaluate any such transactions in light of then-existing market conditions, taking into account our current liquidity and prospects for future access to capital. The amounts involved in any such transactions, individually or in the aggregate, may be material.

Historical cash flows

The following table sets forth cash flow information for the periods presented. A non-statutory cash flow presentation is appended to this document (in "Glossary"), to assist the understanding of our cash flow.

(£000)	For the three months ended 30 September		For the six months ended 30 September		For the year ended 31 March
	2023	2022	**2023**	2022	2023
Net cash flow from operating activities [1] [2]	**58,071**	72,413	**85,444**	87,611	173,086
Tax paid	**(1,863)**	(1,176)	**(5,119)**	(2,482)	(4,493)
Net cash flows used in investing activities [2]	**(88,659)**	(108,296)	**(162,622)**	(141,262)	(323,519)
Net cash flows from financing activities [1]	**54,093**	56,597	**95,939**	62,445	166,945
Net increase / (decrease) in cash & cash equivalents	21,642	19,538	13,643	6,312	12,019
Cash and cash equivalents at start of period	**64,188**	46,942	**72,187**	60,168	60,168
Cash and cash equivalents at end of period	85,830	66,480	85,830	66,480	72,187

(1) Net cashflow from operating activities for the year ended 31 March 2023 shown above is £6.1m lower than that stated in the Group's financial statements, and net cash flows from financing activities is correspondingly £6.1m higher as a result of prepaid financing costs incorrectly being treated as interest paid in the Group's financial statements.

(2) Net cash flow from operating activities and net cash flows from investing activities for the periods to 30 September 2022 have been adjusted by £15.3m to reflect a lower profit on sale of tangible fixed assets, which was previously stated as £48.2m, but has been adjusted to £32.9m.

Net cash flow from operating activities

Net cash inflow from operating activities decreased by £14.3m, to an inflow of £58.1m for the three months ended 30 September 2023, from a £72.4m inflow for the three months ended 30 September 2022.

For the six months ended 30 September 2022, net cash inflow from operating activities decreased by £2.2m, to £85.4m, from an inflow of £87.6m.

Tax paid

Tax paid increased by £0.7m, to £1.9m for the three months ended 30 September 2023, from a £1.2m payment for the three months ended 30 September 2022.

For the six months to 30 September 2023, tax paid increased by £2.6m to £5.1m, from a £2.5m payment for the six months ended 30 September 2022.

Net cash used in investing activities

Net cash flows used in investing activities decreased by £19.6m, to a cash outflow of £88.7m for the three months ended 30 September 2023, from a cash outflow of £108.3m for the three months ended 30 September 2022.

For the six months to 30 September 2023, net cash used in investing activities increased by £21.3m to a cash outflow of £162.6m, from a cash outflow of £141.3m for the six months to 30 September 2022.

The growth in net cash used in investing activities is principally due to the increase in the purchase of funded and owned assets, partially offset by the higher proceeds on sale of operating lease assets, from the higher level of terminations experienced year-on-year.

Net cash flow from financing activities

Net cash flows from financing activities decreased by £2.5m, to £54.1m for the three months ended 30 September 2023, from £56.6m for the three months ended 30 September 2022.

For the six months to 30 September 2023, net cash flows from financing activities increased by £33.5m, to £95.9m, from £62.4m for the six months ended 30 September 2022.

The increase in the six-month period was principally due to the drawdown of funding exceeding the repayment of borrowings during the period.

There was no drawdown or repayment of the group's current revolving credit facilities in the period ended 30 September 2023. The level of interest paid increased to £16.2 million for the period ended 30 September 2023, from £13.7 million for the period ended 30 September 2022, as the current year included a full period of bond interest, whereas the comparative period included only five months.

Off-balance sheet arrangements

At 30 September 2023, our only material off-balance sheet item relates to vehicles funded through agency arrangements. For vehicles funded under such arrangements only the commitment to repurchase the vehicle at the end of the lease for the RV is recognised on the balance sheet. At 30 September 2023, the outstanding balance of vehicles subject to repurchase arrangements through agency arrangements was £92.1m (30 September 2022: £43.9m, 31 March 2023: £69.1m), reported as "Vehicles subject to repurchase agreements". By contrast, the outstanding rentals balance is reported on the agency funder's balance sheet.

