Ashtead group

7 September 2016

Unaudited results for the first quarter ended 31 July 2016

	2016 £m	2015 £m	Growth[1] %
Underlying results[2]			
Rental revenue	660.8	539.6	12%
EBITDA	340.0	282.7	9%
Operating profit	206.6	180.2	4%
Profit before taxation	183.6	160.7	4%
Earnings per share	24.2p	21.0p	4%
Statutory results			
Revenue	707.1	618.6	4%
Profit before taxation	177.9	155.4	4%
Earnings per share	23.4p	20.3p	5%

Highlights

- Group rental revenue up 12%[1]
- Group underlying pre-tax profit[2] of £184m
- £328m of capital invested in the business (2015: £349m)
- Group RoI[3] of 18% (2015: 19%)
- Net debt to EBITDA leverage[1] of 1.7 times (2015: 1.8 times)

1 Calculated at constant exchange rates applying current period exchange rates.
2 Underlying results are stated before intangible amortisation.
3 Last 12-month underlying operating profit divided by the last 12-month average of the sum of net tangible and intangible fixed assets, plus net working capital but excluding net debt and deferred tax.

Ashtead's chief executive, Geoff Drabble, commented:

"The Group delivered a strong quarter with rental revenue increasing 12% and underlying pre-tax profit of £184m. The underlying performance of the business continues to benefit from a clear and consistent strategy of organic growth supplemented by bolt-on acquisitions. In the quarter, the reported results were positively impacted by weaker sterling (£17m) but this was broadly balanced by the impact of lower gains on fleet disposals (£12m) as we reduced our replacement capital expenditure.

The continued improvement in our margins is particularly encouraging – with Group EBITDA now a record 48% (2016: 46%). These healthy margins and our strong balance sheet provide flexibility to continue to invest in our long-term structural growth opportunity and enhance returns to shareholders.

We will continue to grow responsibly, adhering to the capital allocation priorities we have outlined. We have therefore invested £328m by way of capital expenditure and a further £64m on bolt-on acquisitions. In addition, we spent £17m under the share buyback programme and all of this was achieved whilst maintaining leverage well within our stated range of 1.5 to 2.0 times net debt to EBITDA.

Both divisions are performing well, our end markets are strong and with the benefit of weaker sterling, we expect full year results to be ahead of our expectations and the Board continues to look to the medium term with confidence."

Contacts:

Geoff Drabble	Chief executive	+44 (0)20 7726 9700
Suzanne Wood	Finance director	
Will Shaw	Director of Investor Relations	
Becky Mitchell	Maitland	+44 (0)20 7379 5151
Tom Eckersley	Maitland	

Geoff Drabble and Suzanne Wood will hold a conference call for equity analysts to discuss the results and outlook at 9.00am on Wednesday, 7 September 2016. The call will be webcast live via the Company's website at www.ashtead-group.com and a replay will also be available via the website from shortly after the meeting concludes. A copy of this announcement and the slide presentation used for the call will also be available for download on the Company's website. The usual conference call for bondholders will begin at 4.00pm (11.00am EST).

Analysts and bondholders have already been invited to participate in the analyst call and conference call for bondholders but any eligible person not having received dial-in details should contact the Company's PR advisers, Maitland (Astrid Wright) at +44 (0)20 7379 5151.

Forward looking statements

This announcement contains forward looking statements. These have been made by the directors in good faith using information available up to the date on which they approved this report. The directors can give no assurance that these expectations will prove to be correct. Due to the inherent uncertainties, including both business and economic risk factors underlying such forward looking statements, actual results may differ materially from those expressed or implied by these forward looking statements. Except as required by law or regulation, the directors undertake no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

Trading results

	Revenue		EBITDA		Operating profit	
	2016	2015	2016	2015	2016	2015
Sunbelt in $m	853.1	820.8	428.9	390.4	268.9	258.2
Sunbelt in £m	610.7	528.6	307.0	251.4	192.4	166.2
A-Plant	96.4	90.0	36.4	34.3	17.6	17.0
Group central costs	-	-	(3.4)	(3.0)	(3.4)	(3.0)
	707.1	618.6	340.0	282.7	206.6	180.2
Interest expense					(23.0)	(19.5)
Profit before amortisation and tax					**183.6**	**160.7**
Amortisation					(5.7)	(5.3)
Profit before taxation					177.9	155.4
Taxation					(60.7)	(53.6)
Profit attributable to equity holders of the Company					117.2	101.8
Margins						
Sunbelt			*50.3%*	*47.6%*	*31.5%*	*31.5%*
A-Plant			*37.8%*	*38.1%*	*18.2%*	*18.9%*
Group			*48.1%*	*45.7%*	*29.2%*	*29.1%*

Group revenue increased 14% to £707m (2015: £619m) with strong growth in both Sunbelt and A-Plant. As expected, Group revenue reflects a lower level of used equipment sales due to lower replacement capital expenditure, broadly offset by the benefit from weaker sterling. This revenue growth, combined with ongoing operational efficiency and strong drop-through, generated underlying profit before tax of £184m (2015: £161m).

The Group's strategy remains unchanged with growth being driven by strong same-store growth supplemented by greenfield openings and bolt-on acquisitions, with Sunbelt and A-Plant delivering 13% and 15% rental only revenue growth respectively. Reported revenue growth in the quarter was affected by fewer billing days than the prior year, which reduced reported rental only revenue growth by circa 2% in Sunbelt. Sunbelt's revenue growth can be explained as follows:

		$m
2015 rental only revenue		566
Same-stores (in existence at 1 May 2015)	+6%	33
Bolt-ons and greenfields since 1 May 2015	+7%	40
2016 rental only revenue	+13%	639
Ancillary revenue	+6%	161
2016 rental revenue	+11%	800
Sales revenue	-48%	53
2016 total revenue	+4%	853

The mix of our revenue growth demonstrates the successful execution of our long-term structural growth strategy. We continue to capitalise on the opportunity presented by our markets with same-store growth of 6% and bolt-ons and greenfields contributing another 7% growth as we expand our geographic footprint and our specialty businesses. Same-store rental only revenue growth excluding oil and gas was 10% on a normalised billing day basis. We have made good progress on new stores with 24 added in the quarter through greenfields and bolt-ons, more than half of which were specialty locations.

