Zenith Q3 FY24 Financial Results

Good strategic progress and continued fleet growth against a tough economy and weak used car prices

Leeds, 28 February 2024: Zenith, the UK's largest independent truck-to-car vehicle leasing and fleet management company, today published its financial results for the first three quarters of the 2024 financial year.

Fleet highlights:

- Total fleet up 3.3% YoY to 173,760 units, up 2.4% QoQ.
- Funded fleet up 5.1% YoY to 78,301 units, up 0.6% QoQ, with strong year-on-year fleet growth of 10.2% in company car and salary sacrifice schemes.
- Deliveries up 10% YTD and termination volumes up 35% Q3 YTD FY24 YoY.
- The order bank continued to normalise, reaching 7,731[1] vehicles at the end of December 2023, with lead times now at 120 days[2], a level last seen in March 2021.
- The Battery electric vehicle (BEV) fleet comprised 39%[1] of the funded fleet and 42%[1] of the order bank at 31 December 2023.

Financial highlights:

- Turnover: £581.5m up 20% YoY (Q3 YTD FY23: £482.6m).
- Gross profit: £100.4m[3] down 8% YoY (Q3 YTD FY23: £108.9m).
- Average termination profit per vehicle down 37% YTD YoY on current weakness in used vehicle prices, both for BEV and ICE vehicles.
- New initiative launched to extend the current BEV fleet with existing drivers, mitigating inflation of their lease costs and our RV risk.
- Operating expenses: £54.4m up 9% YoY (Q3 YTD FY23: £50.0m) driven primarily by inflation and ongoing investment.
- EBITDA: £46.0m[3] down 22% YoY (Q3 YTD FY23: £59.0m).
- LTM[4] EBITDA[3] £66.4m (LTM to 31 December 2022: £76.5m).
- Cash position at 31 December 2023: £37.0m[5], up £28.7m YoY, with an available, undrawn revolving credit facility of £65.0m, giving liquidity of £102.0m.

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[1] Excluding managed fleet and commercial vehicles

[2] December 2024 average order lead time

[3] Excluding the adjustment relating to the reassessment of residual values on the funded fleet and exceptional items

[4] Last twelve months

[5] Excluding cash held within Special Purpose Vehicles of £26.5m

Business highlights:

- **The Corporate division**, the largest within the Group, continued to secure new company car and salary sacrifice customers, growing the fleet by 10% year-on-year.
- **The Consumer division** launched two new solutions to expand its target market and leverage its existing capabilities and infrastructure:
  - a Business Contract Hire (BCH) proposition for small businesses; and
  - a partnership with a major high street bank to provide Personal Contract Hire (PCH) solutions for BEVs.
- **The Commercial division** grew its managed fleet following the successful onboarding of Travis Perkins and Wales & West Utilities. In response to changes in customer requirements, the right-sizing of the trailer fleet continues, with a 5% reduction since July 2023.

Tim Buchan, Zenith chief executive officer, commented:

“I am pleased with our performance during the quarter. While inflation continues to drive up operating costs, and weaker consumer demand contributes to a decline in used vehicle prices, Zenith’s diversified offering and innovative approach has again underpinned our top line growth.

“We remain focused on ensuring the optimal efficiencies of our operations, while investing in new propositions and service solutions that can deliver the most impact. We have expanded our offering by opening new vertical markets such as Business Contract Hire (BCH), as well as launching a significant white-label partnership with a high street bank. We’ve also seen strong growth in our funded corporate company car and salary sacrifice schemes, which have increased by 10% year-on-year.

“As our group transformation programme enters its next phase, I am pleased to announce that Andrew Kirby will stay within the Group, and on the Leadership Board, to support its delivery. Andrew will be leading the business transformation team which will migrate all our Corporate division customers onto our new digital platform and oversee the introduction of a new financial system.

“Our liquidity remains strong, with over £100m across our available cash and revolving credit facilities, enabling us to continue growing the fleet and delivering our strategic objectives.

"As always, I'd like to thank all our colleagues for their continued hard work and dedication and our customers and partners for their support and confidence in Zenith."

Table of Contents

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 nine months to 31 December 2023, and to 31 December 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. We made a re-assessment of RVs on our funded fleet, to the extent those assets are accounted for as fixed assets, as at 1 April 2022, as a change in accounting estimates due to a significant and sustained change in vehicle prices, with an impact on our profit and loss account for the subsequent quarters. We will continue to re-assess RVs in future periods as required by FRS 102.

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 nine months ended 31 December 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

(£000)	As of 31 December		As of 31 September	As of 31 March
	2023	2022	2023	2023
Funded Fleet	**78,301**	74,480	77,814	76,034
Managed Fleet	**95,459**	93,732	91,830	92,258
Total Fleet	**173,760**	168,212	169,644	168,292

The size of our fleet grew by 3.3% compared to 31 December 2022 and by 2.4% compared to 30 September 2023, to 173,760 units. Our funded fleet, which carries a higher margin than our managed fleet, grew by 5.1% year-on-year and by 0.6% in the three months since 30 September 2023. The Corporate division accounted for the growth in the funded fleet; rising by 10.2% year-on-year, with the Commercial funded fleet declining by 1.8% due principally to continued fleet rationalisation and the Consumer funded fleet declining by 5.1% on weak customer demand. The managed fleet, totalling 95,459 units, grew 1.8% year-on-year, and 4.0% quarter-on-quarter driven by growth in the Commercial division, principally from the completion of the onboarding of two new customers in the quarter, partially offset by declines mostly in the Consumer managed fleet driven by weak customer demand.