Glossary

Reconciliation of loss for the financial periods to EBITDA

(£000)	For the three months ended 30 September		For the six months ended 30 September		For the year ended 31 March
	2023	2022	**2023**	2022	2023
Loss for the financial period attributable to the shareholders of the group	**(27,265)**	(16,094)	**(56,187)**	(28,525)	(71,365)
Tax charge on loss	**293**	356	**586**	713	2,839
Finance costs (on shareholder investment & all other items)	**20,640**	18,874	**41,268**	37,534	81,324
Finance costs (Senior Secured notes and Revolving Credit Facility)	**9,884**	9,969	**19,755**	18,863	35,459
Operating exceptional items	**83**	-	**83**	-	4,434
Amortisation of intangible assets	**7,619**	6,693	**15,237**	13,387	26,806
Amortisation of goodwill	**6,090**	6,133	**12,181**	12,209	24,359
Depreciation of owned fixed assets	**1,728**	1,706	**3,468**	3,403	6,370
Changes to accounting estimates of RVs of fleet fixed assets	**(1,641)**	(7,241)	**(2,420)**	(18,555)	(30,821)
EBITDA	**17,430**	20,392	**33,970**	39,026	79,405

Reconciliation of change in cash & cash equivalents to adjusted operating cash flow

(£000)	For the three months ended 30 September		For the six months ended 30 September		For the year ended 31 March
	2023	2022	**2023**	2022	2023
Net increase in cash & cash equivalents	**21,642**	19,538	**13,643**	6,312	12,019
Add back / (Deduct):					
Financing – interest paid(1)	**205**	182	**16,212**	13,651	32,136
Corporation tax paid	**1,863**	1,176	**5,119**	2,482	4,493
Purchase of non-fleet fixed assets(2)	**5,208**	2,639	**7,360**	6,045	12,325
Securitisation refinancing: fees and expenses	-	-	-	-	724
Senior debt refinancing: fees and expenses	-	263	-	3,038	1,374
Adjusted Operating Cash Flow(2)	**28,918**	23,798	**42,333**	31,528	63,071

(1) Financing – interest paid for the year ended 31 March 2023 shown above is £6.1m lower than that stated in the Group's financial statements. The difference relates to prepaid financing costs incorrectly being treated as interest paid.

(2) To enable comparability between periods, adjustments have been made to purchases of non-fleet fixed assets and changes in working capital. This has resulted in changes in the Adjusted operating cash flow numbers above but no impact to Cash flow before acquisitions and corporate financing (see Pg. 21)

Non-statutory cash flow presentation: EBITDA to adjusted operating cash flow to net cash flow for the period

(£000)	For the three months ended 30 September		For the six months ended 30 September		For the year ended 31 March
	2023	2022	**2023**	2022	2023
EBITDA	**17,430**	20,392	**33,970**	39,026	79,405
Change in working capital, including vehicle funding and payments[1]	**11,570**	3,406	**8,446**	(7,499)	(15,259)
Exceptional items	**(83)**	-	**(83)**		(1,075)
Adjusted operating cash flow[1]	**28,918**	23,798	**42,333**	31,528	63,071
Cash conversion percentage	**n/m**	n/m	**124.6%**	80.8%	79.4%
Purchase of non-fleet fixed assets[1]	**(5,208)**	(2,639)	**(7,360)**	(6,045)	(12,325)
Corporation tax paid	**(1,863)**	(1,176)	**(5,119)**	(2,482)	(4,493)
Cash flow before acquisitions and corporate financing	**21,847**	19,984	**29,854**	23,001	46,253
Financing - interest paid (senior secured notes and revolving credit facility)[2]	**(205)**	(182)	**(16,212)**	(13,651)	(32,136)
Securitisation refinancing: fees and expenses		-			(724)
Senior debt refinancing: fees and expenses	**-**	(263)	**-**	(3,038)	(1,374)
Net cash flow (change in net cash and cash equivalents)	**(21,642)**	19,539	**13,643**	6,312	12,019

Note: this cash flow presentation reconciles between EBITDA to Adjusted Operating Cash Flow, from which we derive our cash conversion KPI, to Cash Flow before acquisitions and corporate financing, which is the cash flow measure we regard as closest to a measure of cash flow available for debt service and similar financing, and to Net Cash movement in the periods in question.

