



Northgate plc

Interim results

Six months to 31 Oct 2002



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Good morning, everyone.

Welcome to the presentation of our results for the six months ended 31 October 2002. The period under review has seen us move ever closer to achieving our aim of doubling the size of the business by April 2004.

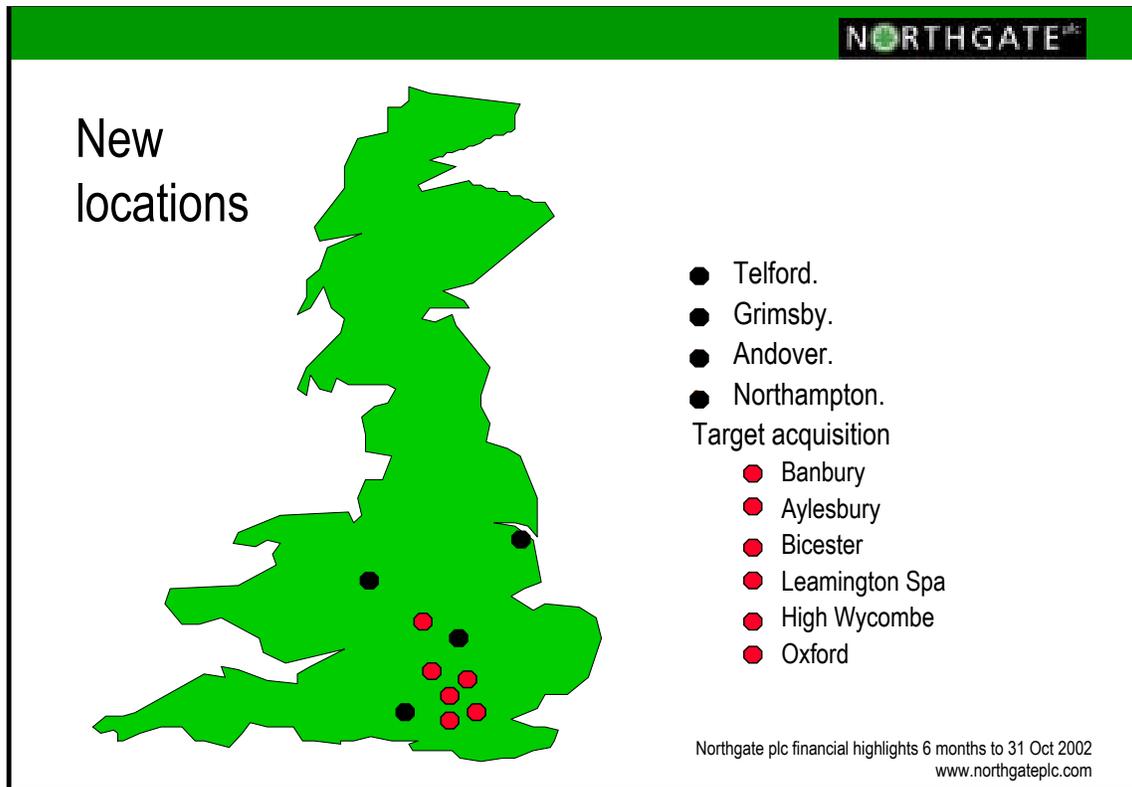
In addition, as promised, we have made our first step into continental Europe with the purchase in July of 40% of the equity of Fualsa, Spain's second largest van rental business.

Key performance indicators

-  Utilization average just over 90%.
-  Stable hire rates.
-  Profits from used vehicle sales.
-  Fleet increase of 4,400 vehicles.
-  10 new locations added.