Financial KPIs

(£000)	For the three months ended 31 December		For the nine months ended 31 December		For the twelve months ended 31 December	For the year ended 31 March
	2023	2022	**2023**	2022	**2023**	2023
Turnover	**194,839**	163,907	**581,530**	482,628	**787,019**	688,117
Gross profit(1)	**29,794**	37,422	**100,350**	108,910	**138,412**	146,972
EBITDA(1)	**12,025**	20,058	**45,995**	59,308	**66,400**	79,405
Adjusted operating cash flow(2)(3)(4)	**(731)**	(22,093)	**41,709**	9,434	**95,346**	63,071
Cash conversion %(2)(5)	**n/m**	n/m	**90.7%**	15.9%	**143.6%**	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) 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%.
(5) Cash conversion is based on EBITDA.

Our financial performance in the most recent quarter and nine months to 31 December 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 31 December		For the nine months ended 31 December		For the year ended 31 March
	2023	2022	**2023**	2022	2023
Turnover	**194,839**	163,907	**581,530**	482,628	688,117
Cost of sales (excluding changes to accounting estimates of RVs of fleet fixed assets and exceptional items)[1]	**(165,045)**	(126,485)	**(481,180)**	(373,717)	(541,145)
Gross profit (excluding changes to accounting estimates of RVs of fleet fixed assets and exceptional items)[1]	**29,794**	37,422	**100,350**	108,910	146,972
Changes to accounting estimates of RVs of fleet fixed assets[2]	**3,443**	10,122	**5,862**	28,662	30,821
Gross profit[1,2]	**33,237**	47,544	**106,212**	137,572	177,793
Operating expenses	**(17,769)**	(17,497)	**(54,355)**	(49,959)	(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")	**12,026**	19,925	**45,995**	58,951	79,405
Depreciation of owned fixed assets	**(2,180)**	(1,704)	**(5,647)**	(5,105)	(6,370)
Amortisation of goodwill	**(6,090)**	(6,092)	**(18,271)**	(18,300)	(24,359)
Amortisation of intangible assets	**(7,619)**	(6,692)	**(22,856)**	(20,079)	(26,806)
Operating exceptional items[3]	**(626)**	-	**(708)**	-	(4,434)
Changes to accounting estimates of RVs of fleet fixed assets[2]	**3,443**	10,122	**5,862**	28,662	30,821
Operating profit	**(1,046)**	15,559	**4,374**	44,129	48,257
Finance costs (net)	**(30,025)**	(29,162)	**(91,048)**	(85,559)	(116,783)
Finance costs (senior notes and RCF)[4]	**(9,280)**	(10,278)	**(29,034)**	(29,141)	(35,459)
Finance costs (on Shareholder instruments)[5]	**(20,746)**	(18,884)	**(62,014)**	(56,418)	(81,324)
Loss before taxation	**(31,072)**	(13,603)	**(86,674)**	(41,429)	(68,526)
Tax charge	**(293)**	(358)	**(878)**	(1,071)	(2,839)
Loss for the financial period attributable to the shareholders of the group	**(31,365)**	(13,960)	**(87,552)**	(42,500)	(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 31 December 2023 relate to one off redundancy payments and cost associated with transformation projects. 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 31 December		For the nine months ended 31 December		For the year ended 31 March
	2023	2022	2023	2022	2023
Turnover	129,249	102,515	382,120	292,627	390,218
Gross profit	17,767	24,332	63,444	68,799	93,909
Fleet (units)	56,829	52,092	56,829	52,092	53,517

Commercial

(£000)	For the three months ended 31 December		For the nine months ended 31 December		For the year ended 31 March
	2023	2022	2023	2022	2023
Turnover	47,185	44,051	135,529	139,508	211,296
Gross profit	8,090	8,219	22,426	24,945	32,403
Fleet (units)	53,333	48,723	53,333	48,723	46,767

Consumer

(£000)	For the three months ended 31 December		For the nine months ended 31 December		For the year ended 31 March
	2023	2022	2023	2022	2023
Turnover	18,405	17,341	63,880	50,494	86,602
Gross profit	3,937	4,871	14,480	15,166	20,659
Fleet (units)	63,598	67,397	63,598	67,397	68,008

Comparison of results of operations for the three months ended 31 December 2023 and 2022

Turnover

Group Consolidated

Turnover increased by £30.9m, or 18.9%, to £194.8m for the three months ended 31 December 2023, from £163.9m for the three months ended 31 December 2022

The increase was a result of the higher value of terminations, which were 33% higher than the prior year at £49.1m, driven by higher termination volumes, which were 32% higher in the quarter year-on-year. Lease revenue also increased, driven by the higher funded fleet volumes, and higher lease rentals driven by the higher interest costs and the higher average price of vehicles.

Corporate

Turnover in the Corporate division increased by £26.7m, or 26.1%, to £129.2m for the three months ended 31 December 2023, from £102.5m for the three months ended 31 December 2022.

The total Corporate fleet size increased by 9.1% year-on-year to 56,829 units and 1.4% quarter-on-quarter. The growth was driven by the funded fleet, which grew 10.2% year-on-year to 50,690 units, with particularly strong growth in our company salary sacrifice fleet, which comprises 30% of our funded fleet and grew 34% year-on-year. The managed fleet, comprising 11% of the Corporate fleet, was broadly flat year-on-year, rising 0.7% to 6,139 units.

The increase in turnover in the third quarter of FY24 was primarily due to higher lease revenue and increased revenue from terminations, with termination revenues up 34% or £9.8m to £38.5m, driven by the higher number of vehicles disposed (which were up 22%), combined with the higher value of vehicles disposed - as higher value Battery Electric Vehicles (BEVs) comprised a greater proportion.

Lease revenue also grew in the quarter, rising by 29% year-on-year, driven principally by the growing fleet size, combined with the higher average lease revenues from higher interest rates and the higher average price of the vehicle. The short-term daily rental business was broadly flat in the quarter, as higher pricing was offset by a decline in rental days as the shorter lead times and higher availability of new vehicles continued to reduce the demand for interim rentals. The Corporate order bank declined by 1,393 units over the quarter to 7,632 units as the higher production levels of vehicles enabled more orders to be converted into the fleet, and reflecting a higher level of deliveries in the quarter than the volume of new orders.

