8 September 2020

Unaudited results for the first quarter ended 31 July 2020

	First quarter		
	2020	2019	Growth[1]
	£m	£m	%
Underlying results[2,3]			
Rental revenue	1,081	1,165	-8%
EBITDA	548	627	-14%
Profit before taxation	208	319	-35%
Earnings per share	34.7p	51.4p	-33%
Statutory results			
Revenue	1,203	1,278	-7%
Operating profit	249	358	-31%
Profit before taxation	192	305	-38%
Earnings per share	32.0p	49.1p	-35%

Highlights[3]

- Resilient performance during the COVID-19 pandemic
- Operating profit of £249m (2019: £358m)
- Pre-tax profit[2] of £208m (2019: £319m)
- Earnings per share[2] of 34.7p (2019: 51.4p)
- Record free cash flow of £447m (2019: £161m)
- Net debt to EBITDA leverage[1,3] of 1.8 times (2019: 1.8 times)
- Resumed greenfield opening programme with three openings

1 Calculated at constant exchange rates applying current period exchange rates.
2 Underlying results are stated before intangible amortisation.
3 Throughout this announcement we refer to a number of alternative performance measures which provide additional useful information. The directors have adopted these to provide additional information on the underlying trends, performance and position of the Group. The alternative performance measures are not defined by IFRS and therefore may not be directly comparable with other companies' alternative performance measures, but are defined in the Glossary on page 26.

Ashtead's chief executive, Brendan Horgan, commented:

"In a quarter of ongoing market and operating environment challenges, our dedicated team members throughout North America and the United Kingdom once again delivered for all our stakeholders. I am extraordinarily proud of, and grateful for their collective response and execution, doing so while keeping our leading value of safety at the forefront of all we do.

In these challenging markets, the Group delivered a strong quarter with rental revenue down only 8% at constant exchange rates. This resilient performance illustrates the successful execution of our long-term strategy, which we embarked upon after the last recession, to broaden and diversify our end markets and strengthen our balance sheet. This positioned us to capitalise on our ever increasing scale, while remaining agile, particularly during these unprecedented times. The actions we took to optimise cash flow, reducing capital expenditure and operating costs, resulted in record free cash flow for the first quarter of £447m (2019: £161m) contributing to reduced leverage of 1.8 times compared to 1.9 times at year end.

Looking forward, the strength of our business model and balance sheet positions the Group well in these more uncertain markets. Assuming there is no significant COVID-19 second wave leading to major market shutdowns, like we experienced earlier this year, we expect full-year Group rental revenue to be down mid to high single digits when compared with last year on a constant currency basis. The benefit we derive from the diversity of our products, services and end markets, coupled with ongoing structural change, enables the Board to look forward to a year with free cash flow in excess of £1bn, continued strengthening of our market position and the medium term with confidence."

<u>Contacts</u>:

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Brendan Horgan and Michael Pratt will hold a conference call for equity analysts to discuss the results and outlook at 10am on Tuesday, 8 September 2020. The call will be webcast live via the Company's website at www.ashtead-group.com and a replay will be available via the website shortly after the call concludes. A copy of this announcement and the slide presentation used for the call are available for download on the Company's website. The usual conference call for bondholders will begin at 4pm (11am 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 details should contact the Company's PR advisers, Maitland/AMO (Audrey Da Costa) at +44 (0)20 7379 5151.

<u>Forward looking statements</u>

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.

Overview and markets

Our first quarter has been dominated by the impact of the COVID-19 pandemic. Our response to these unprecedented times has been impressive. Our robust model has enabled us to continue to serve all our customers in all our geographies. Throughout this period our focus has been on our people, our customers, our communities and our investors, in particular:

- ensuring the health and safety of our team members and customers;
- continuing to serve the needs of our customers and communities, including supporting government and private sector responses to the pandemic; and
- taking steps to optimise cash flow, reduce operating costs and strengthen further our liquidity position during a period of suppressed activity.

While trading volumes were lower than last year as a result of the pandemic, this has been mitigated, in part, by emergency response efforts throughout our business units but particularly within our specialty businesses. Sunbelt Rentals is designated as an essential business in the US, UK and Canada and has supported government and private sector responses to the pandemic. This includes providing vital equipment and services to first responders, hospitals, alternative care facilities, testing sites, food services and telecommunications and utility companies, while continuing to service ongoing construction sites and increased facility maintenance and cleaning.

As a result of these market dynamics, rental only revenue in the US was only 8% lower than the prior year. This consisted of our general tool business which was 9% lower than prior year, while the specialty businesses (excluding oil and gas) demonstrated the benefit of a broader range of products and end markets with rental only revenue 6% higher than last year. This contributed to Group rental revenue in the first quarter 8% lower than the prior year at constant exchange rates. The degree of impact on volume has varied significantly across our geographical markets and is correlated to the severity of infection rates and associated market level restrictions. Activity levels have increased consistently through the quarter such that we have almost as much fleet on rent in the US and Canada as last year and slightly more in the UK. With some impact from Hurricane Laura, US August rental revenue was 7% (3% on a billings per day basis) lower than last year.

A skilled workforce is instrumental to the Group's long-term success and we have made every effort to preserve our committed workforce for the impending recovery. Therefore, we have not made any team members redundant as a result of the impact of COVID-19 and have not sought assistance from any government support programmes such as the UK's Coronavirus Job Retention Scheme or similar schemes in Canada.

Looking forward, we believe that the impact of the COVID-19 pandemic will continue to give rise to market uncertainties over the coming months. However, with strong market positions in all our markets, supported by good quality fleets and a strong financial position, we believe that we are well positioned to respond to this market uncertainty and continue to support our customers and team members as well as taking advantage of opportunities to invest for the longer-term strength of the business.

Trading results

	Revenue 2020	Revenue 2019	EBITDA 2020	EBITDA 2019	Profit[1] 2020	Profit[1] 2019
US in $m	1,284.1	1,380.9	621.1	716.0	324.1	446.6
Canada in C$m	90.4	94.8	29.7	37.6	(0.1)	16.0
US in £m	1,027.0	1,090.4	496.7	565.3	259.2	352.7
UK	123.3	131.4	36.3	43.6	8.3	15.4
Canada in £m	52.9	56.4	17.4	22.4	-	9.5
Group central costs	-	-	(2.5)	(4.7)	(2.7)	(5.0)
	1,203.2	1,278.2	547.9	626.6	264.8	372.6
Net financing costs					(56.5)	(53.6)
Profit before amortisation and tax					**208.3**	**319.0**
Amortisation					(15.9)	(14.3)
Profit before taxation					192.4	304.7
Taxation charge					(48.9)	(76.5)
Profit attributable to equity holders of the Company					143.5	228.2
Margins						
US			*48.4%*	*51.9%*	*25.2%*	*32.3%*
UK			*29.4%*	*33.2%*	*6.8%*	*11.7%*
Canada			*32.8%*	*39.7%*	*-0.1%*	*16.8%*
Group			*45.5%*	*49.0%*	*22.0%*	*29.2%*

[1] Segment result presented is operating profit before amortisation.