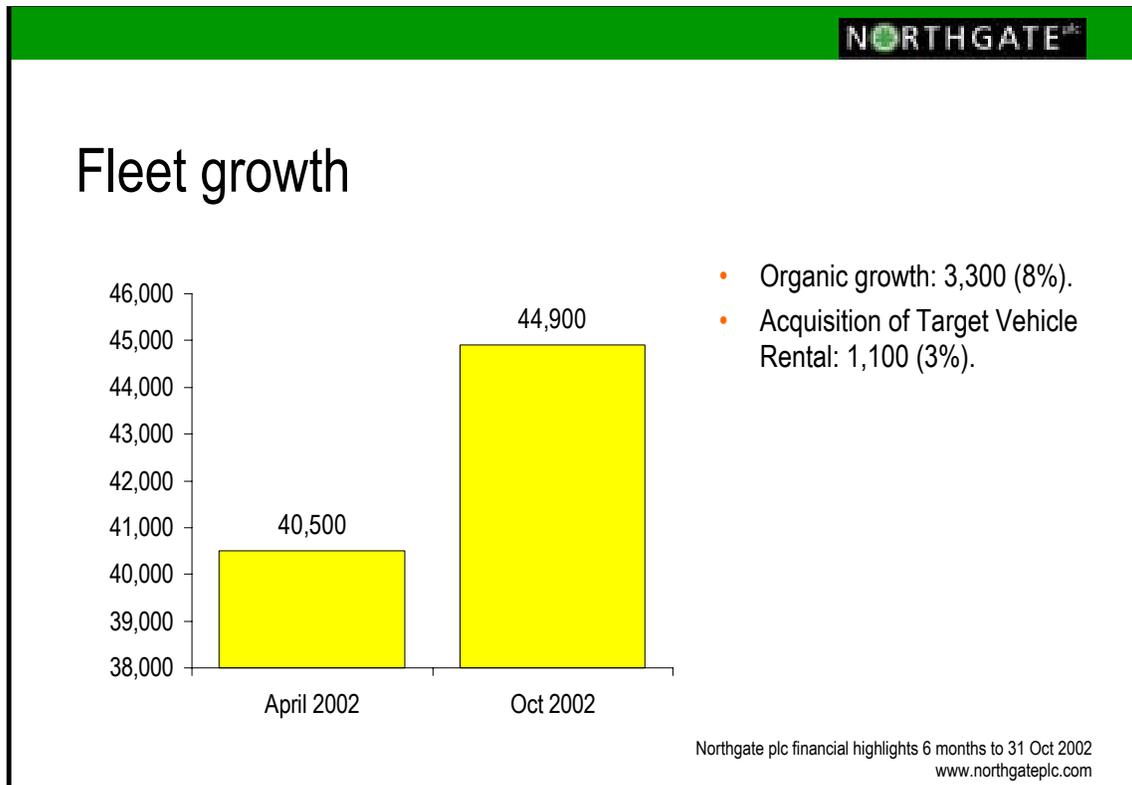
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The key performance measures in the business remain healthy: Utilization has averaged just over 90%, despite 28 businesses not yet being mature (i.e. less than 2 years old). Hire rates are pretty much at year end levels, a satisfactory position in a low inflation, low interest environment. Profits from used vehicle sales have been achieved throughout the period. The fleet has grown by 4400 vehicles (11%) in the 6 months and we have added 10 new locations to the network. Phil will elaborate on our performance as measured by these KPIs during his review of the numbers.



Dealing first with new locations. We have continued to expand our network and now operate from 70 locations. We have acquired (via Target) a new hire company in Banbury, along with branches in Oxford, Aylesbury, High Wycombe, Leamington Spa and Bicester (the red dots on the slide). We have also opened new branches in Telford, Grimsby, Northampton and Andover. The Grimsby site actually arose out of the acquisition in July of a small rental business called KW Sadler that was immediately merged into M&G, our hire company based in Hull.

When we produced our Five Year Strategy for Growth we anticipated we would need a network of around 100 locations to allow us to achieve our target fleet size of 50,000 vehicles. Experience to date, however, is that we are achieving more vehicles per location than we envisaged and consequently will double the fleet from a smaller number of outlets, probably around 85.



These new locations, coupled with continued strong demand for our product NORFLEX, have resulted in organic growth of 3300 vehicles. This is split 500 vehicles from the 4 new locations (excluding Target) referred to earlier and 2800 from businesses already open on 1 May 2002. When added to the 1100 vehicles acquired as a result of purchasing Target, fleet growth in the six months was an impressive 11%, with the fleet at 31 October reaching 44,900.

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FUALSA

- Number two in van rental in Spain.
- 10,000 vehicles on the fleet.
- Acquired:
 - 40% July 2002: consideration of £10m
 - Option to purchase
 - 40% May 2004
 - 20% May 2006
 - Max additional consideration c£24m