Total rental only revenue growth was 13% in generally strong end markets. This growth was driven by increased fleet on rent.

Average three month physical utilisation was 72% (2015: 72%). Sunbelt's total revenue, including new and used equipment, merchandise and consumable sales, increased 4% to $853m (2015: $821m), reflecting the lower level of used equipment sales as a result of lower replacement capital expenditure.

A-Plant continues to perform well and delivered rental only revenue of £75m, up 15% on the prior year (2015: £65m). This reflects increased fleet on rent with yield flat year-on-year. A-Plant's total revenue increased 7% to £96m (2015: £90m), again reflecting lower used equipment sales.

We continue to focus on operational efficiency and driving improving margins. In Sunbelt, 65% of revenue growth dropped through to EBITDA. The strength of our mature stores' incremental margin is reflected in the fact that this was achieved despite the drag effect of greenfield openings, acquisitions and the oil and gas sector. Stores open for more than one year saw 79% of revenue growth drop-through to EBITDA. This strong drop-through drove an improved EBITDA margin of 50% (2015: 48%) and contributed to an operating profit of $269m (2015: $258m). Excluding the impact of gains on used equipment sales, operating profit increased 10% over the prior year.

A-Plant's drop-through of 45%, 61% on a same store basis, contributed to an EBITDA margin of 38% (2015: 38%) and operating profit rose to £18m (2015: £17m). Excluding the impact of gains on used equipment sales, operating profit increased 23% over the prior year. As a result, Group underlying operating profit increased 15% to £207m (2015: £180m).

Net financing costs increased to £23m (2015: £19m), reflecting higher average debt and weaker sterling.

Group profit before amortisation of intangibles and taxation was £184m (2015: £161m). After a tax charge of 34% (2015: 34%) of the underlying pre-tax profit, underlying earnings per share increased 15% to 24.2p (2015: 21.0p).

With amortisation of £6m (2015: £5m), statutory profit before tax was £178m (2015: £155m). After a tax charge of 34% (2015: 34%), basic earnings per share were 23.4p (2015: 20.3p). The cash tax charge was 12%.

Capital expenditure and acquisitions

Capital expenditure for the quarter was £328m gross and £310m net of disposal proceeds (2015: £349m gross and £291m net). This level of capital expenditure is towards the upper end of our expectations at this stage of the year for 2016/17. We will review the overall level in December, once we have a better perspective on economic trends into 2017. As a result of this investment, the Group's rental fleet at 31 July 2016 at cost was £5.2bn. Our average fleet age is now 26 months (2015: 25 months).

We spent £64m (2015: £1m) on four bolt-on acquisitions during the period as we continue to both expand our footprint and diversify into specialty markets.

Return on Investment

Sunbelt's pre-tax return on investment (excluding goodwill and intangible assets) in the 12 months to 31 July 2016 was 23% (2015: 25%). This remains well ahead of the Group's pre-tax weighted average cost of capital although it has been affected in the short term by our investment in greenfields and bolt-on acquisitions and our young fleet age. In the UK, return on investment (excluding goodwill and intangible assets) was 15% (2015: 13%). For the Group as a whole, return on investment (including goodwill and intangible assets) was 18% (2015: 19%).

Cash flow and net debt

As expected, debt increased during the quarter as we invested in the fleet and made a number of bolt-on acquisitions. During the quarter, we spent £17m on our share buyback programme of up to £200m in 2016/17. In addition, weaker sterling increased reported debt by £197m.

Net debt at 31 July 2016 was £2,348m (2015: £1,804m) while, reflecting our strong earnings growth, the ratio of net debt to EBITDA reduced to 1.7 times (2015: 1.8 times) on a constant currency basis. This is in the middle of the Group's target range for net debt to EBITDA of 1.5 to 2 times, broadly where we expect to remain.

The Group's debt package is well structured and flexible, enabling us to optimise the opportunity presented by end market conditions. The Group's debt facilities are committed for an average of five years. At 31 July 2016, availability under the senior secured debt facility was $941m, with an additional $2,025m of suppressed availability - substantially above the $260m level at which the Group's entire debt package is covenant free.

Current trading and outlook

Both divisions are performing well, our end markets are strong and with the benefit of weaker sterling, we expect full year results to be ahead of our expectations and the Board continues to look to the medium term with confidence.

CONSOLIDATED INCOME STATEMENT FOR THE THREE MONTHS ENDED 31 JULY 2016

	2016			2015		
	Before amortisation	Amortisation	Total	Before amortisation	Amortisation	Total
	£m	£m	£m	£m	£m	£m
Unaudited						
Revenue						
Rental revenue	660.8	-	660.8	539.6	-	539.6
Sale of new equipment, merchandise and consumables	29.4	-	29.4	23.3	-	23.3
Sale of used rental equipment	16.9	-	16.9	55.7	-	55.7
	707.1	-	707.1	618.6	-	618.6
Operating costs						
Staff costs	(165.7)	-	(165.7)	(139.1)	-	(139.1)
Used rental equipment sold	(15.3)	-	(15.3)	(42.5)	-	(42.5)
Other operating costs	(186.1)	-	(186.1)	(154.3)	-	(154.3)
	(367.1)	-	(367.1)	(335.9)	-	(335.9)
EBITDA*	340.0	-	340.0	282.7	-	282.7
Depreciation	(133.4)	-	(133.4)	(102.5)	-	(102.5)
Amortisation of intangibles	-	(5.7)	(5.7)	-	(5.3)	(5.3)
Operating profit	206.6	(5.7)	200.9	180.2	(5.3)	174.9
Interest expense	(23.0)	-	(23.0)	(19.5)	-	(19.5)
Profit on ordinary activities before taxation	183.6	(5.7)	177.9	160.7	(5.3)	155.4
Taxation	(62.5)	1.8	(60.7)	(55.3)	1.7	(53.6)
Profit attributable to equity holders of the Company	121.1	(3.9)	117.2	105.4	(3.6)	101.8
Basic earnings per share	24.2p	(0.8p)	23.4p	21.0p	(0.7p)	20.3p
Diluted earnings per share	24.1p	(0.8p)	23.3p	20.9p	(0.7p)	20.2p

* EBITDA is presented here as an additional performance measure as it is commonly used by investors and lenders.