Group revenue for the quarter decreased 6% (7% at constant exchange rates) to £1,203m (2019: £1,278m). This resilient revenue performance, in a challenging environment, reflects the benefit of our long-term strategy which is focused on broadening and diversifying our end markets, at the same time as increasing our scale and market share. However, this sudden fall in activity levels had a significant impact on profit in the quarter as a large proportion of our costs are fixed in the short term. This profit impact reflects, in part, our decision to not make team members redundant as a result of COVID-19 and use the opportunity presented by lower activity levels to ensure our fleet was well maintained and serviced in preparation for activity levels improving. As a result, underlying profit before tax for the quarter was £208m (2019: £319m).

Although COVID-19 has influenced the Group's short-term planning and actions, our strategy remains unchanged with long-term growth being driven by organic investment (same-store and greenfield) supplemented by bolt-on acquisitions. In the US and Canada, we experienced 8% and 2% rental only revenue decline respectively, while in the UK, rental only revenue decreased 9%.

In the US a moderate rental only revenue decline represents a strong performance in difficult market conditions, demonstrating the benefit of our strategy of growing our specialty business and broadening our end markets. In the quarter our specialty business (excluding oil and gas) grew 6% while the general tool business declined 9%. US total revenue, including new and used equipment, merchandise and consumable sales, decreased 7% to $1,284m (2019: $1,381m).

The UK business, which was rebranded Sunbelt Rentals with effect from 1 June 2020, generated rental only revenue of £80m, down 9% on the prior year on a comparable basis (2019: £88m). This was a strong performance as the breadth of our product offering and commitment of our team members enabled us to provide essential support to the Department of Health in its COVID-19 response efforts. Total revenue decreased 6% to £123m (2019: £131m).

Canada's rental only revenue decreased 2% on a reported basis. Excluding the impact of the acquisition of William F. White ('WFW'), rental only revenue of the legacy business decreased 11%. Total revenue was C$90m (2019: C$95m).

In all our markets we took action to reduce operating costs and eliminate discretionary expenditure. However, as discussed earlier, we took an early decision to not make any team members redundant as a result of COVID-19, not seek assistance from any government support programmes and to continue investment in the business, including our technology platform and the condition of our rental fleet. As a result, in the US, 74% of the revenue decline dropped through to EBITDA. This contributed to a reported EBITDA margin of 48% (2019: 52%) and a 27% decrease in operating profit to $324m (2019: $447m) at a margin of 25% (2019: 32%).

Last year we launched Project Unify in the UK with the objective of improving operational efficiency and returns. This has resulted in significant investment in the operational infrastructure of the business which, when combined with the impact of COVID-19 on activity levels, contributed to an EBITDA margin of 29% (2019: 33%). Operating profit of £8m (2019: £15m) at a margin of 7% (2019: 12%) also reflected these factors.

Canada is in a growth phase as we invest to expand its network and develop the business. The most recent acquisition was WFW and, while the prospects for this business remain bright, it was a significant drag on Canadian performance in the quarter. Film and TV production activity in Canada ceased in March and is only just about to restart. As a result, WFW contributed virtually no revenue in the quarter but we retained all the team members and infrastructure of the business. This resulted in a loss for the WFW business of C$11m in the quarter which impacted Canadian margins adversely. The legacy Canadian business, excluding WFW, maintained its EBITDA margin at 40% (2019: 40%) and generated an operating profit of C$11m (2019: C$16m) at a 13% margin (2019: 17%).

Overall, Group underlying operating profit decreased to £265m (2019: £373m), down 30% at constant exchange rates. Net financing costs increased to £57m (2019: £54m) reflecting higher lease interest costs. As a result, Group profit before amortisation of intangibles and taxation was £208m (2019: £319m). After a tax charge of 25% (2019: 25%) of the underlying pre-tax profit, underlying earnings per share decreased to 34.7p (2019: 51.4p). The underlying cash tax charge was 40%.

Statutory profit before tax was £192m (2019: £305m). This is after amortisation of £16m (2019: £14m). Included within the total tax charge is a tax credit of £4m (2019: £3m) which relates to the amortisation of intangibles. As a result, basic earnings per share were 32.0p (2019: 49.1p).

Capital expenditure

Capital expenditure for the quarter was £98m gross and £24m net of disposal proceeds (2019: £521m gross and £451m net). We expect gross capital expenditure to be c. £500m for the full year but have the ability to flex this subject to market conditions. Second hand markets remain healthy and the Group disposed of fleet, including old oil and gas fleet, as planned. As a result, the Group's rental fleet at 31 July 2020 at cost was £9.0bn and our average fleet age is now 38 months (2019: 33 months).

Return on Investment

The Group's return on investment metrics have been affected adversely by the decline in activity levels and their impact on profits from mid-March onwards as a result of COVID-19. This has led to return on investment (excluding goodwill and intangible assets) in the US in the 12 months to 31 July 2020 of 19% (2019: 24%). In the UK, return on investment (excluding goodwill and intangible assets) was 5% (2019: 8%). As a result of the actions taken during the prior year through Project Unify and the strategic plans for the business, we expect returns in the UK to improve post COVID-19. In Canada, return on investment (excluding goodwill and intangible assets) was 6% (2019: 11%). We have made a significant investment in Canada including the acquisition of William F. White last year and, as we develop the potential of the market, we expect returns to improve. For the Group as a whole, return on investment (including goodwill and intangible assets) was 14% (2019: 17%). Return on investment excludes the impact of IFRS 16.

Cash flow and net debt

The Group generated free cash flow of £447m (2019: £161m) during the quarter, a record for the business. As a result, and with the benefit of stronger sterling, net debt reduced in the quarter by £541m.

Net debt at 31 July 2020 was £4,822m (2019: £5,161m), resulting in a net debt to EBITDA ratio of 2.2 times (2019: 2.2 times) on a constant currency basis. The Group's target range for net debt to EBITDA is 1.9 to 2.4 times following the adoption of IFRS 16. Excluding the effect of IFRS 16, net debt at 31 July 2020 was £3,726m, while the ratio of net debt to EBITDA was 1.8 times (2019: 1.8 times) on a constant currency basis. The Group's borrowing facilities are committed for an average of six years at a weighted average cost of 4%.