Commercial

Turnover increased by £3.1m, or 7.1%, to £47.2m for the three months ended 31 December 2023, from £44.1m for the three months ended 31 December 2022.

The total fleet size in the Commercial division increased by 9.5% year-on-year, mostly in the managed fleet, which grew by 16.0%, and which accounts for approximately two thirds of the fleet. The funded fleet declined by 1.8% year-on-year as customers continued to consolidate their fleets in response to lower end market demand. Quarter-on-quarter, the total fleet size was up 10.4%, driven by an increase in the managed fleet, which grew by 16.1% largely due to the completion of the onboarding of the Wales & West Utilities and Travis Perkins fleets, which together account for around 5,000 units.

Turnover in the Commercial division increased in the quarter due principally to higher revenues from maintenance activities, offset by a decline in lease revenue, driven by the lower funded fleet size. Utilisation of the trailer rental fleet continued to increase quarter-on-quarter, reaching 86% during Q3 FY24, however was down year-on-year due to the continued normalisation of the fleet.

Volumes of terminations were 62% higher than prior year, as we continued our initiative to reduce excess capacity in our rental fleet. Revenue from terminations was up 12% year-on-year to £1.3m, lower than the volume of terminations principally due to the mix of vehicles being disposed; with a high proportion of the terminations this year being lower value trailers.

Consumer

Turnover in our Consumer division increased by £1.1m, or 6.1%, to £18.4m for the three months ended 31 December 2023, from £17.3m for the three months ended 31 December 2022.

The total fleet size was down 5.6% year-on-year and 2.6% quarter-on-quarter, driven by the year-on-year decline in the managed fleet of 5.7%, and which accounted for 84% of the total fleet. The funded fleet, comprising the ZenAuto business, was down 5.1% year-on-year and down 5.7% vs the prior quarter on continued weak demand.

Turnover increased in the third quarter of FY24 year-on-year principally due to the increase in termination volumes in our ZenAuto business, which were up 68% in the quarter year-on-year, driving proceeds from vehicle sales up by 30% to £9.3m. Turnover from lease rentals decreased year-on-year due to a decline in the fleet numbers and also lower average margins. The order bank for ZenAuto decreased in the quarter to 99 units as the level of deliveries outpaced orders. Orders were down 23% quarter-on-quarter and 84% year-on-year due to continued weakness in consumer confidence.

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

Cost of sales increased by £38.6m, or 30.5%, to £165.0m for the three months ended 31 December 2023, from £126.5m for the three months ended 31 December 2022.

Cost of sales represented 84.7% of turnover for the three months ended 31 December 2023, compared to 77.2% of turnover for the three months ended 31 December 2022.

The increase in cost of sales as a proportion of turnover was due principally to i) the higher capital costs of used vehicles sold; ii) the higher funding costs driven by the higher interest rates, and the remaining impact of the lag 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); and iii) costs relating to maintenance services in the Commercial division.

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

Group Consolidated

Group gross profit decreased by £7.6m, or 20.4%, to £29.8m for the three months ended 31 December 2023, from £37.4m for the three months ended 31 December 2022.

The decline in gross profit, or income, in the third quarter of FY24 year-on-year was principally due to lower profits on disposal of vehicles, which were down 47% to £5.9m in the quarter, combined with lower lease margins and lower maintenance, short term daily rental and trailer rental profits.

Corporate

Gross profit in the Corporate division decreased by £6.6m, or 27.0%, to £17.8m for the three months ended 31 December 2023, from £24.3m for the three months ended 31 December 2022.

Termination volumes were 22% higher, however RV profits fell by 49% year-on-year to £4.5m, driven by a decline in the prices of used vehicles, particularly for BEV vehicles. Additionally, the higher book cost of the assets disposed compared to the prior year, along with a higher percentage of disposals being higher value BEVs, which continued to be loss-making, contributed to the fall in profitability. Lease margin declined year-on-year due to the continued impact of higher interest rates on costs which offset higher lease revenue from higher fleet volume. In-life income grew year-on-year, driven by the higher level of rebates and related income, but this was offset by a decline in rental profits due to the number of days rental being lower year-on-year.

Commercial

Gross profit in the Commercial division decreased by £0.1m, or 1.6%, to £8.1m for the three months ended 31 December 2023, from £8.2m for the three months ended 31 December 2022.

The decline was mostly due to lower activity in the trailer rental business, driving a reduction in utilisation of our owned trailers combined with lower profits on maintenance, and offsetting a rise in lease revenue. Profits on the sale of vehicles and trailers were down 15% to £0.6m, as a result of a combination of higher capital cost of vehicles disposed offsetting higher proceeds.

Consumer

Gross profit in the Consumer division decreased £0.9m, or 19.2% to £3.9m for the three months ended 31 December 2023, from £4.9m for the three months ended 31 December 2022.

Gross profit decreased in the quarter principally as a result of lower RV profits, which were down 50% to £0.7m. Higher revenues on termination, driven principally by the higher volumes of terminations (which were up 68% year-on-year), were offset by the lower average selling price, higher cost of the vehicles disposed and increased mix of loss-making BEVs. Lease margin was also lower year-on-year as lower margin leases replaced terminating leases, which were at a higher margin. ZenAuto remained profitable at a gross profit level, although returned a loss after accounting for overheads.

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 31 December 2023 of £3.4m. 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 £0.3m, or 1.6%, to £17.8m for the three months ended 31 December 2023, from £17.5m for the three months ended 31 December 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 £7.9m to £12.0m for the three months ended 31 December 2023 from £19.9m for the three months ended 31 December 2022.