All revenue and profit for the period is generated from continuing operations.

Details of principal risks and uncertainties are given in the Review of Balance Sheet and Cash Flow accompanying these condensed consolidated interim financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 JULY 2016

	Unaudited	
	2016	2015
	£m	£m
Profit attributable to equity holders of the Company for the period	117.2	101.8
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences	121.4	(13.1)
Total comprehensive income for the period	238.6	88.7

CONSOLIDATED BALANCE SHEET AT 31 JULY 2016

	Unaudited 31 July 2016	Unaudited 31 July 2015	Audited 30 April 2016
	£m	£m	£m
Current assets			
Inventories	48.5	21.3	41.3
Trade and other receivables	526.9	426.4	455.7
Current tax asset	0.9	25.8	7.5
Cash and cash equivalents	10.6	2.3	13.0
	586.9	475.8	517.5
Non-current assets			
Property, plant and equipment			
- rental equipment	3,730.5	2,695.3	3,246.9
- other assets	377.8	285.2	341.9
	4,108.3	2,980.5	3,588.8
Goodwill	638.8	505.5	556.7
Other intangible assets	105.3	86.4	83.8
Net defined benefit pension plan asset	2.2	3.0	2.2
	4,854.6	3,575.4	4,231.5
Total assets	5,441.5	4,051.2	4,749.0
Current liabilities			
Trade and other payables	484.9	447.1	480.5
Current tax liability	15.4	25.3	3.6
Debt due within one year	2.7	2.0	2.5
Provisions	28.1	28.4	28.9
	531.1	502.8	515.5
Non-current liabilities			
Debt due after more than one year	2,355.6	1,804.6	2,012.2
Provisions	17.1	18.4	17.6
Deferred tax liabilities	838.8	523.8	723.3
	3,211.5	2,346.8	2,753.1
Total liabilities	3,742.6	2,849.6	3,268.6
Equity			
Share capital	55.3	55.3	55.3
Share premium account	3.6	3.6	3.6
Capital redemption reserve	0.9	0.9	0.9
Non-distributable reserve	-	90.7	-
Own shares held by the Company	(49.9)	(33.1)	(33.1)
Own shares held through the ESOT	(16.6)	(15.5)	(16.2)
Cumulative foreign exchange translation differences	209.8	25.6	88.4
Retained reserves	1,495.8	1,074.1	1,381.5
Equity attributable to equity holders of the Company	1,698.9	1,201.6	1,480.4
Total liabilities and equity	5,441.5	4,051.2	4,749.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 JULY 2016

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Non-distributable reserve £m	Own shares held by the Company £m	Own shares held through the ESOT £m	Cumulative foreign exchange translation differences £m	Retained reserves £m	Total £m
Unaudited									
At 1 May 2015	55.3	3.6	0.9	90.7	(33.1)	(15.5)	38.7	970.9	1,111.5
Profit for the period	-	-	-	-	-	-	-	101.8	101.8
Other comprehensive income:									
Foreign currency translation differences	-	-	-	-	-	-	(13.1)	-	(13.1)
Total comprehensive income for the period	-	-	-	-	-	-	(13.1)	101.8	88.7
Share-based payments	-	-	-	-	-	-	-	1.1	1.1
Tax on share-based payments	-	-	-	-	-	-	-	0.3	0.3
At 31 July 2015	55.3	3.6	0.9	90.7	(33.1)	(15.5)	25.6	1,074.1	1,201.6
Profit for the period	-	-	-	-	-	-	-	305.8	305.8
Other comprehensive income:									
Foreign currency translation differences	-	-	-	-	-	-	62.8	-	62.8
Remeasurement of the defined benefit pension plan	-	-	-	-	-	-	-	(0.6)	(0.6)
Tax on defined benefit pension plan	-	-	-	-	-	-	-	0.1	0.1
Total comprehensive income for the period	-	-	-	-	-	-	62.8	305.3	368.1
Dividends paid	-	-	-	-	-	-	-	(81.5)	(81.5)
Own shares purchased by the ESOT	-	-	-	-	-	(12.0)	-	-	(12.0)
Share-based payments	-	-	-	-	-	11.3	-	(7.7)	3.6
Tax on share-based payments	-	-	-	-	-	-	-	0.6	0.6
Transfer of non-distributable reserve	-	-	-	(90.7)	-	-	-	90.7	-
At 30 April 2016	55.3	3.6	0.9	-	(33.1)	(16.2)	88.4	1,381.5	1,480.4
Profit for the period	-	-	-	-	-	-	-	117.2	117.2
Other comprehensive income:									
Foreign currency translation differences	-	-	-	-	-	-	121.4	-	121.4
Total comprehensive income for the period	-	-	-	-	-	-	121.4	117.2	238.6
Own shares purchased by the ESOT	-	-	-	-	-	(6.8)	-	-	(6.8)
Own shares purchased by the Company	-	-	-	-	(16.8)	-	-	-	(16.8)
Share-based payments	-	-	-	-	-	6.4	-	(5.1)	1.3
Tax on share-based payments	-	-	-	-	-	-	-	2.2	2.2
At 31 July 2016	55.3	3.6	0.9	-	(49.9)	(16.6)	209.8	1,495.8	1,698.9

The non-distributable reserve related to the reserve created on the cancellation of the then share premium account in August 2005. This reserve became distributable in August 2015 and was transferred to distributable reserves in the year ended 30 April 2016.