(1) To enable comparability between periods, adjustments have been made to purchases of non-fleet fixed assets and changes in working capital. This has resulted in changes in the Adjusted operating cash flow numbers above but no impact to Cash flow before acquisitions and corporate financing.

(2) Financing – interest paid for the year ended 31 March 2023 shown above is £6.1m lower than that stated in the Group's financial statements. The difference relates to prepaid financing costs incorrectly being treated as interest paid.

Reconciliation of certain pro forma financial information of Zeus Bidco Limited ('Bidco') to Zenith Automotive Holdings Limited ('Topco') group of companies

As of the date of this document, Zenith Automotive Holdings Limited ('Topco') is a holding company with no revenue-generating activities of its own, and no business operations or material assets, other than its indirect ownership of 100% of Zeus Bidco Limited's share capital. There are no differences in turnover, gross profit, EBITDA or operating profit between the consolidated accounts at Topco and Bidco levels. The differences in loss for the year and the balance sheet are of a similar nature, substance and quantum as we reported in the reconciliation contained within the offering memorandum (dated January 2022) for our senior secured notes due 2027.

3. Condensed unaudited interim financial statements for the six months ended 30 September 2023

Condensed consolidated statement of profit and loss account

(£000)	Note	For the six months ended 30 September	
		2023	2022
Turnover	3	386,041	318,721
Cost of sales		(313,066)	(228,678)
Gross profit		72,976	90,043
Operating expenses		(67,554)	(61,460)
Operating profit before depreciation of owned tangible fixed assets, amortisation of goodwill and intangible assets and exceptional items		33,970	39,026
Depreciation of owned tangible fixed assets		(3,468)	(3,402)
Amortisation of goodwill		(12,181)	(12,209)
Amortisation of intangible assets		(15,237)	(13,387)
Operating exceptional items		(83)	-
Change of accounting estimates – fleet depreciation		2,420	18,555
Operating profit	4	5,422	28,583
Finance costs (net)		(61,023)	(56,397)
Loss before taxation	4	(55,601)	(27,814)
Tax charge on loss		(586)	(712)
Loss for the financial period attributable to the shareholders of the group		(56,187)	(28,526)

All results derive from continuing operations.

Condensed consolidated statement of comprehensive income

(£000)	Note	For the six months ended 30 September		For the year ended 31 March
		2023	2022	2023
Loss for the financial period		(56,187)	(28,526)	(71,364)
Hedge gains arising during period (net of tax impact)		65	17,645	5,182
Total comprehensive loss attributable to the shareholders of the group		(56,122)	(10,881)	(66,182)

The accompanying notes 1 to 11 are an integral part of these financial statements.

Condensed consolidated balance sheet

(£000)	Note	As at 30 September 2023	As at 30 September 2022	As at 31 March 2023
Fixed assets				
Goodwill	5	**330,728**	355,882	342,842
Intangible assets	5	**333,706**	349,992	348,899
Tangible assets	5	**1,050,521**	829,600	976,958
		1,714,955	1,535,474	1,668,699
Current assets				
Inventory		**1,190**	1,088	1,115
Debtors				
– due within one year	6	**178,050**	131,974	188,525
– due after one year	6	**140,207**	84,342	112,781
Cash at bank and in hand		**85,830**	66,480	72,187
		405,277	283,884	374,608
Creditors: amounts falling due within one year	7	**(654,190)**	(506,829)	(522,530)
Net current liabilities		**(248,912)**	(222,945)	(147,922)
Total assets less current liabilities		**1,466,043**	1,312,529	1,520,777
Creditors: amounts falling due after more than one year	8	**(1,693,515)**	(1,421,790)	(1,690,308)
Provisions for liabilities		**(105,334)**	(112,123)	(107,154)
Net liabilities		**(332,807)**	(221,384)	(276,685)
Capital and reserves				
Called up share capital		**271,546**	271,546	271,546
Share premium account		**2,444**	2,444	2,444
Hedging reserve		**12,847**	25,245	12,782
Profit and loss account		**(619,643)**	(520,619)	(563,457)
Shareholders' deficit		**(332,807)**	(221,384)	(276,685)

The accompanying notes 1 to 11 are an integral part of these financial statements.