Gross profit fell in all divisions driven by the challenging economic backdrop, notably lower used vehicle prices (which reduced the level of RV profits), lower consumer demand and higher interest rates. Higher overheads increased year-on-year principally due to the higher salary and technology costs, driven by the cost-of-living pay increase and inflation, and contributing to the decline in EBITDA.

Finance Costs

Finance costs increased by £0.9m, or 3.0%, to £30.0m for the three months ended 31 December 2023, from £29.2m for the three months ended 31 December 2022, principally due to a higher interest charge from the increase in the underlying balance of the Loan Notes and Preference Shares.

Tax Charge

The tax charge decreased by £0.1m, to a charge of £0.3m for the three months ended 31 December 2023, from a charge of £0.4m for the three months ended 31 December 2022.

Comparison of results of operations for the nine months ended 31 December 2023 and 2022

Turnover

Group Consolidated

Turnover increased by £98.9m, or 20.5%, to £581.5m for the nine months ended 31 December 2023, from £482.6m for the nine months ended 31 December 2022. The increase was a result of the higher value of terminations for the group, which were 33% higher than the nine months to 31 December 2022 driven by higher termination volumes, which were 35% higher year-on-year. Lease revenue also increased, rising 21.0% year-on-year, and was up across Corporate and Consumer divisions, but declined in the Commercial division. Rental income in the Corporate division was higher driven by year-on-year price increases offsetting a decline in rental days. These increases offset declines mostly in the Commercial division's trailer rental business as a result of the weak end market conditions noted above.

Corporate

Turnover in the Corporate division increased by £89.5m, or 30.6%, to £382.1m for the nine months ended 31 December 2023, from £292.6m for the nine months ended 31 December 2022.

The increase in turnover was primarily due to an increase in lease revenue, and higher proceeds on the sale of leased vehicles, which increased 33% year-on-year, driven by a similar increase in the number of terminations. Our short term daily rental business, where revenues grew 15% year-on-year, continued to benefit from increased pricing year-on-year, however volumes started to decline towards the end of the nine-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 £4.0m, or 2.9%, to £135.5m for the nine months ended 31 December 2023, from £139.5m for the nine months ended 31 December 2022.

Turnover in the Commercial division was lower compared to the prior year primarily due to a decline in the lease revenue driven by lower funded fleet year-on-year. Trailer rental turnover also declined year-on-year due to the lower utilisation rates. Across the nine-month period, volumes of terminations were 42% higher than prior year, however termination revenues declined by 5% due to a higher proportion of lower value trailers being disposed of.

Consumer

Turnover in our Consumer division increased by £13.4m, or 26.5%, to £63.9m for the nine months ended 31 December 2023, from £50.5m for the nine months ended 31 December 2022.

Turnover increased in the nine-month period principally due to the increase in termination volumes in our ZenAuto business which were up 74% year-to-date, resulting in termination revenues rising by 47%. Turnover from lease rentals also increased year-on-year as a result of the higher average fleet volume across the year-to-date period.

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

Cost of sales increased by £107.5m, or 28.8%, to £481.2m for the nine months ended 31 December 2023, from £373.7m for the nine months ended 31 December 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 82.7% of turnover for the nine months ended 31 December 2023, compared to 77.4% of turnover for the nine months ended 31 December 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 (which reduced over the year to date period but continues to have an impact), 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. Cost of sales also includes the funding costs of securitised and HP assets, which was £45.0m for the nine month period to 31 December 2023, compared to £15.3m for the nine month period to 31 December 2022. The cost increased year-on-year due to higher interest rates on new vehicles being funded, the higher value of the funded vehicles and the higher loans being advanced against the assets.

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

Group Consolidated

Group gross profit decreased by £8.6m, or 7.9%, to £100.4m for the nine months ended 31 December 2023, from £108.9m for the nine months ended 31 December 2022.

Gross profit, or income, was down year-on-year principally due to a decline in profit on disposal of vehicles, which was 15% lower at £28.1m, with declines in both the Corporate and Commercial divisions but an increase in profits in the Consumer division. Profits on our trailer rentals operations were also lower year-on-year, driven by the lower utilisation rates, and lease margin was also lower across the Corporate and Consumer divisions. These declines were partially offset by higher in-life incomes in the Corporate division and higher profits from the continued performance of our short term daily rental business.

Corporate

Gross profit in the Corporate division decreased by £5.4m, or 7.8%, to £63.4m for the nine months ended 31 December 2023, from £68.8m for the nine months ended 31 December 2022.

The key driver of the decline in income was the decline in termination profits, which were down 16% year-on-year to £21.5m, combined with lower lease margin. Termination volumes for the year-to-date period were 28% higher but were offset by a decline in average profitability, particularly for our BEV disposals, which were loss making, on average, for the year so far.

This was partially offset by a rise in in-life income, driven by the benefits of purchasing initiatives and rebates, combined with higher income from short term rental (mostly from higher rates, with a lower number of rental days year-on-year).

Commercial

Gross profit in the Commercial division decreased by £2.5m, or 10.1%, to £22.4m for the nine months ended 31 December 2023, from £24.9m for the nine months ended 31 December 2022.

The decline was mostly due to lower activity in the trailer rental business throughout the period, combined with lower profits in our maintenance operations due to inflationary cost pressures. Profits on the sale of vehicles and trailers was down 28% to £2.3m, with a higher number of terminations being offset by weak selling prices. 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 £0.7m, or 4.5% to £14.5m for the nine months ended 31 December 2023, from £15.2m for the nine months ended 31 December 2022.

Gross profit decreased principally as a result of lower margins on leases (due to higher interest rates, and the higher margin leases terminating being replaced by lower margin leases) offsetting higher termination profits which were up 5%, driven by higher volumes of terminations, which were up 74% year-on-year. ZenAuto remained profitable at a gross profit level, although returned a loss after accounting for overheads.