CONSOLIDATED CASH FLOW STATEMENT FOR THE THREE MONTHS ENDED 31 JULY 2016

	Unaudited	
	2016	2015
	£m	£m
Cash flows from operating activities		
Cash generated from operations before exceptional items and changes in rental equipment	306.6	216.9
Payments for rental property, plant and equipment	(333.8)	(338.4)
Proceeds from disposal of rental property, plant and equipment	34.2	38.2
Cash generated from/(used in) operations	7.0	(83.3)
Financing costs paid (net)	(27.7)	(24.3)
Tax paid (net)	(3.0)	(6.6)
Net cash used in operating activities	(23.7)	(114.2)
Cash flows from investing activities		
Acquisition of businesses	(70.3)	(4.5)
Payments for non-rental property, plant and equipment	(22.8)	(25.3)
Proceeds from disposal of non-rental property, plant and equipment	5.2	2.0
Payments for purchase of intangible assets	(5.2)	-
Net cash used in investing activities	(93.1)	(27.8)
Cash flows from financing activities		
Drawdown of loans	182.2	142.3
Redemption of loans	(43.8)	(8.0)
Capital element of finance lease payments	(0.7)	(0.4)
Purchase of own shares by the ESOT	(6.8)	-
Purchase of own shares by the Company	(16.8)	-
Net cash from financing activities	114.1	133.9
Decrease in cash and cash equivalents	(2.7)	(8.1)
Opening cash and cash equivalents	13.0	10.5
Effect of exchange rate difference	0.3	(0.1)
Closing cash and cash equivalents	10.6	2.3

Reconciliation of net cash flows to net debt

	2016	2015
Decrease in cash in the period	2.7	8.1
Increase in debt through cash flow	137.7	133.9
Change in net debt from cash flows	140.4	142.0
Debt acquired	7.5	-
Exchange differences	197.1	(25.7)
Non-cash movements:		
- deferred costs of debt raising	0.5	0.4
- capital element of new finance leases	0.5	0.5
Increase in net debt in the period	346.0	117.2
Net debt at 1 May	2,001.7	1,687.1
Net debt at 31 July	2,347.7	1,804.3

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. General information

Ashtead Group plc ('the Company') is a company incorporated and domiciled in England and Wales and listed on the London Stock Exchange. The condensed consolidated interim financial statements as at, and for the three months ended, 31 July 2016 comprise the Company and its subsidiaries ('the Group').

The condensed consolidated interim financial statements for the three months ended 31 July 2016 were approved by the directors on 6 September 2016.

The condensed consolidated interim financial statements do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The statutory accounts for the year ended 30 April 2016 were approved by the directors on 13 June 2016 and have been mailed to shareholders and filed with the Registrar of Companies. The auditor's report on those accounts was unqualified, did not include a reference to any matter by way of emphasis and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

2. Basis of preparation

The condensed consolidated interim financial statements for the three months ended 31 July 2016 have been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and relevant International Financial Reporting Standards ('IFRS') as adopted by the European Union (including IAS 34, Interim Financial Reporting). The condensed consolidated interim financial statements should be read in conjunction with the Group's Annual Report and Accounts for the year ended 30 April 2016. There are no new IFRS and IFRIC Interpretations that are effective for the first time for this interim period which have a material impact on the Group.

The condensed consolidated interim financial statements have been prepared on the going concern basis. The Group's internal budgets and forecasts of future performance, available financing facilities and facility headroom (see note 10), provide a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the condensed consolidated interim financial statements.

The exchange rates used in respect of the US dollar are:

	2016	2015
Average for the three months ended 31 July	1.40	1.55
At 30 April	1.47	1.54
At 31 July	1.33	1.56

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. Segmental analysis

	Revenue £m	Operating profit before amortisation £m	Amortisation £m	Operating profit £m
Three months to 31 July				
2016				
Sunbelt	610.7	192.4	(4.4)	188.0
A-Plant	96.4	17.6	(1.3)	16.3
Corporate costs	-	(3.4)	-	(3.4)
	707.1	206.6	(5.7)	200.9
2015				
Sunbelt	528.6	166.2	(4.1)	162.1
A-Plant	90.0	17.0	(1.2)	15.8
Corporate costs	-	(3.0)	-	(3.0)
	618.6	180.2	(5.3)	174.9

	Segment assets £m	Cash £m	Taxation assets £m	Total assets £m
At 31 July 2016				
Sunbelt	4,770.9	-	-	4,770.9
A-Plant	658.7	-	-	658.7
Corporate items	0.4	10.6	0.9	11.9
	5,430.0	10.6	0.9	5,441.5
At 30 April 2016				
Sunbelt	4,117.9	-	-	4,117.9
A-Plant	610.1	-	-	610.1
Corporate items	0.5	13.0	7.5	21.0
	4,728.5	13.0	7.5	4,749.0

Sunbelt includes Sunbelt Rentals of Canada Inc..