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As you may remember from earlier presentations, our research into the European rental market showed that the market there is, in broad terms, where the UK was about 8-10 years ago. In terms of penetration of the overall vehicle parc, van rental in Europe is currently around 3 to 4% compared to the 9/10% here. Spain is the least mature market with a penetration level of less than 1%. Following negotiations with a number of rental businesses, we made our first step into Europe in July this year when we purchased 40% of the equity of Fualsa, the second largest van rental company in Spain, for around £10m. We have options to purchase the remaining 60% (40% in 2004 and 20% in 2006) for a maximum further consideration of around £24m. This further consideration is based on average profitability and a p/e of 8.5 – so you can work out future profits forecasts for yourselves! With headquarters in Madrid, Fualsa has a fleet of around 10,000 vehicles and operates from 6 locations across Spain. It had pre-tax profits of £3m for the year ended 31 December 2001. The contract was deliberately structured as a staged acquisition to give us a low risk entry and the opportunity to work alongside the current owners in order to gain a better understanding of the business prior to taking full control. However, whilst we currently only have 40% of the equity, we do have 50% board representation and senior management working full time in the business. To date, everything is in line with our expectations and we are delighted at the progress we are making. Since July the fleet has increased to 10,800 vehicles, an 8% increase in 4 months. We have found property to open in Malaga and to relocate Seville. Our plan over the next 12/24 months is to continue to expand the geographic coverage with either greenfield sites or small acquisitions, if the opportunity arises. In addition, we intend to widen the customer base that is currently predominantly from the construction sector. Our approach will be similar to that used when we introduced NORFLEX in the UK and marketed that to industry sectors not used to renting, e.g. distribution which, as you know, has grown to be our largest customer category. Phil will cover in more detail Fualsa's contribution to our results, along with commenting on their performance when measured using some of our KPIs.

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Highlights

- PBT up 16%.
- EPS UP 16%.
- EBITDA up 14%.
- Acquisition £14.2m.
- Total locations = 70



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I am pleased to report the results for Northgate for the six months ended 31 October 2002. I would like to cover some of the detail behind these numbers. But first the highlights:

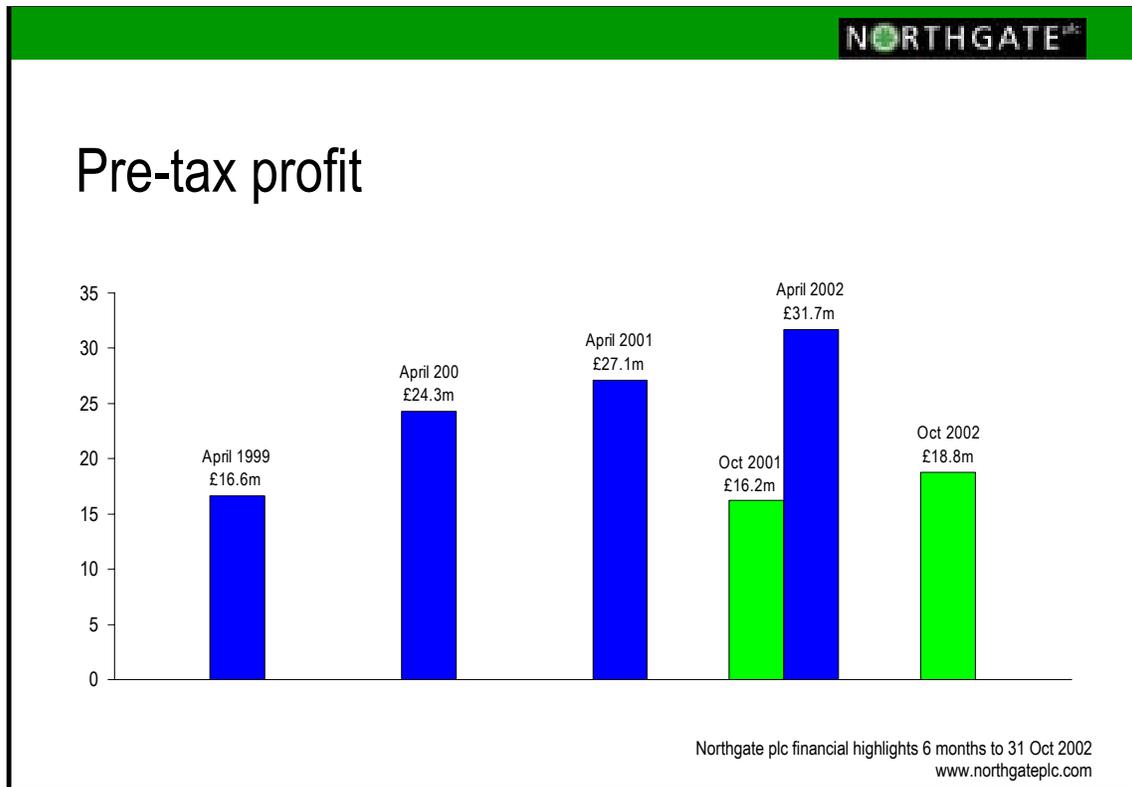
Profit before tax and earnings per share have both increased by 16%.

EBITDA increased by some 14%.