Operating expenses

Operating expenses increased by £4.4m, or 8.8%, to £54.4m for the nine months ended 31 December 2023, from £50.0m for the nine months ended 31 December 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. Additionally, we incurred £741k of bad debt costs across the nine-month period, mostly relating to two customers within our Corporate division; the majority relating to a daily rental customer that went into administration in Q1 FY24, accounting for around £600k, and circa £100k relating to a Corporate company car scheme customer that went into administration in Q2 FY24. This increase was partially offset by reduced overhead spending within our ZenAuto business, as we respond to the continued market weakness and lower volumes.

EBITDA

EBITDA decreased by £13.0m to £46.0m for the nine months ended 31 December 2023 from £59.0m for the nine months ended 31 December 2022.

EBITDA was lower for the nine months to 31 December 2023, due mainly to the lower gross profit across all divisions which in turn was driven by the challenging economic backdrop, notably lower used vehicle prices, which reduced the level of RV profits, lower consumer demand and higher interest rates 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 £5.5m, or 6.4%, to £91.0m for the nine months ended 31 December 2023, from £85.6m for the nine months ended 31 December 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 was £5.6m higher year-on-year.

Tax charge

The tax charge decreased by £0.2m, to a charge of £0.9m for the nine months ended 31 December 2023, from a charge of £1.1m for the nine months ended 31 December 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 31 December 2023, we had drawn £857.4m on our securitisation facilities (31 December 2022: £656.6m). We had also drawn £127.8m on our RV facilities (31 December 2022: £149.3m) 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 £1,105.8m (£975.0m in respect of bifurcated and non-bifurcated securitisation facilities, plus £130.8m 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 31 December 2023, we had drawn £145.5m of funding commitments pursuant to back-to-back hire purchase agreements with financiers (31 December 2022: £94.3m).

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 31 December 2023, we had utilised £213.2m of agency funding (31 December 2022: £119.4m).

There has not been a material change in the nature of our funding facilities, including securitisation, RV, back to back and agency facilities since 31 March 2023.

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. We also maintain a revolving credit facility in the amount of £65.0m, which was undrawn as at 31 December 2023. As such, the financial covenant test under that facility was not tested.

The group had an aggregate cash balance as at 31 December 2023, of £63.5m (31 December 2022: £22.1m, 31 March 2023: £72.2m), of which £26.5m (31 December 2022: £13.9m, 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 31 December 2023, of £37.0m (31 December 2022: £8.2m, 31 March 2023: £53.9m), in addition to the undrawn capacity on the £65.0m 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 31 December		For the nine months ended 31 December		For year ended 31 March
	2023	2022	**2023**	2022	2023
Net cash flow from operating activities (1)(2)	**56,834**	27,397	**142,278**	115,009	173,086
Tax paid	**-**	(898)	**(5,119)**	(3,380)	(4,493)
Net cash flows used in investing activities (3)	**(102,508)**	(136,511)	**(265,131)**	(277,773)	(323,519)
Net cash flows from financing activities (1) (4)	**23,376**	65,655	**119,317**	128,099	166,945
Net increase / (decrease) in cash & cash equivalents	**(22,298)**	(44,357)	**(8,656)**	(38,045)	12,019
Cash and cash equivalents at start of period	**85,830**	66,480	**72,187**	60,168	60,168
Cash and cash equivalents at end of period	**63,531**	22,123	**63,531**	22,123	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 for the three-month period to 31 December 2022 has been adjusted by £15.3m to reflect a higher profit on sale of tangible fixed assets, which was previously stated as £42.7m, but has been adjusted to £27.4m.

(3) Net cash flow used in investing activities has been adjusted by £28.6m in the nine months to 31 December 2022 from £249.2m to £277.8m to reflect a higher purchase of operating lease assets. Net cash flow from investing activities has been adjusted by £13.3m in the three months to 31 December 2022 from £123.2m to £136.5m to reflect a higher purchase of operating lease assets and higher proceeds from sale of operating lease assets. There have been no changes in the net cash position, just a re-allocation between lines.

(4) Net cash flow from financing activities for the period to 31 December 2022 has been adjusted by £28.6m to reflect a higher drawdown of funding, increasing the three-month to 31 December 2022 figure from £37.0m to £65.7m and increasing the nine-month to 31 December 2022 figure from £99.5m to £128.1m. There have been no changes in the net cash position, just a re-allocation between lines.

Net cash flow from operating activities

Net cash inflow from operating activities for the three months ended 31 December 2023 increased by £29.4m, to an inflow of £56.8m, from an inflow of £27.4m for the three months ended 31 December 2022.

For the nine months ended 31 December 2022, net cash inflow from operating activities increased by £27.3m, to £142.3m, from an inflow of £115.0m.

Tax paid

For the three months ended 31 December 2023, tax paid was nil, compared to a payment of £0.9m for the three months ended 31 December 2022.

For the nine months to 31 December 2023, tax paid increased by £1.7m to £5.1m, from a £3.4m payment for the nine months ended 31 December 2022.

Net cash used in investing activities

Net cash flows used in investing activities decreased by £34.0m, to a cash outflow of £102.5m for the three months ended 31 December 2023, from a cash outflow of £136.5m for the three months ended 31 December 2022.

For the nine months to 31 December 2023, net cash used in investing activities decreased by £12.6m to a cash outflow of £265.1m, from a cash outflow of £277.8m for the nine months to 31 December 2022.

Cash used in investing activities declined as the proceeds from the sale of operating lease assets exceeded the volume of the purchased and funded assets.

Net cash flow from financing activities

Net cash flows from financing activities decreased by £42.3m, to an inflow of £23.4m for the three months ended 31 December 2023, from an inflow of £65.7m for the three months ended 31 December 2022.