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. Operating costs and other income

	2016			2015		
	Before amortisation	Amortisation	Total	Before amortisation	Amortisation	Total
	£m	£m	£m	£m	£m	£m
Three months to 31 July						
Staff costs:						
Salaries	150.7	-	150.7	126.7	-	126.7
Social security costs	11.8	-	11.8	9.7	-	9.7
Other pension costs	3.2	-	3.2	2.7	-	2.7
	165.7	-	165.7	139.1	-	139.1
Used rental equipment sold	15.3	-	15.3	42.5	-	42.5
Other operating costs:						
Vehicle costs	38.2	-	38.2	33.3	-	33.3
Spares, consumables & external repairs	34.9	-	34.9	29.4	-	29.4
Facility costs	20.6	-	20.6	16.9	-	16.9
Other external charges	92.4	-	92.4	74.7	-	74.7
	186.1	-	186.1	154.3	-	154.3
Depreciation and amortisation:						
Depreciation	133.4	-	133.4	102.5	-	102.5
Amortisation of intangibles	-	5.7	5.7	-	5.3	5.3
	133.4	5.7	139.1	102.5	5.3	107.8
	500.5	5.7	506.2	438.4	5.3	443.7

5. Amortisation

Amortisation relates to the periodic write-off of intangible assets. The Group believes this item should be disclosed separately within the consolidated income statement to assist in the understanding of the financial performance of the Group. Underlying profit and earnings per share are stated before amortisation of intangibles.

	Three months to 31 July	
	2016	2015
	£m	£m
Amortisation of intangibles	5.7	5.3
Taxation	(1.8)	(1.7)
	3.9	3.6

6. Interest expense

	Three months to 31 July	
	2016	2015
	£m	£m
Bank interest payable	6.7	4.8
Interest payable on second priority senior secured notes	15.5	13.9
Interest payable on finance leases	0.1	0.1
Non-cash unwind of discount on provisions	0.2	0.3
Amortisation of deferred debt raising costs	0.5	0.4
	23.0	19.5

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. Taxation

The tax charge for the period has been computed using a tax rate of 39% in North America (2015: 38%) and 20% in the UK (2015: 20%). The blended rate for the Group as a whole is 34% (2015: 34%).

The tax charge of £62.5m (2015: £55.3m) on the underlying profit before taxation of £183.6m (2015: £160.7m) can be explained as follows:

	Three months to 31 July	
	2016	2015
	£m	£m
Current tax		
- current tax on income for the period	21.8	25.8
- adjustments to prior year	0.1	0.3
	21.9	26.1
Deferred tax		
- origination and reversal of temporary differences	41.1	28.6
- adjustments to prior year	(0.5)	0.6
	40.6	29.2
Tax on underlying activities	62.5	55.3
Comprising:		
- UK	4.1	3.9
- North America	58.4	51.4
	62.5	55.3

In addition, the tax credit of £1.8m (2015: £1.7m) on amortisation of £5.7m (2015: £5.3m) consists of a deferred tax credit of £0.2m relating to the UK (2015: £0.2m) and £1.6m (2015: £1.5m) relating to North America.

8. Earnings per share

Basic and diluted earnings per share for the three months ended 31 July 2016 have been calculated based on the profit for the relevant period and the weighted average number of ordinary shares in issue during that period (excluding shares held by the Company and the ESOT over which dividends have been waived). Diluted earnings per share is computed using the result for the relevant period and the diluted number of shares (ignoring any potential issue of ordinary shares which would be anti-dilutive). These are calculated as follows:

		Three months to 31 July	
		2016	2015
Profit for the financial period (£m)		117.2	101.8
Weighted average number of shares (m)	- basic	501.0	501.4
	- diluted	502.9	503.8
Basic earnings per share		23.4p	20.3p
Diluted earnings per share		23.3p	20.2p

8. Earnings per share (continued)

Underlying earnings per share (defined in any period as the earnings before amortisation of intangibles for that period divided by the weighted average number of shares in issue in that period) may be reconciled to the basic earnings per share as follows:

	Three months to 31 July	
	2016	2015
Basic earnings per share	23.4p	20.3p
Amortisation of intangibles	1.2p	1.0p
Tax on amortisation	(0.4p)	(0.3p)
Underlying earnings per share	24.2p	21.0p

9. Property, plant and equipment

	2016		2015	
	Rental equipment	Total	Rental equipment	Total
Net book value	£m	£m	£m	£m
At 1 May	3,246.9	3,588.8	2,534.2	2,811.1
Exchange difference	291.1	319.0	(34.3)	(37.8)
Reclassifications	-	-	(0.6)	-
Additions	303.7	327.8	323.6	349.2
Acquisitions	26.0	27.0	3.9	4.0
Disposals	(19.8)	(20.9)	(41.4)	(43.5)
Depreciation	(117.4)	(133.4)	(90.1)	(102.5)
At 31 July	3,730.5	4,108.3	2,695.3	2,980.5

10. Borrowings

	31 July 2016	30 April 2016
	£m	£m
Current		
Finance lease obligations	2.7	2.5
Non-current		
First priority senior secured bank debt	1,299.6	1,055.2
Finance lease obligations	2.5	2.9
6.5% second priority senior secured notes, due 2022	682.5	618.2
5.625% second priority senior secured notes, due 2024	371.0	335.9
	2,355.6	2,012.2

10. Borrowings (continued)

The senior secured bank debt and the senior secured notes are secured by way of, respectively, first and second priority fixed and floating charges over substantially all the Group's property, plant and equipment, inventory and trade receivables.

Under the terms of our asset-based senior bank facility, $2.6bn is committed until July 2020. The $900m 6.5% senior secured notes mature in July 2022, whilst the $500m 5.625% senior secured notes mature in October 2024. Our debt facilities therefore remain committed for the long term, with an average of five years remaining. The weighted average interest cost of these facilities (including non-cash amortisation of deferred debt raising costs) is approximately 4%. The terms of the $900m and $500m senior secured notes are such that financial performance covenants are only measured at the time new debt is raised.

There is one financial performance covenant under the first priority senior bank facility. That is, the fixed charge ratio (comprising LTM EBITDA before exceptional items less LTM net capital expenditure paid in cash over the sum of scheduled debt repayments plus cash interest, cash tax payments and dividends paid in the last twelve months) which must be equal to or greater than 1.0 times.