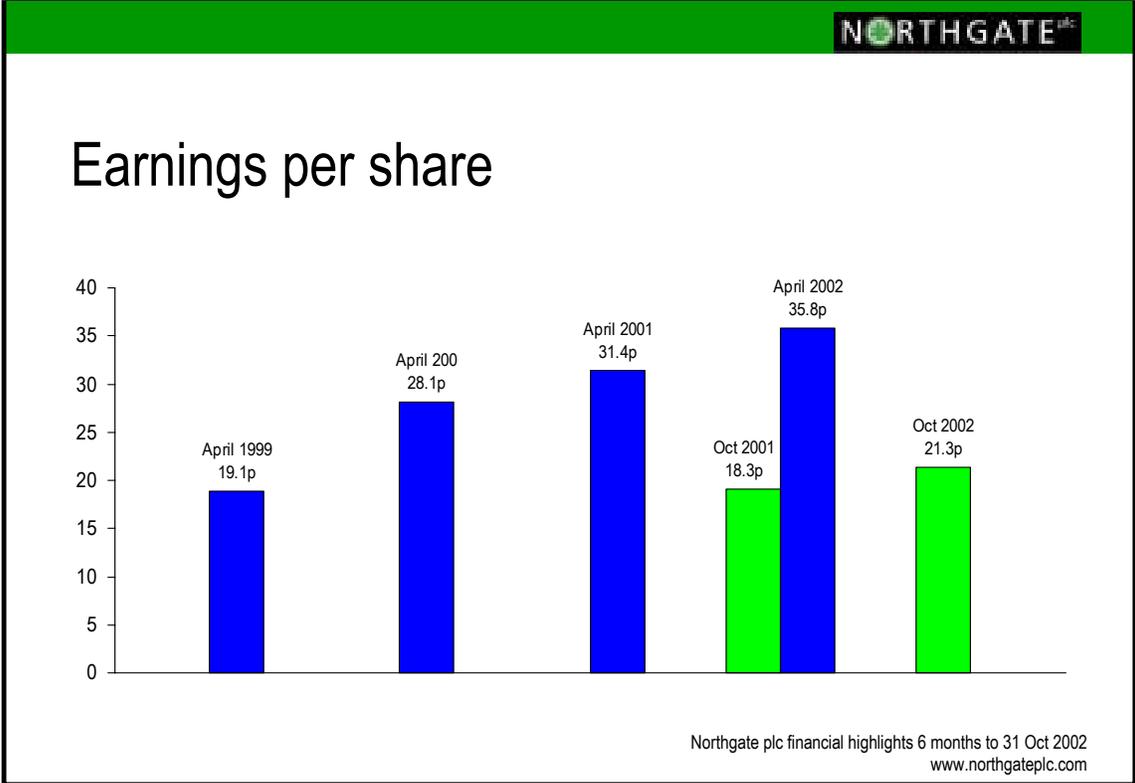
The results reflect over £14m investment in 'acquisitions':

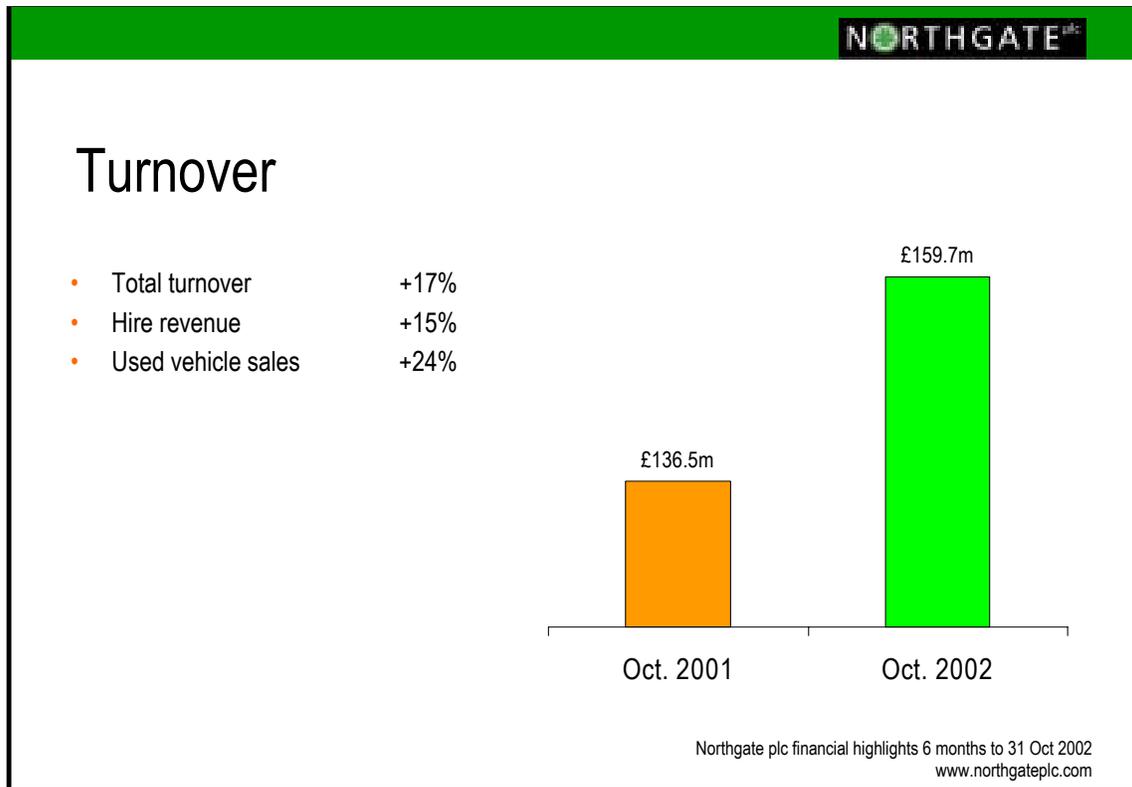
- The acquisition of Target 1,100 vehicles only from 1 October.
- The 40% investment in Fualsa, in July. Accounted for as a Joint Venture in view of the level of influence we have in the company.