At 31 July 2020, availability under the senior secured debt facility was $2,831m with an additional $1,949m of suppressed availability – substantially above the $460m level at which the Group's entire debt package is covenant free.

Capital allocation

The Group remains disciplined in its approach to allocation of capital with the overriding objective being to enhance shareholder value. Our capital allocation framework remains unchanged and prioritises:

- organic fleet growth;
    - same-stores;
    - greenfields;
- bolt-on acquisitions; and
- a progressive dividend with consideration to both profitability and cash generation that is sustainable through the cycle.

Additionally, we consider further returns to shareholders. In this regard, we assess continuously our medium term plans which take account of investment in the business, growth prospects, cash generation, net debt and leverage. Therefore the amount allocated to buybacks is simply driven by that which is available after organic growth, bolt-on M&A and dividends, whilst allowing us to operate within our 1.9 to 2.4 times target range for net debt to EBITDA (1.5 to 2.0 times pre IFRS 16).

The Group paused its share buyback programme in March as we took action to optimise our cash flow and strengthen further our liquidity position due to the uncertainty arising from the COVID-19 pandemic. We resumed greenfield openings in the quarter and, within the context of our balanced capital allocation policy, leverage range and macroeconomic backdrop, we continue to assess bolt-on opportunities and the appropriate time to resume the buyback programme.

Current trading and outlook

Looking forward, the strength of our business model and balance sheet positions the Group well in these more uncertain markets. Assuming there is no significant COVID-19 second wave leading to major market shutdowns, like we experienced earlier this year, we expect full-year Group rental revenue to be down mid to high single digits when compared with last year on a constant currency basis. The benefit we derive from the diversity of our products, services and end markets, coupled with ongoing structural change, enables the Board to look forward to a year with free cash flow in excess of £1bn, continued strengthening of our market position and the medium term with confidence.

CONSOLIDATED INCOME STATEMENT FOR THE THREE MONTHS ENDED 31 JULY 2020

	2020			2019		
	Before amortisation	Amortisation	Total	Before amortisation	Amortisation	Total
	£m	£m	£m	£m	£m	£m
Unaudited						
Revenue						
Rental revenue	1,081.1	-	1,081.1	1,164.5	-	1,164.5
Sale of new equipment, merchandise and consumables	51.6	-	51.6	46.6	-	46.6
Sale of used rental equipment	70.5	-	70.5	67.1	-	67.1
	1,203.2	-	1,203.2	1,278.2	-	1,278.2
Operating costs						
Staff costs	(287.9)	-	(287.9)	(285.4)	-	(285.4)
Used rental equipment sold	(73.7)	-	(73.7)	(58.6)	-	(58.6)
Other operating costs	(293.7)	-	(293.7)	(307.6)	-	(307.6)
	(655.3)	-	(655.3)	(651.6)	-	(651.6)
EBITDA*	547.9	-	547.9	626.6	-	626.6
Depreciation	(283.1)	-	(283.1)	(254.0)	-	(254.0)
Amortisation of intangibles	-	(15.9)	(15.9)	-	(14.3)	(14.3)
Operating profit	264.8	(15.9)	248.9	372.6	(14.3)	358.3
Interest expense	(56.5)	-	(56.5)	(53.6)	-	(53.6)
Profit on ordinary activities before taxation	208.3	(15.9)	192.4	319.0	(14.3)	304.7
Taxation	(52.8)	3.9	(48.9)	(80.0)	3.5	(76.5)
Profit attributable to equity holders of the Company	155.5	(12.0)	143.5	239.0	(10.8)	228.2
Basic earnings per share	34.7p	(2.7p)	32.0p	51.4p	(2.3p)	49.1p
Diluted earnings per share	34.6p	(2.7p)	31.9p	51.2p	(2.3p)	48.9p

All revenue and profit is generated from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 JULY 2020

	Unaudited	
	2020	2019
	£m	£m
Profit attributable to equity holders of the Company for the period	143.5	228.2
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences	(103.7)	156.3
Total comprehensive income for the period	39.8	384.5

CONSOLIDATED BALANCE SHEET AT 31 JULY 2020

	Unaudited 31 July 2020	Unaudited 31 July 2019	Audited 30 April 2020
	£m	£m	£m
Current assets			
Inventories	79.7	99.1	83.3
Trade and other receivables	798.0	967.5	821.6
Current tax asset	6.7	14.6	32.8
Cash and cash equivalents	9.9	17.0	241.4
	894.3	1,098.2	1,179.1
Non-current assets			
Property, plant and equipment			
- rental equipment	5,484.8	5,985.2	5,890.1
- other assets	669.6	655.2	708.7
	6,154.4	6,640.4	6,598.8
Right-of-use asset	1,063.1	982.1	1,088.3
Goodwill	1,294.2	1,277.3	1,340.3
Other intangible assets	302.6	312.4	326.1
	8,814.3	9,212.2	9,353.5
Total assets	9,708.6	10,310.4	10,532.6
Current liabilities			
Trade and other payables	540.6	790.6	574.7
Current tax liability	46.2	21.0	2.3
Lease liabilities	111.0	97.6	106.0
Provisions	45.2	48.2	53.7
	743.0	957.4	736.7
Non-current liabilities			
Lease liabilities	989.2	884.7	1,006.2
Long-term borrowings	3,731.7	4,195.8	4,492.2
Provisions	34.3	31.0	38.9
Deferred tax liabilities	1,197.4	1,185.0	1,274.3
Net defined benefit pension plan liability	12.2	1.0	12.1
	5,964.8	6,297.5	6,823.7
Total liabilities	6,707.8	7,254.9	7,560.4
Equity			
Share capital	45.4	49.9	45.4
Share premium account	3.6	3.6	3.6
Capital redemption reserve	10.8	6.3	10.8
Own shares held by the Company	(115.9)	(745.7)	(115.9)
Own shares held by the ESOT	(28.8)	(27.6)	(27.7)
Cumulative foreign exchange translation differences	202.0	391.0	305.7
Retained reserves	2,883.7	3,378.0	2,750.3
Equity attributable to equity holders of the Company	3,000.8	3,055.5	2,972.2
Total liabilities and equity	9,708.6	10,310.4	10,532.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 JULY 2020