This covenant does not apply when availability exceeds $260m. At 31 July 2016, availability under the senior secured bank facility was $941m ($1,126m at 30 April 2016), with an additional $2,025m of suppressed availability, meaning that the covenant was not measured at 31 July 2016 and is unlikely to be measured in forthcoming quarters.

As a matter of good practice, we calculate the covenant ratio each quarter. At 31 July 2016, the fixed charge ratio exceeded the covenant requirement. Accordingly, the condensed consolidated interim financial statements are prepared on a going concern basis.

Fair value of financial instruments

At 31 July 2016, the Group had no derivative financial instruments.

With the exception of the Group's second priority senior secured notes, the carrying value of non-derivative financial assets and liabilities is considered to materially equate to their fair value.

The carrying value of the second priority senior secured notes due 2022, excluding deferred debt raising costs, was £692m at 31 July 2016 (£627m at 30 April 2016), while the fair value was £732m (£661m at 30 April 2016). The carrying value of the second priority senior secured notes due 2024, excluding deferred debt raising costs, was £377m at 31 July 2016 (£341m at 30 April 2016) while the fair value was £394m (£353m at 30 April 2016). The fair value of the second priority senior secured notes has been calculated using quoted market prices at 31 July 2016.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. Share capital

Ordinary shares of 10p each:

	31 July 2016 Number	30 April 2016 Number	31 July 2016 £m	30 April 2016 £m
Authorised	900,000,000	900,000,000	90.0	90.0
Allotted, called up and fully paid	553,325,554	553,325,554	55.3	55.3

During the period, the Company purchased 1.6m ordinary shares at a total cost of £17m under the share buyback programme announced in June 2016, which are held in treasury. At 31 July 2016, 52m (April 2016: 50m) shares were held by the Company and a further 1.7m (April 2016: 1.8m) shares were held by the Company's Employee Share Ownership Trust.

12. Notes to the cash flow statement

	Three months to 31 July	
	2016	2015
	£m	£m
a) Cash flow from operating activities		
Operating profit before amortisation	206.6	180.2
Depreciation	133.4	102.5
EBITDA before exceptional items	340.0	282.7
Profit on disposal of rental equipment	(1.6)	(13.2)
Profit on disposal of other property, plant and equipment	(0.1)	-
(Increase)/decrease in inventories	(2.5)	2.3
Increase in trade and other receivables	(43.3)	(37.3)
Increase/(decrease) in trade and other payables	12.5	(18.7)
Exchange differences	0.3	-
Other non-cash movements	1.3	1.1
Cash generated from operations before exceptional items and changes in rental equipment	306.6	216.9

b) Analysis of net debt

Net debt consists of total borrowings less cash and cash equivalents. Borrowings exclude accrued interest. Foreign currency denominated balances are retranslated to pounds sterling at rates of exchange ruling at the balance sheet date.

	1 May 2016 £m	Exchange movement £m	Cash flow £m	Debt acquired £m	Non-cash movements £m	31 July 2016 £m
Cash	(13.0)	(0.3)	2.7	-	-	(10.6)
Debt due within one year	2.5	-	(0.8)	0.5	0.5	2.7
Debt due after one year	2,012.2	197.4	138.5	7.0	0.5	2,355.6
Total net debt	2,001.7	197.1	140.4	7.5	1.0	2,347.7

Details of the Group's cash and debt are given in the Review of Balance Sheet and Cash Flow accompanying these condensed consolidated interim financial statements.

12. Notes to the cash flow statement (continued)

c) Acquisitions

	Three months to 31 July	
	2016	2015
	£m	£m
Cash consideration paid:		
- acquisitions in the period	64.1	1.1
- contingent consideration	6.2	3.4
	70.3	4.5

During the period, four acquisitions were made for a total cash consideration of £64m (2015: £1m), after taking account of net cash acquired of £0.1m. Further details are provided in note 13.

Contingent consideration of £6m (2015: £3m) was paid related to prior year acquisitions.

13. Acquisitions

During the quarter, the following acquisitions were completed:

(i) On 2 May 2016 Sunbelt acquired the business and assets of I & L Rentals, LLC ('I & L') for a cash consideration of £46m ($67m). I & L is a general equipment rental business in Hawaii.

(ii) On 20 May 2016 Sunbelt acquired the business and assets of LoadBanks of America ('LBA'), a division of Austin Welder & Generator Services, Inc. for a cash consideration of £4m ($6m). LBA provides testing solutions for power systems.

(iii) On 20 May 2016 A-Plant acquired the entire issued share capital of Mather & Stuart Limited ('Mather & Stuart') for a cash consideration of £7m. Mather & Stuart is a temporary power rental business.

(iv) On 6 June 2016 Sunbelt acquired the business and assets of Portable Rental Solutions, Inc. and One Source Cooling, LLC (collectively 'PRS') for a cash consideration of £7m ($11m). PRS is a temporary heating and cooling business in Texas.

13. Acquisitions (continued)

The following table sets out the fair value of the identifiable assets and liabilities acquired by the Group. The fair values have been determined provisionally at the balance sheet date.

	Fair value to Group £m
Net assets acquired	
Trade and other receivables	6.0
Inventory	0.4
Property, plant and equipment	
- rental equipment	26.0
- other assets	1.0
Creditors	(2.2)
Debt	(7.5)
Current tax	(0.2)
Deferred tax	(0.9)
Intangible assets (non-compete agreements and customer relationships)	14.5
	37.1
Consideration:	
- cash paid (net of cash acquired)	64.1
Goodwill	27.0

The goodwill arising can be attributed to the key management personnel and workforce of the acquired businesses and to the synergies and other benefits the Group expects to derive from the acquisitions. The synergies and other benefits include elimination of duplicate costs, improving utilisation of the acquired rental fleet, using the Group's financial strength to invest in the acquired business and drive improved returns through a semi-fixed cost base and the application of the Group's proprietary software to optimise revenue opportunities. £19m of the goodwill is expected to be deductible for income tax purposes.