Condensed consolidated statement of changes in equity

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Hedging reserve £'000	Total £'000
At 1 April 2022	271,546	2,444	(492,093)	7,600	(210,503)
Loss for the financial period	-	-	(28,526)	-	(28,526)
Hedges of variable interest rate risk	-	-	-	21,033	21,033
Deferred tax charge	-	-	-	(3,388)	(3,388)
Total comprehensive expense	**-**	**-**	**(28,526)**	**17,645**	**(10,881)**
At 30 September 2022	**271,546**	**2,444**	**(520,619)**	**25,245**	**(221,384)**
Loss for the financial period	-	-	(42,838)	-	42,838)
Hedges of variable interest rate risk	-	-	-	(14,123)	(14,123)
Deferred tax charge	-	-	-	1,660	1,660
Total comprehensive expense	**-**	**-**	**(42,838)**	**(12,463)**	**(55,301)**
At 31 March 2023	**271,546**	**2,444**	**(563,457)**	**12,782**	**(276,685)**
Loss for the financial period	-	-	(56,187)	-	(56,187)
Hedges of variable interest rate risk	-	-	-	87	87
Deferred tax charge	-	-	-	(22)	(22)
Total comprehensive expense	**-**	**-**	**(56,187)**	**65**	**(56,122)**
At 30 September 2023	**271,546**	**2,444**	**(619,643)**	**12,847**	**(332,807)**

The accompanying notes 1 to 11 are an integral part of these financial statements.

Hedging reserve

Movements in the hedging reserve reflect the change in the fair value of derivative financial instruments designated into hedge accounting relationships in accordance with IFRS 9. The derivatives are originally recognised on the balance sheet at fair value, with fair value gains or losses relating to future periods being recognised in other comprehensive income and therefore outside of the profit and loss account. These will subsequently be released to the profit and loss account in the period the forecasted cashflow it is hedging occurs.

Condensed consolidated statement of cash flow statement

(£000)	Note	Restated for the six months ended 30 September 2023	2022
		2023	2022
Operating profit		5,422	28,583
Adjustment for:			
Depreciation charges		87,423	53,959
Amortisation of goodwill and intangibles		27,418	25,596
Profit on sale of tangible fixed assets(1)		(32,305)	(32,889)
Operating cash flow before movement in working capital		87,958	75,249
Capital repayment received from finance lessees		9,473	6,067
(Increase) / decrease in debtors(2)		(4,123)	20,803
(Increase) / decrease in stock		(75)	(30)
(Decrease)/ increase in creditors		(5,946)	(16,625)
(Decrease)/ increase in provisions		(1,842)	2,147
Net cash inflow from operating activities		85,444	87,611
Income tax (paid)		(5,119)	(2,482)
Cash flows from investing activities			
Proceeds from sale of operating lease assets(1)		170,229	117,939
Purchase of operating lease assets		(46,173)	(23,374)
Purchase of operating lease assets (funded)		(287,179)	(235,827)
Purchase of intangible assets		-	-
Net cash flows from investing activities		(162,622)	(141,262)
Cash flows from financing activities			
Repayments of borrowings		(175,028)	(159,731)
Drawdown of funding		287,179	235,827
Interest paid(2)		(16,212)	(13,651)
Net cash flows from financing activities		95,939	62,445
Net increase in cash and cash equivalents		13,643	6,312
Cash and cash equivalents at start of the year		72,187	60,168
Cash and cash equivalents at end of the period		85,830	66,480

Cash and cash equivalents include amounts in respect of Exhibition Finance plc (formerly Bifurcate Funding Limited), Forge Funding Limited and Vehicle Titleco Limited of a total of £22,367,000 (30 September 2022: £10,797,000; 31 March 2023: £18,251,000) that are not freely available for use by the Group.

(1) Profit on sale of tangible fixed assets and proceeds from sale of operating lease assets for the period to 30 September 2022 has been adjusted by £15.3m to reflect lower proceeds on sale of tangible fixed assets, which was previously stated as £48.2m, but has been adjusted to £32.9m.

(2) Prepaid financing costs were incorrectly treated as interest paid in the Group's financial statements for the year ended 31 March 2023, and have been corrected here. As a result, interest paid is £6.1m lower than that shown in the Group's financial statements, and (increase)/decrease in debtors is £6.1m higher.

The accompanying notes 1 to 11 are an integral part of these financial statements.