	Share capital £m	Share premium account £m	Capital redemption 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 2019	49.9	3.6	6.3	(622.6)	(24.6)	234.7	3,153.2	2,800.5
Effect of adoption of IFRS 16	-	-	-	-	-	-	8.1	8.1
At 1 May 2019 (restated)	49.9	3.6	6.3	(622.6)	(24.6)	234.7	3,161.3	2,808.6
Profit for the period	-	-	-	-	-	-	228.2	228.2
Other comprehensive income:								
Foreign currency translation differences	-	-	-	-	-	156.3	-	156.3
Total comprehensive income for the period	-	-	-	-	-	156.3	228.2	384.5
Own shares purchased by the ESOT	-	-	-	-	(17.2)	-	-	(17.2)
Own shares purchased by the Company	-	-	-	(123.1)	-	-	-	(123.1)
Share-based payments	-	-	-	-	14.2	-	(12.1)	2.1
Tax on share-based payments	-	-	-	-	-	-	0.6	0.6
At 31 July 2019	49.9	3.6	6.3	(745.7)	(27.6)	391.0	3,378.0	3,055.5
Profit for the period	-	-	-	-	-	-	511.5	511.5
Other comprehensive income:								
Foreign currency translation differences	-	-	-	-	-	(85.3)	-	(85.3)
Remeasurement of the defined benefit pension plan	-	-	-	-	-	-	(10.8)	(10.8)
Tax on defined benefit pension plan	-	-	-	-	-	-	2.1	2.1
Total comprehensive income for the period	-	-	-	-	-	(85.3)	502.8	417.5
Dividends paid	-	-	-	-	-	-	(186.7)	(186.7)
Own shares purchased by the ESOT	-	-	-	-	(0.4)	-	-	(0.4)
Own shares purchased by the Company	-	-	-	(321.5)	-	-	-	(321.5)
Share-based payments	-	-	-	-	0.3	-	6.0	6.3
Tax on share-based payments	-	-	-	-	-	-	1.5	1.5
Cancellation of shares	(4.5)	-	4.5	951.3	-	-	(951.3)	-
At 30 April 2020	45.4	3.6	10.8	(115.9)	(27.7)	305.7	2,750.3	2,972.2
Profit for the period	-	-	-	-	-	-	143.5	143.5
Other comprehensive income:								
Foreign currency translation differences	-	-	-	-	-	(103.7)	-	(103.7)
Total comprehensive income for the period	-	-	-	-	-	(103.7)	143.5	39.8
Own shares purchased by the ESOT	-	-	-	-	(12.4)	-	-	(12.4)
Share-based payments	-	-	-	-	11.3	-	(9.1)	2.2
Tax on share-based payments	-	-	-	-	-	-	(1.0)	(1.0)
At 31 July 2020	45.4	3.6	10.8	(115.9)	(28.8)	202.0	2,883.7	3,000.8

CONSOLIDATED CASH FLOW STATEMENT FOR THE THREE MONTHS ENDED 31 JULY 2020

		Unaudited		
		2020		2019
		£m		£m
Cash flows from operating activities				
Cash generated from operations before changes in rental equipment		543.4		541.5
Payments for rental property, plant and equipment		(107.3)		(333.3)
Proceeds from disposal of rental property, plant and equipment		81.7		50.1
Cash generated from operations		517.8		258.3
Financing costs paid (net)		(47.5)		(30.1)
Tax paid (net)		(7.4)		(12.6)
Net cash generated from operating activities		462.9		215.6
Cash flows from investing activities				
Acquisition of businesses		(12.2)		(204.7)
Payments for non-rental property, plant and equipment		(18.8)		(56.9)
Proceeds from disposal of non-rental property, plant and equipment		2.5		2.3
Net cash used in investing activities		(28.5)		(259.3)
Cash flows from financing activities				
Drawdown of loans		-		306.9
Redemption of loans		(645.5)		(102.7)
Repayment of principal under lease liabilities		(9.5)		(14.3)
Purchase of own shares by the ESOT		(12.4)		(17.2)
Purchase of own shares by the Company		-		(125.1)
Net cash (used in)/generated from financing activities		(667.4)		47.6
(Decrease)/increase in cash and cash equivalents		(233.0)		3.9
Opening cash and cash equivalents		241.4		12.8
Effect of exchange rate difference		1.5		0.3
Closing cash and cash equivalents		9.9		17.0

Reconciliation of net cash flows to net debt

Decrease/(increase) in cash and cash equivalents in the period		233.0		(3.9)
(Decrease)/increase in debt through cash flow		(655.0)		189.9
Change in net debt from cash flows		(422.0)		186.0
Exchange differences		(156.5)		290.9
Non-cash movements:				
- deferred costs of debt raising		2.2		1.4
- new lease liabilities		35.3		55.1
(Decrease)/increase in net debt in the period		(541.0)		533.4
Net debt at 1 May (as previously stated)	5,363.0		3,744.9	
Effect of adoption of IFRS 16	-		882.8	
Net debt at 1 May 2019 (restated)		5,363.0		4,627.7
Net debt at 31 July		4,822.0		5,161.1

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 financial statements as at, and for the three months ended, 31 July 2020 comprise the Company and its subsidiaries ('the Group').

The condensed consolidated interim financial statements for the three months ended 31 July 2020 were approved by the directors on 7 September 2020.

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 2020 were approved by the directors on 15 June 2020 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 2020 have been prepared in accordance with relevant International Financial Reporting Standards ('IFRS') as adopted by the European Union, including IAS 34, and the accounting policies set out in the Group's Annual Report and Accounts for the year ended 30 April 2020.

The directors have adopted various alternative performance measures to provide additional useful information on the underlying trends, performance and position of the Group. The alternative performance measures are not defined by IFRS and therefore may not be directly comparable with other companies' alternative performance measures, but are defined within the Glossary of Terms on page 26.

The condensed consolidated interim financial statements have been prepared on the going concern basis. The Group's internal budgets and forecasts of future performance, which reflect the immediate impact of the COVID-19 pandemic, available financing facilities and facility headroom (see note 12), 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 financial statements.

While the full economic impact of the COVID-19 pandemic remains uncertain, we modelled a range of scenarios which considered different possible outcomes based on the timing, severity and duration of the downturn and subsequent recovery. This scenario planning considered the potential impact of COVID-19 and, more generally weakening markets on revenue, margins, cash flows, overall debt levels and leverage.

2. Basis of preparation (continued)

In addition, we then considered sensitivities to these scenarios. In particular, we considered the impact of a more significant and sustained period of revenue reduction and increased irrecoverability of receivables, while taking into account reasonable mitigating actions. Under all these scenarios, the Group continues to generate free cash flow and reduce debt during the period of assessment.