The gross value and fair value of trade receivables at acquisition was £6m.

Due to the operational integration of acquired businesses with Sunbelt and A-Plant post acquisition, in particular due to the merger of some stores, the movement of rental equipment between stores and investment in the rental fleet, it is not practical to report the revenue and profit of the acquired businesses post acquisition.

The revenue and operating profit of these acquisitions from 1 May 2016 to their date of acquisition was not material.

14. Contingent liabilities

There have been no significant changes in contingent liabilities from those reported in the financial statements for the year ended 30 April 2016.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

15. Commitments

A-Plant has entered into an agreement to acquire the whole of the issued share capital of Lion Trackhire Limited ('Lion') for £38m. Following the decision of the Competition and Markets Authority not to refer the transaction to a Phase 2 investigation, the transaction is expected to complete in late September. Lion provides temporary access solutions to the events and industrial sectors.

16. Events after the balance sheet date

Since the balance sheet date, the Group has completed two acquisitions as follows:

(i) On 12 August 2016 Sunbelt acquired certain business and assets of CanSource Direct Inc. and CSL Safety Training Ltd. (together 'CSD') for an aggregate cash consideration of £5m (C$9m). CSD is an aerial work platform rental business in Alberta, Canada.

(ii) On 24 August 2016 Sunbelt acquired the rental business and assets of Tower Tech, Inc. ('Tower Tech') for a cash consideration of £10m ($13m). Tower Tech provides cooling solutions.

REVIEW OF BALANCE SHEET AND CASH FLOW

Fixed assets

Capital expenditure in the quarter totalled £328m (2015: £349m) with £304m invested in the rental fleet (2015: £324m). Expenditure on rental equipment was 93% of total capital expenditure with the balance relating to the delivery vehicle fleet, property improvements and IT equipment. Capital expenditure by division was:

	2016			2015
	Replacement	Growth	Total	Total
Sunbelt in $m	47.0	292.3	339.3	409.1
Sunbelt in £m	35.4	220.3	255.7	262.2
A-Plant	10.3	37.7	48.0	61.4
Total rental equipment	45.7	258.0	303.7	323.6
Delivery vehicles, property improvements & IT equipment			24.1	25.6
Total additions			327.8	349.2

In a strong North American rental market, $292m of rental equipment capital expenditure was spent on growth while, with a lower replacement need, only $47m was invested in replacement of existing fleet. The growth proportion is estimated on the basis of the assumption that replacement capital expenditure in any period is equal to the original cost of equipment sold.

The average age of the Group’s serialised rental equipment, which constitutes the substantial majority of our fleet, at 31 July 2016 was 26 months (2015: 25 months) on a net book value basis. Sunbelt’s fleet had an average age of 25 months (2015: 24 months) while A-Plant’s fleet had an average age of 27 months (2015: 26 months).

	Rental fleet at original cost			LTM rental	LTM dollar	LTM physical
	31 July 2016	30 April 2016	LTM average	revenue	utilisation	utilisation
Sunbelt in $m	6,002	5,663	5,456	3,006	55%	70%
Sunbelt in £m	4,524	3,866	4,112	2,055	55%	70%
A-Plant	662	615	619	325	52%	68%
	5,186	4,481	4.731	2,380		

Dollar utilisation is defined as rental revenue divided by average fleet at original (or “first”) cost and, measured over the last twelve months to 31 July 2016, was 55% at Sunbelt (2015: 59%) and 52% at A-Plant (2015: 54%). The reduction in Sunbelt reflects the drag effect of greenfield openings and acquisitions and the increased cost of fleet, while in A-Plant it is due to lower physical utilisation principally. Physical utilisation is time based utilisation, which is calculated as the daily average of the original cost of equipment on rent as a percentage of the total value of equipment in the fleet at the measurement date. Measured over the last twelve months to 31 July 2016, average physical utilisation at Sunbelt was 70% (2015: 70%) and 68% at A-Plant (2015: 69%). At Sunbelt, physical utilisation is measured for equipment with an original cost in excess of $7,500 which comprised approximately 86% of its fleet at 31 July 2016.

Trade receivables

Receivable days at 31 July 2016 were 48 days (2015: 44 days). The bad debt charge for the quarter ended 31 July 2016 as a percentage of total turnover was 0.8% (2015: 0.7%). Trade receivables at 31 July 2016 of £449m (2015: £372m) are stated net of allowances for bad debts and credit notes of £32m (2015: £24m) with the allowance representing 6.7% (2015: 6.1%) of gross receivables.

Trade and other payables

Group payable days were 65 days in 2016 (2015: 59 days) with capital expenditure related payables, which have longer payment terms, totalling £224m (2015: £247m). Payment periods for purchases other than rental equipment vary between seven and 60 days and for rental equipment between 30 and 120 days.

Cash flow and net debt

	Three months to 31 July		LTM to 31 July	Year to 30 April
	2016	2015	2016	2016
	£m	£m	£m	£m
EBITDA before exceptional items	340.0	282.7	1,234.9	1,177.6
Cash inflow from operations before exceptional items and changes in rental equipment	306.6	216.9	1,160.3	1,070.6
*Cash conversion ratio**	*90.2%*	*76.7%*	*94.0%*	*90.9%*
Replacement rental capital expenditure	(122.6)	(115.9)	(459.3)	(452.6)
Payments for non-rental capital expenditure	(28.0)	(25.3)	(112.2)	(109.5)
Rental equipment disposal proceeds	34.2	38.2	168.1	172.1
Other property, plant and equipment disposal proceeds	5.2	2.0	11.4	8.2
Tax (net)	(3.0)	(6.6)	(1.7)	(5.3)
Financing costs	(27.7)	(24.3)	(82.8)	(79.4)
Cash inflow before growth capex and payment of exceptional costs	**164.7**	**85.0**	**683.8**	**604.1**
Growth rental capital expenditure	(211.2)	(222.5)	(660.8)	(672.1)
Total cash used in operations	**(46.5)**	**(137.5)**	**23.0**	**(68.0)**
Business acquisitions	(70.3)	(4.5)	(134.2)	(68.4)
Total cash absorbed	**(116.8)**	**(142.0)**	**(111.2)**	**(136.4)**
Dividends	-	-	(81.5)	(81.5)
Purchase of own shares by the Company	(16.8)	-	(16.8)	-
Purchase of own shares by the ESOT	(6.8)	-	(18.8)	(12.0)
Increase in net debt due to cash flow	**(140.4)**	**(142.0)**	**(228.3)**	**(229.9)**

* Cash inflow from operations before exceptional items and changes in rental equipment as a percentage of EBITDA before exceptional items.