For the nine months to 31 December 2023, net cash flows from financing activities decreased by £8.8m, to an inflow of £119.3m, from an inflow of £128.1m for the nine months ended 31 December 2022.

The decrease in the nine month period was due to a lower level of net funding.

There was no drawdown or repayment of the group's current revolving credit facilities in the period ended 31 December 2023. The level of interest paid increased to £32.9m for the nine months ending 31 December 2023, from £30.2m for the period ended 31 December 2022, with the current year including a full nine months of bond interest payments, whereas the comparative period included payments relating to only eight months, from the bond's inception.

Off-balance sheet arrangements

At 31 December 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 31 December 2023, the outstanding balance of vehicles subject to repurchase arrangements through agency arrangements was £100.2m (31 December 2022: £53.9m, 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 31 December		For the nine months ended 31 December		For year ended 31 March
	2023	2022	2023	2022	2023
Loss for the financial period attributable to the shareholders of the group	**(31,365)**	(13,960)	**(87,552)**	(42,500)	(71,365)
Tax charge on loss	**293**	358	**878**	1,071	2,839
Finance costs (on shareholder investment & all other items)	**20,746**	18,884	**62,014**	56,418	81,324
Finance costs (Senior Secured notes and Revolving Credit Facility)	**9,280**	10,278	**29,034**	29,141	35,459
Operating exceptional items	**626**	-	**708**	-	4,434
Amortisation of intangible assets	**7,619**	6,692	**22,856**	20,079	26,806
Amortisation of goodwill	**6,090**	6,092	**18,271**	18,300	24,359
Depreciation of owned fixed assets	**2,180**	1,704	**5,647**	5,105	6,370
Changes to accounting estimates of RVs of fleet fixed assets	**(3,443)**	(10,122)	**(5,862)**	(28,662)	(30,821)
EBITDA	**12,026**	19,926	**45,995**	58,952	79,405

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

(£000)	For the three months ended 31 December		For the nine months ended 31 December		For year ended 31 March
	2023	2022	2023	2022	2023
Net increase/(decrease) in cash & cash equivalents	**(22,298)**	(44,357)	**(8,656)**	(38,045)	12,019
Add back / (Deduct):					
Financing – interest paid[(1)]	**16,717**	16,596	**32,929**	30,247	32,136
Corporation tax paid	**-**	898	**5,119**	3,380	4,493
Purchase of non-fleet fixed assets [(2)]	**4,850**	4,770	**12,316**	10,814	12,325
Securitisation refinancing: fees and expenses	-	-	-	-	724
Senior debt refinancing: fees and expenses	-	-	-	3,038	1,374
Adjusted Operating Cash Flow [(2)]	**(731)**	(22,093)	**41,709**	9,434	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 in the 9-months to December 2022, from £11.7m to £10.8m and changes in working capital from £41.1m to £42.0m. This has resulted in changes in the Adjusted operating cash flow numbers above but no impact to Cash flow before acquisitions and corporate financing.

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

(£000)	For the three months ended 31 December		For the nine months ended 31 December		For year ended 31 March
	2023	2022	2023	2022	2023
EBITDA	**12,025**	19,925	**45,995**	58,952	79,405
Change in working capital, including vehicle funding and payments	**(12,130)**	(42,018)	**(3,578)**	(49,518)	(15,259)
Exceptional items [1]	**(626)**	-	**(708)**	-	(1,075)
Adjusted operating cash flow [2]	**(731)**	(22,093)	**41,709**	9,434	63,071
Cash conversion percentage	**n/m**	n/m	**90.7%**	16.0%	79.4%
Purchase of non-fleet fixed assets [2]	**(4,850)**	(4,770)	**(12,316)**	(10,814)	(12,325)
Corporation tax paid	**-**	(898)	**(5,119)**	(3,380)	(4,493)
Cash flow before acquisitions and corporate financing	**(5,581)**	(27,761)	**24,274**	(4,760)	46,253
Financing - interest paid (senior secured notes and revolving credit facility)[3]	**(16,717)**	(16,596)	**(32,929)**	(30,247)	(32,136)
Securitisation refinancing: fees and expenses	**-**	-	**-**	-	(724)
Senior debt refinancing: fees and expenses	**-**	-	**-**	(3,038)	(1,374)
Net cash flow (change in net cash and cash equivalents)	**(22,298)**	(44,357)	**(8,656)**	(38,045)	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) The exceptional costs in the period to 31 December 2023 relate to one off redundancy payments and cost associated with transformation projects.

(2) To enable comparability between periods, adjustments have been made to purchases of non-fleet fixed assets in the 9-months to December 2022, from £11.7m to £10.8m and changes in working capital from £41.1m to £42.0m. This has resulted in changes in the Adjusted operating cash flow numbers above but no impact to Cash flow before acquisitions and corporate financing.

(3) 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 nine months ended 31 December 2023

Condensed consolidated statement of profit and loss account

(£000)	Note	For the nine months ended 31 December	
		2023	2022
Turnover	3	581,530	482,628
Cost of sales		(475,317)	(345,055)
Gross profit		106,212	137,573
Operating expenses		(101,838)	(93,446)
Operating profit before depreciation of owned tangible fixed assets, amortisation of goodwill and intangible assets and exceptional items		45,995	58,951
Depreciation of owned tangible fixed assets		(5,647)	(5,105)
Amortisation of goodwill		(18,271)	(18,301)
Amortisation of intangible assets		(22,856)	(20,080)
Operating exceptional items		(708)	-
Change of accounting estimates – fleet depreciation		5,862	28,662
Operating profit	4	4,374	44,127
Finance costs (net)	5	(91,048)	(85,558)
Loss before taxation	4	(86,674)	(41,431)
Tax charge on loss		(878)	(1,071)
Loss for the financial period attributable to the shareholders of the group		(87,552)	(42,502)

All results derive from continuing operations.