The exchange rates used in respect of the US dollar ($) and Canadian dollar (C$) are:

	US dollar		Canadian dollar	
	2020	2019	2020	2019
Average for the three months ended 31 July	1.25	1.27	1.71	1.68
At 30 April	1.26	1.30	1.75	1.75
At 31 July	1.31	1.22	1.76	1.61

3. Segmental analysis

Three months to 31 July 2020

	US	UK	Canada	Corporate items	Group
	£m	£m	£m	£m	£m
Revenue					
Rental revenue	939.0	98.8	43.3	-	1,081.1
Sale of new equipment, merchandise and consumables	29.2	16.3	6.1	-	51.6
Sale of used rental equipment	58.8	8.2	3.5	-	70.5
	1,027.0	123.3	52.9	-	1,203.2
Operating profit before amortisation	259.2	8.3	-	(2.7)	264.8
Amortisation					(15.9)
Net financing costs					(56.5)
Profit before taxation					192.4
Taxation					(48.9)
Profit attributable to equity shareholders					143.5

Three months to 31 July 2019

	US	UK	Canada	Corporate items	Group
	£m	£m	£m	£m	£m
Revenue					
Rental revenue	1,009.8	109.4	45.3	-	1,164.5
Sale of new equipment, merchandise and consumables	32.1	8.4	6.1	-	46.6
Sale of used rental equipment	48.5	13.6	5.0	-	67.1
	1,090.4	131.4	56.4	-	1,278.2
Operating profit before amortisation	352.7	15.4	9.5	(5.0)	372.6
Amortisation					(14.3)
Net financing costs					(53.6)
Profit before taxation					304.7
Taxation					(76.5)
Profit attributable to equity shareholders					228.2

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. Segmental analysis (continued)

	US	UK	Canada	Corporate items	Group
	£m	£m	£m	£m	£m
At 31 July 2020					
Segment assets	8,093.2	831.4	760.5	6.9	9,692.0
Cash					9.9
Taxation assets					6.7
Total assets					9,708.6
At 30 April 2020					
Segment assets	8,639.5	835.2	776.4	7.3	10,258.4
Cash					241.4
Taxation assets					32.8
Total assets					10,532.6

4. Operating costs and other income

	2020			2019		
	Before amortisation	Amortisation	Total	Before amortisation	Amortisation	Total
	£m	£m	£m	£m	£m	£m
Three months to 31 July						
Staff costs:						
Salaries	263.5	-	263.5	260.3	-	260.3
Social security costs	19.0	-	19.0	20.0	-	20.0
Other pension costs	5.4	-	5.4	5.1	-	5.1
	287.9	-	287.9	285.4	-	285.4
Used rental equipment sold	73.7	-	73.7	58.6	-	58.6
Other operating costs:						
Vehicle costs	59.2	-	59.2	75.5	-	75.5
Spares, consumables & external repairs	69.8	-	69.8	65.3	-	65.3
Facility costs	11.5	-	11.5	12.1	-	12.1
Other external charges	153.2	-	153.2	154.7	-	154.7
	293.7	-	293.7	307.6	-	307.6
Depreciation and amortisation:						
Depreciation	283.1	-	283.1	254.0	-	254.0
Amortisation of intangibles	-	15.9	15.9	-	14.3	14.3
	283.1	15.9	299.0	254.0	14.3	268.3
	938.4	15.9	954.3	905.6	14.3	919.9

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

5. Amortisation

Amortisation relates to the write-off of intangible assets over their estimated useful economic life. 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	
	2020	2019
	£m	£m
Amortisation of intangibles	15.9	14.3
Taxation	(3.9)	(3.5)
	12.0	10.8

6. Interest expense

	Three months to 31 July	
	2020	2019
	£m	£m
Interest expense:		
Bank interest payable	13.9	20.0
Interest payable on senior notes	26.4	21.8
Interest payable on lease liabilities	13.7	10.2
Non-cash unwind of discount on provisions	0.3	0.2
Amortisation of deferred debt raising costs	2.2	1.4
	56.5	53.6

7. Taxation

The tax charge for the period has been computed using a tax rate of 25% in the US (2019: 25%), 19% in the UK (2019: 19%) and 27% in Canada (2019: 27%). The blended rate for the Group as a whole is 25% (2019: 25%).

7. Taxation (continued)

The tax charge of £53m (2019: £80m) on the underlying profit before taxation of £208m (2019: £319m) can be explained as follows:

	Three months to 31 July 2020	2019
	£m	£m
Current tax		
- current tax on income for the period	81.7	30.9
- adjustments to prior year	0.3	(1.9)
	82.0	29.0
Deferred tax		
- origination and reversal of temporary differences	(29.2)	49.2
- adjustments to prior year	-	1.8
	(29.2)	51.0
Tax on underlying activities	52.8	80.0
Comprising:		
- UK	4.6	5.6
- US	49.7	73.0
- Canada	(1.5)	1.4
	52.8	80.0

In addition, the tax credit of £4m (2019: £3m) on amortisation of £16m (2019: £14m) consists of a current tax credit of £2m (2019: £nil) relating to the US and a deferred tax credit of £1m (2019: £2m) relating to the US and £1m (2019: £1m) relating to Canada.

8. Earnings per share

Basic and diluted earnings per share for the three months ended 31 July 2020 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 2020	2019
Profit for the financial period (£m)	143.5	228.2
Weighted average number of shares (m) - basic	447.8	464.7
- diluted	449.1	466.5
Basic earnings per share	32.0p	49.1p
Diluted earnings per share	31.9p	48.9p

8. Earnings per share (continued)

Underlying earnings per share (defined in any period as the earnings before amortisation of intangibles and exceptional items 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 2020	2019
Basic earnings per share	32.0p	49.1p
Amortisation of intangibles	3.6p	3.1p
Tax on amortisation	(0.9p)	(0.8p)
Underlying earnings per share	34.7p	51.4p

9. Property, plant and equipment

	2020		2019	
Net book value	Rental equipment £m	Total £m	Rental equipment £m	Total £m
At 1 May	5,890.1	6,598.8	5,413.3	5,987.0
Effect of adoption of IFRS 16	-	-	-	(4.8)
Exchange differences	(190.9)	(213.4)	316.4	348.4
Reclassifications	(0.3)	-	(0.4)	-
Additions	78.9	97.7	462.2	520.8
Acquisitions	2.6	2.6	58.6	83.2
Disposals	(69.7)	(72.6)	(59.2)	(61.3)
Depreciation	(255.9)	(258.7)	(205.7)	(232.9)
At 31 July	5,484.8	6,154.4	5,985.2	6,640.4