Cash inflow from operations before payment of exceptional costs and the net investment in the rental fleet increased by 41% to £307m. The first quarter cash conversion ratio was 90% (2015: 77%) reflecting an increase in working capital due to the growth in the business.

Total payments for capital expenditure (rental equipment, other PPE and purchased intangibles) in the first quarter were £362m (2015: £364m). Disposal proceeds received totalled £39m (2015: £40m), giving net payments for capital expenditure of £323m in the period (2015: £324m). Financing costs paid totalled £28m (2015: £24m) while tax payments were £3m (2015: £7m). Financing costs paid typically differ from the charge in the income statement due to the timing of interest payments in the year and non-cash interest charges.

Accordingly, in the quarter the Group generated £165m (2015: £85m) of net cash before discretionary investments made to enlarge the size and hence earning capacity of its rental fleet and on acquisitions. After growth investment and acquisitions, there was a net cash outflow of £117m (2015: £142m).

Net debt

	31 July		30 April
	2016	2015	2016
	£m	£m	£m
First priority senior secured bank debt	1,299.6	905.6	1,055.2
Finance lease obligations	5.2	5.3	5.4
6.5% second priority senior secured notes, due 2022	682.5	580.7	618.2
5.625% second priority senior secured notes, due 2024	371.0	315.0	335.9
	2,358.3	1,806.6	2,014.7
Cash and cash equivalents	(10.6)	(2.3)	(13.0)
Total net debt	2,347.7	1,804.3	2,001.7

Net debt at 31 July 2016 was £2,348m with the increase since 30 April 2016 reflecting the net cash outflow set out above and the impact of weaker sterling (£197m). The Group's EBITDA for the twelve months ended 31 July 2016 was £1,235m and the ratio of net debt to EBITDA was 1.7 times at 31 July 2016 (2015: 1.8 times) on a constant currency basis and 1.9 times (2015: 1.8 times) on a reported basis.

Principal risks and uncertainties

Risks and uncertainties in achieving the Group's objectives for the remainder of the financial year, together with assumptions, estimates, judgements and critical accounting policies used in preparing financial information remain broadly unchanged from those detailed in the 2016 Annual Report and Accounts on pages 30 to 32 and page 39 respectively.

The principal risks and uncertainties facing the Group are:

- economic conditions;
- competition;
- financing;
- business continuity;
- people;
- health and safety;
- environmental; and
- laws and regulations.

Further details, including actions taken to mitigate these risks, are provided within the 2016 Annual Report and Accounts.

We note the result of the recent referendum in favour of the UK leaving the European Union. Whilst we do not believe the impact of the UK leaving the European Union will have a material impact on the Group, we continue to monitor developments in this area and the impact on our UK business, which contributed 14% of Group revenue and 10% of Group underlying profit before taxation in 2015/16. The risk of the macro-economic effects of the UK leaving the EU is addressed through the Group's existing 'economic conditions' risk. In the period since the referendum, the principal impact on the Group has been due to weaker sterling against the US dollar which has increased the sterling value of our US dollar denominated revenue, profits and net assets. Our borrowing facilities are US dollar denominated, and with c.90% of our debt drawn in US dollars, weaker sterling has had minimal impact on our availability.

Our business is subject to significant fluctuations in performance from quarter to quarter as a result of seasonal effects. Commercial construction activity tends to increase in the summer and during extended periods of mild weather and to decrease in the winter and during extended periods of inclement weather. Furthermore, due to the incidence of public holidays in the US and the UK, there are more billing days in the first half of our financial year than the second half leading to our revenue normally being higher in the first half. On a quarterly basis, the second quarter is typically our strongest quarter, followed by the first and then the third and fourth quarters.

In addition, the current trading and outlook section of the interim statement provides commentary on market and economic conditions for the remainder of the year.

Fluctuations in the value of the US dollar with respect to the pound sterling have had, and may continue to have, a significant impact on our financial condition and results of operations as reported in pounds due to the majority of our assets, liabilities, revenues and costs being denominated in US dollars. The Group has arranged its financing such that, at 31 July 2016, 90% of its debt was denominated in US (and Canadian) dollars so that there is a natural partial offset between its dollar-denominated net assets and earnings and its dollar-denominated debt and interest expense. At 31 July 2016, dollar-denominated debt represented approximately 61% of the value of dollar-denominated net assets (other than debt). Based on the current currency mix of our profits and on dollar debt levels, interest and exchange rates at 31 July 2016, a 1% change in the US dollar exchange rate would impact underlying pre-tax profit by approximately £6m.

OPERATING STATISTICS

	Number of rental stores			Staff numbers		
	31 July		30 April	31 July		30 April
	2016	2015	2016	2016	2015	2016
Sunbelt	580	522	559	10,027	9,406	10,125
A-Plant	157	138	156	3,023	2,802	2,968
Corporate office	-	-	-	13	12	13
Group	737	660	715	13,063	12,220	13,106

Sunbelt's rental store number includes 23 Sunbelt at Lowes stores at 31 July 2016 (2015: 30).