Condensed consolidated statement of comprehensive income

(£000)	For the nine months ended 31 December		For year ended 31 March
	2023	2022	2023
Loss for the financial period	(87,552)	(42,502)	(71,364)
Hedge gains / (losses) arising during period (net of tax impact)	(10,485)	6,093	5,182
Total comprehensive loss attributable to the shareholders of the group	(98,037)	(36,409)	(66,182)

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

Condensed consolidated balance sheet

	Note	For the nine months ended 31 December 2023	2022	For year ended 31 March 2023
Fixed assets				
Goodwill	6	324,638	349,790	342,842
Intangible assets	6	326,102	343,298	348,899
Tangible assets	6	1,079,874	928,411	976,958
		1,730,614	1,621,499	1,668,699
Current assets				
Inventory		1,245	1,089	1,115
Debtors				
– due within one year	7	159,816	145,296	188,525
– due after one year	7	153,122	95,084	112,781
Cash at bank and in hand		63,531	22,123	72,187
		377,714	263,592	374,608
Creditors: amounts falling due within one year	8	(627,879)	(538,713)	(522,530)
Net current liabilities		(250,165)	(275,121)	(147,922)
Total assets less current liabilities		1,480,449	1,346,378	1,520,777
Creditors: amounts falling due after more than one year	8	(1,749,620)	(1,485,383)	(1,690,308)
Provisions for liabilities		(105,550)	(107,907)	(107,154)
Net liabilities		(374,722)	(246,912)	(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		2,297	13,694	12,782
Profit and loss account		(651,009)	(534,596)	(563,457)
Shareholders' deficit		(374,722)	(246,912)	(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			(42,503)		(42,503)
Hedges of variable interest rate risk				6,773	6,773
Deferred tax charge				(679)	(679)
Total comprehensive expense			(42,503)	6,094	(36,409)
At 31 December 2022	271,546	2,444	(534,596)	13,694	(246,912)
Loss for the financial period			(28,861)		(28,861)
Hedges of variable interest rate risk				137	137
Deferred tax charge				(1,049)	(1,049)
Total comprehensive expense			(28,861)	(912)	(29,773)
At 31 March 2023	271,546	2,444	(563,457)	12,782	(276,685)
Loss for the financial period			(87,552)		(87,552)
Hedges of variable interest rate risk				(14,001)	(14,001)
Deferred tax credit				3,517	3,517
Total comprehensive expense			(87,552)	(10,485)	(98,037)
At 31 December 2023	271,546	2,444	(651,009)	2,297	(374,722)

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 nine months ended 31 December
		2023	2022
Operating profit		4,374	44,126
Adjustment for:			
Depreciation charges		129,012	81,908
Amortisation of goodwill and intangibles		41,127	38,381
Profit on sale of tangible fixed assets(1)		(28,756)	(35,036)
Operating cash flow before movement in working capital		145,758	129,379
Capital repayment received from finance lessees		11,999	4,301
(Increase) / decrease in debtors		10,323	(3,137)
(Increase) / decrease in stock		(130)	(31)
(Decrease)/ increase in creditors		(27,563)	(17,323)
(Decrease)/ increase in provisions		1,891	1,820
Net cash inflow from operating activities		142,278	115,009
Income tax (paid)		(5,119)	(3,380)
Cash flows from investing activities			
Proceeds from sale of operating lease assets		232,429	178,777
Purchase of operating lease assets		(47,225)	(88,408)
Purchase of operating lease assets (funded)(1)		(450,336)	(368,142)
Net cash flows from investing activities		(265,131)	(277,773)
Cash flows from financing activities			
Repayments of borrowings		(298,090)	(209,795)
Drawdown of funding(1)		450,336	368,142
Interest paid(2)		(32,929)	(30,247)
Net cash flows from financing activities		119,317	128,099
Net decrease in cash and cash equivalents		(8,656)	(38,045)
Cash and cash equivalents at start of the year		72,187	60,168
Cash and cash equivalents at end of the period		63,531	22,123

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 £26,530,818 (31 December 2022: £13,911,000; 31 March 2023: £18,251,000) that are not freely available for use by the Group.

(1) Purchase of operating leases (funded) and drawdown of funding have been adjusted by £28.6m in the nine months to 31 December 2022 to reflect a higher purchase of operating lease assets, both increasing from £339.5m to £368.1m.

(2) FY24 profit on sale of tangible fixed assets and proceeds from sale of operating lease assets have been adjusted to enable comparability of figures and align their definitions across periods. As a result, the following figures are restated i): for the 3-month period to 30 June 2023; profit on sale of tangible fixed assets from £(30.0)m to £(12.5)m and proceeds from sale of operating lease assets from £103.8m to £86.4m, ii) the figures for the 6-month period to 30 September 2023 as follows; profit on sale of tangible fixed assets from £(32.3)m to £(23.4)m and proceeds from sale of operating lease assets from £170.2m to £161.3m.

(3) 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 nine-month period ended 31 December 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.

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 securitisation and other funding facilities and the senior secured notes and revolving credit facilities (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 that Zenith is well positioned to navigate through the challenging macroeconomic environment.

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 prevailing macroeconomic factors. 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. Despite the particularly low level of credit losses experienced by the Group over many years, the Group does provide for expected credit losses where it deems it appropriate. In most cases credit losses will be reduced by the existence of a hard asset (the vehicle).

The credit underwriting process on the Group's customers has proven to be robust, assisted by the Group's focus on the prime credit segment of the market. The process involves assessment of a variety of qualitative and quantitative information to assess the risk on corporate customers to ensure it remains within the Group's risk appetite. Similarly, the Group focuses on the prime and super-prime segment of consumer creditworthiness in the Personal Contract Hire market in the Consumer division.