10. Right-of-use assets

	2020			2019		
Net book value	Property leases £m	Other leases £m	Total £m	Property leases £m	Other leases £m	Total £m
At 1 May	1,083.7	4.6	1,088.3	-	-	-
Effect of adoption of IFRS 16	-	-	-	889.5	4.8	894.3
Exchange differences	(36.1)	-	(36.1)	53.8	-	53.8
Additions	20.4	0.1	20.5	46.4	0.3	46.7
Remeasurement	17.7	-	17.7	8.6	-	8.6
Disposals	(2.8)	(0.1)	(2.9)	-	(0.2)	(0.2)
Depreciation	(24.1)	(0.3)	(24.4)	(20.8)	(0.3)	(21.1)
At 31 July 2020	1,058.8	4.3	1,063.1	977.5	4.6	982.1

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. Lease liability

	31 July 2020 £m	30 April 2020 £m
Current	111.0	106.0
Non-current	989.2	1,006.2
	1,100.2	1,112.2

12. Borrowings

	31 July 2020 £m	30 April 2020 £m
Non-current		
First priority senior secured bank debt	1,472.4	2,141.9
4.125% senior notes, due 2025	452.5	470.8
5.250% senior notes, due 2026	451.5	469.6
4.375% senior notes, due 2027	452.0	470.2
4.000% senior notes, due 2028	451.7	469.9
4.250% senior notes, due 2029	451.6	469.8
	3,731.7	4,492.2

The senior secured bank debt is secured by way of fixed and floating charges over substantially all the Group's property, plant and equipment, inventory and trade receivables. The senior notes are guaranteed by Ashtead Group plc and all its principal subsidiary undertakings.

Under the terms of our asset-based senior credit facility, $4.1bn is committed until December 2023 and $500m is committed until April 2021.

The $600m 4.125% senior notes mature in August 2025, the $600m 5.25% senior notes mature in August 2026, the $600m 4.375% senior notes mature in August 2027, the $600m 4.000% senior notes mature in May 2028 and the $600m 4.250% senior notes mature in November 2029. Our debt facilities therefore remain committed for the long term, with an average maturity of six years. The weighted average interest cost of these facilities (including non-cash amortisation of deferred debt raising costs) is 4%. The terms of the senior 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 credit 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. This covenant does not apply when availability exceeds $460m. The covenant ratio is calculated each quarter. At 31 July 2020, the fixed charge ratio exceeded the covenant requirement.

At 31 July 2020, availability under the senior secured bank facility was $2,831m ($2,363 including cash on the balance sheet at 30 April 2020), with an additional $1,949m of suppressed availability, meaning that the covenant did not apply at 31 July 2020 and is unlikely to apply in forthcoming quarters.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12. Borrowings (continued)

Fair value of financial instruments

At 31 July 2020, the Group had no derivative financial instruments.

With the exception of the Group's senior notes detailed in the table below, the carrying value of non-derivative financial assets and liabilities is considered to equate materially to their fair value.

	At 31 July 2020		At 30 April 2020	
	Book Value £m	Fair value £m	Book value £m	Fair value £m
4.125% senior notes	457.1	468.5	475.7	461.4
5.250% senior notes	457.1	484.5	475.7	479.3
4.375% senior notes	457.1	476.5	475.7	463.8
4.000% senior notes	457.1	475.4	475.7	453.1
4.250% senior notes	457.1	481.1	475.7	453.1
	2,285.5	2,386.0	2,378.5	2,310.7
Deferred costs of raising finance	(26.2)	-	(28.2)	-
	2,259.3	2,386.0	2,350.3	2,310.7

The fair value of the senior notes has been calculated using quoted market prices at 31 July 2020.

13. Share capital

Ordinary shares of 10p each:

	31 July 2020 Number	30 April 2020 Number	31 July 2020 £m	30 April 2020 £m
Issued and fully paid	454,194,833	454,194,833	45.4	45.4

At 31 July 2020, 4.9m (April 2020: 4.9m) shares were held by the Company and a further 1.4m (April 2020: 1.5m) shares were held by the Company's Employee Share Ownership Trust.

NOTES TO THE CONDENSED CONSOLIDATED INTERM FINANCIAL STATEMENTS

14. Notes to the cash flow statement

a) Cash flow from operating activities

	Three months to 31 July 2020 £m	2019 £m
Operating profit before amortisation	264.8	372.6
Depreciation	283.1	254.0
EBITDA	547.9	626.6
Loss/(profit) on disposal of rental equipment	3.1	(8.4)
Profit on disposal of other property, plant and equipment	(0.3)	(0.1)
Decrease/(increase) in inventories	1.0	(10.5)
Increase in trade and other receivables	(16.7)	(46.0)
Increase/(decrease) in trade and other payables	6.1	(22.8)
Exchange differences	0.1	0.6
Other non-cash movements	2.2	2.1
Cash generated from operations before changes in rental equipment	543.4	541.5

b) Analysis of net debt

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

			Non-cash movements			
	1 May 2020 £m	Cash flow £m	Exchange movement £m	New lease liabilities £m	Other movements £m	31 July 2020 £m
Long-term borrowings	4,492.2	(645.5)	(117.2)	-	2.2	3,731.7
Lease liabilities	1,112.2	(9.5)	(37.8)	35.3	-	1,100.2
Total liabilities from financing activities	5,604.4	(655.0)	(155.0)	35.3	2.2	4,831.9
Cash and cash equivalents	(241.4)	233.0	(1.5)	-	-	(9.9)
Net debt	5,363.0	(422.0)	(156.5)	35.3	2.2	4,822.0

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14. Notes to the cash flow statement (continued)

b) Analysis of net debt (continued)

				Non-cash movements			
	1 May 2019 £m	Adoption of IFRS 16 £m	Cash flow £m	Exchange movement £m	New lease liabilities £m	Other movements £m	31 July 2019 £m
Short-term borrowings	2.3	(2.3)	-	-	-	-	-
Long-term borrowings	3,755.4	(2.7)	204.2	237.5	-	1.4	4,195.8
Lease liabilities	-	887.8	(14.3)	53.7	55.1	-	982.3
Total liabilities from financing activities	3,757.7	882.8	189.9	291.2	55.1	1.4	5,178.1
Cash and cash equivalents	(12.8)	-	(3.9)	(0.3)	-	-	(17.0)
Net debt	3,744.9	882.8	186.0	290.9	55.1	1.4	5,161.1

Details of the Group's cash and debt are given in note 12 and the Review of Balance Sheet and Cash Flow accompanying these condensed consolidated interim financial statements.

c) Acquisitions

	Three months to 31 July	
	2020 £m	2019 £m
Cash consideration paid:		
- acquisitions in the period	-	194.3
- contingent consideration	12.2	10.4
	12.2	204.7

During the period, contingent consideration of £12m (2019: £10m) was paid relating to prior year acquisitions.