Total locations now number 70.

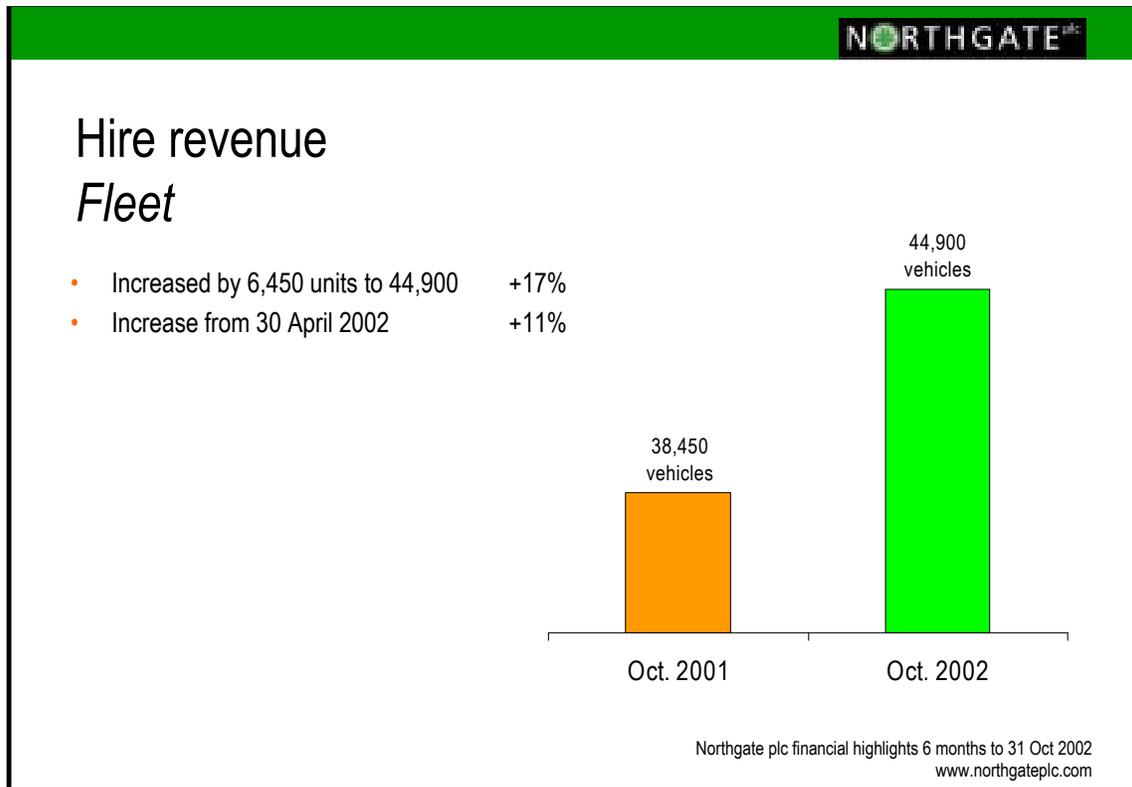


I would first like to talk about Northgate without the impact of Fualsa, and then perhaps come back to Fualsa. On a like-for-like basis, a 13% increase in Profit Before Tax.