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 a sophisticated methodology 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 materially accurate. The book value of residual values included in vehicles leased to customers, within tangible fixed assets, at 31 December 2023 amounts to £706.4m (31 December 2022: £579.0m and 31 March 2023: £628.5m*)

*The book value of residual values at 31 March 2023 has been restated to £628.5m from £417.8m, which was previously disclosed in the FY23 Annual Report and financial statements.

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 methodology 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 31 December 2023 amounts to £21.4 million (31 December 2022: £22.2 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 £324.6 million (31 December 2022: £349.8 million; 31 March 2023: £342.8 million). No impairment loss was recognised during the period ended 31 December 2023, nor the period ended 31 December 2023 (31 December 2022: £nil; 31 March 2023: £nil). The carrying amount of acquired intangible assets at the balance sheet date was £308.7 million (31 December 2022: £332.0 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 nine months ended 31 December	
	2023	2022
Long term leases	**315,575**	271,753
Vehicle sales	**186,424**	134,602
Other[1]	**79,531**	76,273
	581,530	482,628

(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 nine months ended 31 December	
	2023	2022
Depreciation of tangible fixed assets		
Owned	3,512	3,120
Company cars	2,135	1,987
Held under finance leases and hire purchase contracts	123,365	76,737
Operating lease rentals	-	-
Impairment of trade debtors	-	-
Amortisation of goodwill	18,271	18,301
Amortisation of intangibles	22,856	20,080
Operating exceptional items	708	-
Change of accounting estimates – fleet depreciation	(5,862)	(28,662)

5. FINANCE COSTS (NET)

(£000)	For the nine months ended 31 December	
	2023	2022
Loan note interest	26,110	23,736
Preference share returns	35,446	32,224
Senior secured notes coupons (and interest costs on previous debt facilities)	23,262	23,262
Other finance charges	6,231	6,337
Finance costs (net)	91,048	85,559

6. FIXED ASSETS

a) Goodwill

The total net book value of goodwill is £324.6 million (31 December 2022: £349.8 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 £326.1 million (31 December 2022: £343.3 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 31 December 2023 was £1,079.9 million (31 December 2022: £928.4 million; 31 March 2023: £977.0 million). The increase since 31 March 2023 is largely due to additions of £435.7 million offset by depreciation of £129.0 million and disposals of £203.7 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 £365.0 million (31 December 2022: £590.0 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 31 December 2023 the Group was committed to the future purchase of vehicles with a cost of £0.1 million (31 December 2022: £30.9 million; 31 March 2023: £5.4 million).

7. DEBTORS

(£000)	For the nine months ended 31 December 2023	2022	For year ended 31 March 2023
Amounts falling due within one year:			
Trade debtors	**59,208**	40,037	86,739
Amounts receivable under hire purchase contracts	**12,345**	10,484	5,815
Amounts receivable under securitised contracts	**17,879**	15,170	14,915
Vehicles subject to repurchase agreements	**9,078**	9,322	8,829
Other debtors	**21,452**	17,709	26,856
Corporation tax	**5,155**	1,092	912
Fair value of hedging instruments	**3,063**	16,906	17,043
Prepayments and accrued income	**31,636**	24,837	27,416
VAT	-	9,739	-
	159,816	145,296	188,525
Amounts falling due after more than one year:			
Amounts receivable under hire purchase contracts	**17,416**	13,981	17,341
Amounts receivable under securitised contracts	**37,109**	29,131	27,921
Vehicles subject to repurchase agreements	**91,132**	44,531	60,296
Prepayments and accrued income	**7,464**	7,441	7,223
	153,122	95,084	112,781

8. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

(£000)	For the nine months ended 31 December 2023	2022	For year ended 31 March 2023
Obligations under finance leases and hire purchase contracts	**198,021**	69,878	118,487
Obligations under securitised contracts	**287,652**	346,881	237,262
Vehicles subject to repurchase agreements	**9,078**	9,322	8,829
Trade creditors	**47,436**	26,163	66,643
VAT	**2,228**	-	734
Other taxation and social security	**1,030**	1,340	1,813
Other creditors	**17,949**	17,278	23,469
Accruals and deferred income	**64,484**	67,851	65,293
	627,879	538,713	522,530

8.1 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	For the nine months ended 31 December		For year ended 31 March
	2023	2022	2023
Senior secured notes	468,282	466,361	466,841
Obligations under finance leases and hire purchase contracts	35,243	35,266	132,578
Obligations under securitised contracts	568,608	431,888	480,036
Vehicles subject to repurchase agreements	91,132	44,531	60,296
Loan notes	340,361	308,390	340,010
Accruals and deferred income	245,994	198,947	210,547
	1,749,620	1,485,383	1,690,308

9. NET SENIOR DEBT

(£000)	01-Apr-23	Cash flows	Other non-cash charges	As at 31 December 2023
Cash at bank and in hand	72,187	(8,656)		63,531
Senior secured notes	475,000			475,000
Unamortised loan arrangement costs	(8,159)		1,441	(6,718)
Net senior debt	394,654	(8,656)	1,441	404,751

(£000)	01-Apr-22	Cash flows	Other non-cash charges	As at 31 December 2022
Cash at bank and in hand	60,168	(38,045)		22,123
Senior secured notes	475,000			475,000
Unamortised loan arrangement costs	(10,077)		1,438	(8,639)
Net senior debt	404,755	(38,045)	1,438	444,238

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 £187,500 per director plus reasonable expenses. For the nine months ended 31 December 2023 we paid a monitoring fee of £187,500 (nine months ended 31 December 2022: £187,500; year ended 31 March 2023: £250,000).

11. ULTIMATE CONTROLLING PARTY

At 31 March 2023 and 31 December 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.