15. Contingent liabilities

Following its state aid investigation, in April 2019 the European Commission announced its decision that the Group Financing Exemption in the UK controlled foreign company ('CFC') legislation constitutes state aid in some circumstances. In common with the UK Government and other UK-based international companies, the Group does not agree with the decision and has therefore lodged a formal appeal with the General Court of the European Union. If the decision reached by the European Commission is not successfully appealed, we have estimated the Group's maximum potential liability to be £36m as at 31 July 2020. Based on the current status of proceedings, we have concluded that no provision is required in relation to this matter.

REVIEW OF BALANCE SHEET AND CASH FLOW

Balance sheet

Fixed assets

Capital expenditure in the quarter totalled £98m (2020: £521m) with £79m invested in the rental fleet (2019: £462m). Expenditure on rental equipment was 81% of total capital expenditure with the balance relating to the delivery vehicle fleet, property improvements and IT equipment. Capital expenditure by division was:

	2020	2019
US in $m	73.8	511.1
Canada in C$m	6.0	49.8
US in £m	59.0	417.3
UK	16.4	13.9
Canada in £m	3.5	31.0
Total rental equipment	78.9	462.2
Delivery vehicles, property improvements & IT equipment	18.8	58.6
Total additions	97.7	520.8

As a result of the impact of COVID-19 on market activity, all capital expenditure in 2020 was in relation to replacement capital expenditure.

The average age of the Group's serialised rental equipment, which constitutes the substantial majority of our fleet, at 31 July 2020 was 38 months (2019: 33 months) on a net book value basis. The US fleet had an average age of 38 months (2019: 33 months), the UK fleet had an average age of 44 months (2019: 39 months) and the Canadian fleet had an average age of 36 months (2019: 29 months).

	Rental fleet at original cost			LTM rental	LTM dollar
	31 July 2020	30 April 2020	LTM average	revenue	utilisation
US in $m	9,948	10,102	9,985	4,941	49%
Canada in C$m	914	921	831	359	43%
US in £m	7,579	8,010	7,912	3,916	49%
UK	868	874	878	397	45%
Canada in £m	520	526	490	211	43%
	8,967	9,410	9,280	4,524	

Dollar utilisation was 49% in the US (2019: 54%), 45% for the UK (2019: 46%) and 43% for Canada (2019: 47%). US dollar utilisation reflects lower physical utilisation last year and, more recently, the impact of the COVID-19 pandemic. The comparative period was impacted favourably by hurricane activity. The pandemic had a similar impact on the UK and Canada.

Trade receivables

Receivable days at 31 July 2020 were 44 days (2019: 50 days). The bad debt charge for the last twelve months ended 31 July 2020 as a percentage of total turnover was 1.2% (2019: 0.6%). This increase over the prior year reflects an additional charge taken in the fourth quarter of last year for potentially irrecoverable receivables as a result of the impact of COVID-19. Trade receivables at 31 July 2020 of £641m (2019: £809m) are stated net of allowances for bad debts and credit notes of £92m (2019: £62m) with the increased allowance representing 13% (2019: 7%) of gross receivables as a result of COVID-19.

Trade and other payables

Group payable days were 59 days in 2020 (2019: 54 days) with capital expenditure related payables totalling £77m (2019: £325m). 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 2020 £m	Three months to 31 July 2019 £m	LTM 31 July 2020 £m	Year to 30 April 2020 £m
EBITDA before exceptional items	547.9	626.6	2,297.1	2,375.8
Cash inflow from operations before exceptional items and changes in rental equipment	543.4	541.5	2,432.3	2,430.4
*Cash conversion ratio**	*99.2%*	*86.4%*	*105.9%*	*102.3%*
Replacement rental capital expenditure	(107.3)	(128.0)	(629.5)	(650.2)
Payments for non-rental capital expenditure	(18.8)	(56.9)	(170.1)	(208.2)
Rental equipment disposal proceeds	81.7	50.1	278.2	246.6
Other property, plant and equipment disposal proceeds	2.5	2.3	12.2	12.0
Tax (net)	(7.4)	(12.6)	(108.0)	(113.2)
Financing costs	(47.5)	(30.1)	(214.3)	(196.9)
Cash inflow before growth capex and payment of exceptional costs	**446.6**	**366.3**	**1,600.8**	**1,520.5**
Growth rental capital expenditure	-	(205.3)	(510.7)	(716.0)
Exceptional costs	-	-	(12.4)	(12.4)
Free cash flow	**446.6**	**161.0**	**1,077.7**	**792.1**
Business acquisitions	(12.2)	(204.7)	(260.6)	(453.1)
Total cash generated/(absorbed)	**434.4**	**(43.7)**	**817.1**	**339.0**
Dividends	-	-	(186.7)	(186.7)
Purchase of own shares by the Company	-	(125.1)	(323.5)	(448.6)
Purchase of own shares by the ESOT	(12.4)	(17.2)	(12.8)	(17.6)
Decrease/(increase) in net debt due to cash flow	**422.0**	**(186.0)**	**294.1**	**(313.9)**

* 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 was £543m (2019: £541m). The first quarter cash conversion ratio was 99% (2019: 86%).

Total payments for capital expenditure (rental equipment and other PPE) in the first quarter were £126m (2019: £390m). Disposal proceeds received totalled £84m (2019: £52m), giving net payments for capital expenditure of £42m in the period (2019: £338m). Financing costs paid totalled £47m (2019: £30m) while tax payments were £7m (2019: £13m). 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 free cash flow of £447m (2019: £161m) and, after acquisition expenditure of £12m (2019: £205m), a net cash inflow of £434m (2019: outflow of £44m), before returns to shareholders.