Notes to the condensed unaudited interim financial statements

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The financial information for the three-month period ended 30 September 2023 has been prepared in accordance with FRS 104 'Interim Financial Reporting' and the Companies Act 2006.

This report should be read in conjunction with the Group's annual report and financial statements for the year ended 31 March 2023, which have been prepared in accordance with FRS 102.

Accounting policies

The accounting policies, methods of computation and presentation in these accounts are consistent with those that were applied in the annual financial statements for the year ended 31 March 2023, except for the estimation of income tax. The auditor's report on those accounts was unqualified. The Group's financial statements are prepared under the historical cost convention in compliance with Financial Reporting Standard 101 Reduced Disclosure Framework.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings. Income tax expense is recognised based on Group's estimate of the weighted average effective annual income tax rate expected for the full financial year.

Going concern

The Group has considerable financial resources, a broad customer base across different business sectors and diversified income streams. Therefore, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook, high and potentially persistent rates of inflation and challenging conditions in the automotive supply chain.

The directors of the Group have considered the adoption of the going concern basis in preparing the financial statements given the current economic climate and have formed the conclusion that there are no material uncertainties with respect to the Group's ability to continue as a going concern for the foreseeable future. In forming this view, the directors have considered: the Group's financial position, the Group's budgets and trading forecasts (including stress-testing these forecasts based on the principal risks facing the Group); and the committed debt facilities available to the Group together with forecast headroom against those borrowing facilities (including against covenants), and including the impact of reasonable sensitivities and foreseen uncertainties. This includes the impact of the extended securitisation facilities (amended and extended in November 2022 for a minimum of three years, to aggregate facilities of £975 million) and the senior secured notes and revolving credit facilities (arranged in January 2022, repayable in mid-2027, in the amount of £475 million and £65 million respectively).

Due to the nature of the Group's business model, which mainly relates to leases of between three to five years to large corporate customers, the degree of visibility over our future earnings is high. As a result, we believe our success during the Covid-19 pandemic is a direct result of our robust strategy to diversify our group. We further believe that Zenith is well positioned to navigate through the challenging macroeconomic environment and the challenges posed by current constraints in the automotive supply chain.

More details of our strategy and these risks are included in the Strategic Report of the consolidated accounts of the group.

The directors continue to closely monitor the challenging macroeconomic factors and the current constraints in the automotive supply chain. We have not identified any material adjustments to balances included in these financial statements.

On this basis, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 1, Accounting Policies, in its Annual Report and Financial Statements for the year ended 31 March 2023, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Credit loss provisioning

The Group considers the determination criteria for significant increase or decrease in credit risk to be a key judgement within expected credit losses that may have a significant risk of causing material adjustment. However, given the particularly low level of credit losses experienced by the Group over many years, the Group does not expect any credit losses on receivables. The credit underwriting process on corporate customers is robust, and the Group focuses on the prime credit segment of the corporate market. Similarly, the Group focuses on the prime and super-prime segment of consumer creditworthiness in the personal contract hire market. In addition, the asset-backing of the receivables in question (by a hard asset, a vehicle) reduces any loss given a default. In assessing whether the credit risk of an asset has significantly increased or decreased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Key source of estimation uncertainty

Residual values

When pricing a lease, the estimate of what a vehicle will be worth at the end of the lease is called the residual value. The Group reviews the residual values of its leased assets on an ongoing basis with reference to independent market data and prevailing economic conditions. We use sophisticated technology and risk management techniques to manage residual value and maintenance risk and our risk positions and exposures are constantly reassessed and adjusted accordingly. As such, residual values held in the financial statements of this Group are believed to be redeemable and free from impairment.

Maintenance provision

The Group regularly reviews its provisioning for future maintenance costs. The amount recognised as a provision is the best estimate of consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Extensive analysis is undertaken regularly based on a substantial amount of historic evidence to ensure the provisioning level is appropriate.

We use sophisticated technology and risk management techniques to manage maintenance risk and our risk positions and exposures are constantly reassessed and adjusted accordingly. As such provisions in the balance sheet in place to cover expected future expenditure on maintenance contracts are believed to be adequate but not excessive.

The provision at 30 September 2023 amounts to £17.7 million (30 September 2022: £22.6 million; 31 March 2023: £19.5 million).