The overall increase in turnover was 17% to £159.7m. Turnover includes both revenue from hire operations and the sale of used vehicles. Although ultimately only one business, we keep these separate for management purposes. Hire revenue rose by some 15% and used vehicle sales by some 24%.



Looking at the analysis of turnover, the hire revenue is largely driven by fleet growth, which averaged 14% (excluding Target) compared to October 2001, and also represents 8% from 30 April 2002. The additional fleet acquired with Target was 1,100 vehicles but only had one month's impact. Fleet growth was evident in the vast majority of locations.

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Hire revenue

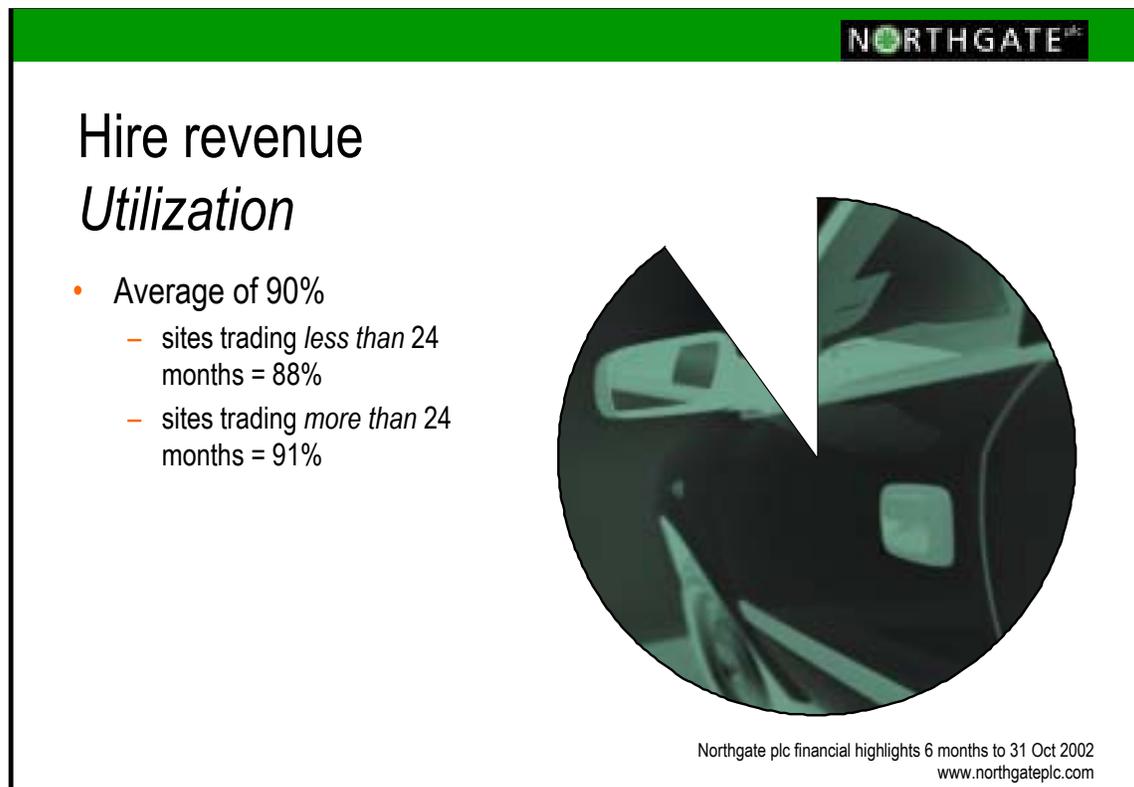
Rates

- Rates remain stable.
- Low interest rates and low inflation.
- Competitive environment.



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Hire rates have remained stable. They moved forward slightly in 2001 and have remained static since then. As we've said before, substantial price increases are unlikely with both low inflation and low interest rates. Competition, though not particularly strong at the moment, is still sufficiently aggressive to affect pricing.



Average utilisation just over 90%. 28 of the locations have traded for < 2 years and they have achieved utilisations of 88.1%, with the more mature sites achieving 90.9%.

		NORTHGATE	
FUALSA			
		<i>40% share</i>	
£000k		4 months to 31 Oct 2002	
Turnover		5,074	
Operating profit		833	
Profit before tax		521	
Fleet		10,800	+8%
Utilisation		89%	
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Just to comment briefly on Fualsa, the results to date are in line with expectations over the period, i.e. from 1 July the fleet has increased by 8% to 10,800 vehicles and utilisations averaged 88.9%. We have our own management in the business in the form of three senior people – a finance director and two on the operational side – and to date we are pleased with progress.