Impairment of goodwill and intangible assets

The Group regularly reviews for new indicators of impairment, where none are found no impairment testing is undertaken; where such indicators are found the Group undertakes an estimation of the value in use of the cash-generating units to which goodwill and acquired intangible assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £330.7 million (30 September 2022: £355.9 million; 31 March 2023: £342.8 million). No impairment loss was recognised during the period ended 30 September 2023, nor the period ended 30 September 2023 (30 September 2022: £nil; 31 March 2023: £nil). The carrying amount of acquired intangible assets at the balance sheet date was £314.5 million (30 September 2022: £337.8 million; 31 March 2023: £326.2 million).

3. TURNOVER

An analysis of the Group's turnover by class of business is set out below: (£000)	For the six months ended 30 September	
	2023	2022
Long term leases	**208,955**	179,311
Vehicle sales	**125,011**	91,219
Other[1]	**52,076**	48,191
	386,041	318,721

(1) Other turnover includes fleet management and outsource fees, daily rental and other miscellaneous income.

The Group's turnover was all derived from operations within the United Kingdom.

4. OPERATING PROFIT

Operating profit is stated after charging:

(£000)	For the six months ended 30 September	
	2023	2022
Depreciation of tangible fixed assets		
Owned	**2,356**	2,140
Company cars	**1,112**	1,262
Held under finance leases and hire purchase contracts	**83,955**	50,557
Operating lease rentals	**-**	-
Impairment of trade debtors	**-**	-
Amortisation of goodwill	**12,181**	12,209
Amortisation of intangibles	**15,237**	13,387
Operating exceptional items	**83**	-
Change of accounting estimates – fleet depreciation	**(2,420)**	(18,555)

5. FIXED ASSETS

a) Goodwill

The total net book value of goodwill is £330.7 million (30 September 2022: £355.9 million; 31 March 2023: £342.8 million). Other than amortisation, there have been no material movements in the period.

b) Intangible assets

Intangible assets include customer contracts (arising on the acquisition of Contract Vehicles Limited in 2017) and software development costs. Management has considered indicators, compared actual performance to forecasts (please see the annual report and financial statements for the year ended 31 March 2023 for further details) and have concluded that no indicators of impairment exist at the reporting date. The total net book value of intangible assets is £333.7 million (30 September 2022: £350.0 million; 31 March 2023: £348.9 million). Other than amortisation, there have been no material movements in the period.

c) Tangible fixed assets

Tangible fixed assets include freehold land & buildings, vehicles leased to customers and equipment, fixtures & fittings.

The net book value of tangible fixed assets at 30 September 2023 was £1,050.5 million (30 September 2022: £829.6 million; 31 March 2023: £977.0 million). The increase since 31 March 2023 is largely due to additions of £299.5 million offset by depreciation of £87.4 million and disposals of £134.6 million. There were no additions or disposals in the period that were individually material. The movement in fixed assets includes the effect of a change in accounting estimates for the residual values of a cohort of our vehicles, which is further described in Management's Discussion & Analysis, accompanying these financial statements.

d) Capital commitments

At the end of the period the Group had contracted capital commitments of £411.0 million (30 September 2022: £651.0 million; 31 March 2023: £486.0 million) relating to the purchase of vehicles for leasing to its customers. These commitments are expected to be met within the next 12 months. The Group had no other capital commitments.

e) Contingent liabilities

At 30 September 2023 the Group was committed to the future purchase of vehicles with a cost of £7.0 million (30 September 2022: £77.2 million; 31 March 2023: £5.4 million).

6. DEBTORS

(£000)	For the six months ended 30 September		For the year ended 31 March
	2023	2022	2023
Amounts falling due within one year:			
Trade debtors	**70,046**	35,272	86,739
Amounts receivable under hire purchase contracts	**2,220**	6,338	5,815
Amounts receivable under securitised contracts	**14,923**	15,664	14,915
Vehicles subject to repurchase agreements	**9,709**	8,386	8,829
Other debtors	**31,364**	4,633	26,856
Corporation tax	**3,697**	1,732	912
Fair value of hedging instruments	**17,130**	31,167	17,043
Prepayments and accrued income	**28,961**	21,896	27,416
VAT	-	6,886	-
	178,050	131,974	188,525
Amounts falling due after more than one year:			
Amounts receivable under hire purchase contracts	**17,565**	16,590	17,341
Amounts receivable under securitised contracts	**32,692**	25,481	27,921
Vehicles subject to repurchase agreements	**82,365**	35,498	60,296
Prepayments and accrued income	**7,586**	6,773	7,223
	140,207	84,342	112,781

7. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

(£000)	For the six months ended 30 September 2023	2022	For the year ended 31 March 2023
Amounts falling due within one year:			
Obligations under finance leases and hire purchase contracts	**199,144**	68,873	118,487
Obligations under securitised contracts	**289,454**	318,516	237,262
Vehicles subject to repurchase agreements	**9,709**	8,386	8,829
Trade creditors	**50,687**	30,786	66,643
VAT	**3,621**	-	734
Other taxation and social security	**1,516**	1,743	1,813
Other creditors	**33,725**	21,630	23,469
Accruals and deferred income	**66,334**	56,895	65,293
	654,190	506,829	522,530

8. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

(£000)	For the six months ended 30 September 2023	2022	For the year ended 31 March 2023
Senior secured notes	**468,598**	465,883	466,841
Obligations under finance leases and hire purchase contracts	**29,432**	32,060	132,578
Obligations under securitised contracts	**539,537**	391,908	480,036
Vehicles subject to repurchase agreements	**82,365**	35,498	60,296
Loan notes	**340,244**	308,274	340,010
Accruals and deferred income	**233,339**	188,167	210,547
	1,693,515	1,421,790	1,690,308

9. NET SENIOR DEBT

(£000)	1 April 2023	Cash flows	Other non-cash charges	As at 30 September 2023
Cash at bank and in hand	(72,187)	(13,643)		**(85,830)**
Senior secured notes	475,000			**475,000**
Unamortised loan arrangement costs	(8,159)		961	**(7,198)**
Net senior debt	394,654	(13,643)	961	**381,973**

(£000)	1 April 2022	Cash flows	Other non-cash charges	As at 30 September 2022
Cash at bank and in hand	(60,168)	(6,312)		(66,480)
Senior secured notes	475,000			475,000
Unamortised loan arrangement costs	(10,077)		960	(9,117)
Net senior debt	404,755	(6,312)	960	**399,403**

A breakdown and reconciliation of the Group's net senior debt as at 31 March 2023 can be found in note 20 to the audited financial statements for the year ended 31 March 2023.

Net senior debt includes cash and cash equivalents and bank loans drawn under the Group's senior facilities agreement (term loan and revolving credit facilities), but excludes amounts payable to shareholders (loan notes and preference shares), finance leases and vehicle funding (including amounts drawn under the Group's securitisation arrangements).

10. RELATED PARTY TRANSACTIONS

A related party is either an individual with control or significant influence over the Group, or a company that is linked to the Group by investment or a related individual. Our primary related parties are our key management personnel.

Key management personnel are considered to be the Group's directors, who are members of either or both of the Group holding board or leadership board.

There were no transactions with directors for the periods covered by these consolidated financial statements, other than remuneration in connection with their roles (and as disclosed in the annual report and accounts for the financial year ended 31 March 2023).

Pursuant to the Investment Agreement between the Group, Bridgepoint and the management shareholders, Bridgepoint has appointed two directors to Topco's Board who provide financial oversight, monitoring services and other advisory services to the Group, for which Bridgepoint is entitled to an annual monitoring fee of £125,000 per director plus reasonable expenses. For the six months ended 30 September 2023 we paid a monitoring fee of £125,000 (six months ended 30 September 2022: £62,500; year ended 31 March 2023: £250,000).

11. ULTIMATE CONTROLLING PARTY

At 31 March 2023 and 30 September 2023, the largest and smallest group in which the results of the Company were consolidated are these Group accounts.

According to the register of members maintained by Zenith Automotive Holdings Limited, a number of limited partnerships comprising the Bridgepoint Europe V Fund, which are managed by Bridgepoint Advisers Limited, and hold securities through a nominee company, BEV Nominees Limited, held a significant interest in the ordinary shares of the Company at the balance sheet date and continue to do so at the date of this report. The directors of Zenith Automotive Holdings Limited deem there not to be an ultimate controlling party as none of the investors in the Bridgepoint Europe V Fund has an effective ownership of more than 20% of the issued share capital of the Company.