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Used vehicle sales

- Proportion greater than corresponding period.
- Residual market remains steady.
- Internal vehicle management improved.



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The proportion of vehicle disposals was higher than October 2001. (Some of you may remember I pointed out the low level of disposals in October 2001 which flattered the margin) and is a more representative proportion of total revenue.

The market generally remains good and residual profits (per unit) have remained fairly consistent with those achieved during the course of last year.

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Costs

- “One off” costs.
- Insurance.
- Interest.



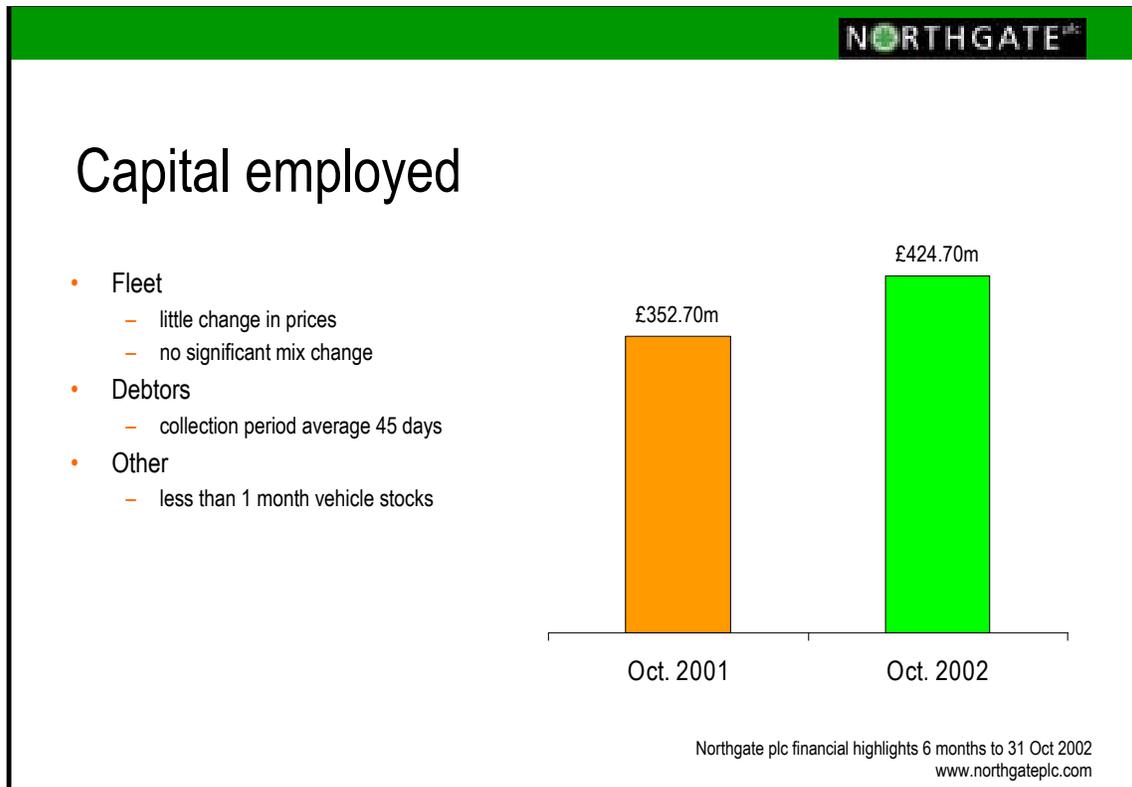
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Normally discussion on costs is relatively short but there are some points in these past six months to bring to your attention.

Generally in trading terms the only cost of any significance that has increased has been insurance. Insurance premiums have been dictated by the market and have increased by around 20% (equal to £300k p.a.). Cost increases otherwise tend to be investment in the expanding network of locations.

However there have been some areas of non-recurring costs. Firstly we have written off goodwill of over £300k relating to two small acquisitions that have now been fully integrated into existing Northgate locations. Secondly, we have incurred some cost, to date, in the reorganization of our Central Reservations facility. Together, these have had some impact on the operating margin.

Interest costs reflect a full period of base rates at 4%. The only point to mention is that I would estimate the interest costs relating to the investment in Fualsa to be £160k. This is a direct cost of the investment when looking at Fualsa's performance.



Average capital employed has increased by 15% largely as a result of fleet movement. In terms of vehicle pricing, manufacturer's costs are broadly neutral. Debtors, in terms of cash collection remain constant with outstanding debtor days averaging 45 days.

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Funding

- Gearing increased to 189%.
- Borrowing up 26%.
- Acquisition £14.2m from cash.
- Interest cover 3.6.
- EBITDA up 14%.



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Borrowings have increased over the period as a result of both fleet growth and the investment of £14.2m in acquisitions. Gearing has increased from 170% at the year-end to 189%, largely as a result of the acquisitions.

Interest cover has improved to 3.6 times and our policy on hedging risk gives us cover of approximately 30% going forward over the next three years (excluding Fualsa).

I would draw your attention to the note in the accounts (note 17 last year) that gives full details of all hedging activities and market values.

Key performance indicators

-  Utilization average just over 90%.
-  Stable hire rates.
-  Profits from used vehicle sales.
-  Fleet increase of 4,400 vehicles.
-  10 new locations added.
-  EPS up 16%.
-  PBT up 16%.

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In summary then: PBT and EPS each increased by 16% with a proposed 5% increase in the dividend.

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Growth

- UK Rental.
- Europe.
- Non-rental products.



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Before concluding the presentation, I would like to spend a few minutes outlining our thoughts on the future. As you are aware, this is year 4 of our current 5-year Strategy for Growth, the targets of which we are confident we will deliver in full. We feel that the concept of a detailed long-term plan, against which our progress can be measured, has been useful for shareholders. Therefore, we intend to produce a further plan to present when we announce our year-end results in July. In broad terms, this plan will focus on growth in 3 areas: UK rental, Europe and non-rental products. We remain of the view that the UK market is far from mature and that we can continue to grow our business here for many years to come. This area will, therefore, remain the backbone of the business in our next plan. With the purchase of our 40% stake in Fualsa, we have taken our first step into Europe. It is likely that it is in Spain that we will concentrate our efforts over the next couple of years working closely with the vendors to build on the sound initial platform they have created, growing the business organically and by acquisition if the right opportunity arises. Subject to our model being successful in Spain, the rest of Europe (being relatively undeveloped) offers many opportunities.

Finally, non-rental products, whilst always likely to be ancillary to the core business of rental, do offer an opportunity both to add to profitability and to further differentiate us from our competitors.

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Management appointments

- Phil Moorhouse – Managing Director UK Rental.
- Ged Murray – Finance Director.



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However, one of the most important aspects of any plan is its implementation, the success of which is dependent on having “the right people in the right places”. As you may recall, our current 5-year strategy for growth necessitated putting in place the regional management structure to support the expansion plans we had. In the same way, prior to initiating our next phase of growth, and to ensure we continue to deliver against our targets, as we have done over the last 4 years, we are taking the opportunity to strengthen the executive management team. With effect from yesterday, Phil was promoted to the newly created position of Managing Director UK Rental. He takes over responsibility for the Group’s hire operations in the UK together with the development of our non-rental products. His appointment emphasizes the importance we continue to attach to our UK rental business and the significant opportunities for growth that still exist here. At the same time we have been fortunate to acquire the services of Ged Murray, who will replace Phil as Finance Director. As many of you will know, Ged was previously both Finance Director and Chief Executive of Reg Vardy plc. Ged brings with him a wealth of experience in the automotive industry and related sectors, along with a sound track record in a growing business. We have no doubt he will make a very positive contribution to the future development of Northgate. With these changes we feel we have put in place the structure to embark on our next phase of growth. In the short term we also have some capacity to deal with any issues that might arise, and to allow us to explore and investigate opportunities in Europe without detracting from the core business in the UK.

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Conclusion

- Remain on track with five year plan.
- Foundations in place for future growth.
- UK market continues to offer significant potential.
- First step into Europe.
- Development of non-rental products.



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So, in conclusion, we are pleased to report that we remain on track to deliver in full the targets set out in our 5-year strategy for growth. At current growth rates, we should achieve the headline target of a 50,000-vehicle fleet before the end of this calendar year. Perhaps more importantly, as Phil demonstrated during his report on the numbers, this fleet growth has been fully reflected in our profitability. With our first step into Europe now taken, the creation of some non-rental products and the senior management changes we have announced today, we feel we have also put the foundations in place for our next phase of growth. We look forward to setting out these plans in more detail when we report on the full year figures in July.

As a final point, a reminder of why we have achieved these profits.

1. We have, in NORFLEX, a product the market has clearly demonstrated it wants.
2. We have, with our individually branded hire companies, the right structure to support the business and the culture on which it thrives.
3. We have the right people.
4. As a management, we focus intensely on the key performance measures, such as utilization, that drive the business forward. It's not rocket science – it's about doing 1000s of small things better than the competition and better than the previous year.

These fundamentals will be as relevant for the next 5 years as they have been over the life of this plan. Perhaps in our case appearing to be boring is a virtue. Thank you for your attention.