Net debt

	31 July 2020 £m	31 July 2019 £m	30 April 2020 £m
First priority senior secured bank debt	1,472.4	2,340.7	2,141.9
5.625% senior notes, due 2024	-	404.0	-
4.125% senior notes, due 2025	452.5	484.2	470.8
5.250% senior notes, due 2026	451.5	483.1	469.6
4.375% senior notes, due 2027	452.0	483.8	470.2
4.000% senior notes, due 2028	451.7	-	469.9
4.250% senior notes, due 2029	451.6	-	469.8
Total external borrowings	3,731.7	4,195.8	4,492.2
Lease liabilities	1,100.2	982.3	1,112.2
	4,831.9	5,178.1	5,604.4
Cash and cash equivalents	(9.9)	(17.0)	(241.4)
Total net debt	4,822.0	5,161.1	5,363.0

Net debt at 31 July 2020 was £4,822m with the decrease since 30 April 2020 reflecting the net cash inflow set out above and stronger sterling (£157m). The Group's EBITDA for the twelve months ended 31 July 2020 was £2,297m. Including the impact of IFRS 16, the ratio of net debt to EBITDA was 2.2 times at 31 July 2020. Excluding the impact of IFRS 16, the ratio of net debt to EBITDA was 1.8 times (2019: 1.8 times) on a constant currency and 1.7 times on a reported basis as at 31 July 2020.

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 2020 Annual Report and Accounts on pages 36 to 39.

The principal risks and uncertainties facing the Group are:

- economic conditions - in the longer term, there is a link between demand for our services and levels of economic activity. The construction industry, which affects our business, is cyclical and typically lags the general economic cycle by between 12 and 24 months.

  The economic uncertainties resulting from the impact of COVID-19 or other pandemics are considered as part of this risk, together with trade/tariff escalation and the impact of Brexit on the UK economy.

- competition - the already competitive market could become even more competitive and we could suffer increased competition from large national competitors or small companies operating at a local level resulting in reduced market share and lower revenue.

- financing - debt facilities are only ever committed for a finite period of time and we need to plan to renew our facilities before they mature and guard against default. Our loan agreements also contain conditions (known as covenants) with which we must comply.

- cyber security - a cyber-attack or serious uncured failure in our systems could result in us being unable to deliver service to our customers and / or the loss of data. In particular, we are heavily dependent on technology for the smooth running of our business given the large number of both units of equipment we rent and our customers. As a result, we could suffer reputational loss, revenue loss and financial penalties.

This is the most significant factor in our business continuity planning.

- health and safety - we need to comply with laws and regulations governing occupational health and safety matters. Furthermore, accidents could happen which might result in injury to an individual, claims against the Group and damage to our reputation.

- people - retaining and attracting good people is key to delivering superior performance and customer service.

  Excessive staff turnover is likely to impact on our ability to maintain the appropriate quality of service to our customers and would ultimately impact our financial performance adversely.

  At a leadership level, succession planning is required to ensure the Group can continue to inspire the right culture, leadership and behaviours and meet its strategic objectives.

- environmental - we need to comply with environmental laws. These laws regulate such issues as wastewater, stormwater, solid and hazardous wastes and materials, and air quality. Breaches potentially create hazards to our employees, damage to our reputation and expose the Group to, amongst other things, the cost of investigating and remediating contamination and also fines and penalties for non-compliance.

- laws and regulations - failure to comply with the frequently changing regulatory environment could result in reputational damage or financial penalty.

Further details, including actions taken to mitigate these risks, are provided within the 2020 Annual Report and Accounts.

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, Canada 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 2020, 95% of its debt (including lease liabilities) 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 2020, dollar-denominated debt represented approximately 64% 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 2020, a 1% change in the US dollar exchange rate would impact underlying pre-tax profit by approximately £9m.

OPERATING STATISTICS

	Number of rental stores			Staff numbers		
	31 July		30 April	31 July		30 April
	2020	2019	2020	2020	2019	2020
Sunbelt US	836	793	837	13,500	13,551	14,048
Sunbelt UK	192	191	193	3.648	3,799	3,712
Sunbelt Canada	75	68	75	1,441	1,009	1,506
Corporate office	-	-	-	18	17	18
Group	1.103	1,052	1,105	18,607	18,376	19,284

GLOSSARY OF TERMS

The glossary of terms below sets out definitions of terms used throughout this announcement. Included are a number of alternative performance measures (‘APMs’) which the directors have adopted in order to provide additional useful information on the underlying trends, performance and position of the Group. The directors use these measures, which are common across the industry, for planning and reporting purposes. These measures are also used in discussions with the investment analyst community and credit rating agencies. The APMs are not defined by IFRS and therefore may not be directly comparable with other companies’ APMs and should not be considered superior to or a substitute for IFRS measures.

<table>
<tr><th>Term</th><th>Closest equivalent statutory measure</th><th>Definition and purpose</th></tr>
<tr><td>Constant currency growth</td><td>None</td><td>
Calculated by applying the current period exchange rate to the comparative period result. The relevant foreign currency exchange rates are provided within Note 2, Accounting policies, to the financial statements. This measure is used as a means of eliminating the effects of foreign exchange rate movements on the period-on-period changes in reported results.
<table>
<tr><th></th><th>2020
£m</th><th>2019
£m</th><th>%</th></tr>
<tr><td>Rental revenue</td><td></td><td></td><td></td></tr>
<tr><td>As reported</td><td>1,081</td><td>1,165</td><td>-7%</td></tr>
<tr><td>Retranslation effect</td><td>-</td><td>12</td><td></td></tr>
<tr><td>At constant currency</td><td>1,081</td><td>1,177</td><td>-8%</td></tr>
<tr><td>Underlying profit before tax</td><td></td><td></td><td></td></tr>
<tr><td>As reported</td><td>208</td><td>319</td><td>-35%</td></tr>
<tr><td>Retranslation effect</td><td>-</td><td>4</td><td></td></tr>
<tr><td>At constant currency</td><td>208</td><td>323</td><td>-35%</td></tr>
</table>
</td></tr>
<tr><td>Drop through</td><td>None</td><td>
Calculated as the incremental rental revenue which converts into EBITDA (excluding gains from sale of new equipment, merchandise and consumables and from sale of used equipment).
<table>
<tr><th></th><th>2020</th><th>2019</th></tr>
<tr><td>Sunbelt US ($m)</td><td></td><td></td></tr>
<tr><td>Rental revenue</td><td>1,174</td><td>1,279</td></tr>
<tr><td>EBITDA exc. gains</td><td>612</td><td>690</td></tr>
<tr><td>Drop through</td><td>74%</td><td></td></tr>
</table>
This measure is utilised by the Group to demonstrate the incremental profitability generated by the Group as a result of growth in the period.
</td></tr>
<tr><td>Leverage</td><td>None</td><td>
Leverage calculated at constant exchange rates uses the current period exchange rate and is determined as net debt divided by underlying EBITDA.
<table>
<tr><th></th><th colspan="2">Excluding IFRS 16</th><th colspan="2">Including IFRS 16</th></tr>
<tr><th></th><th>2020</th><th>2019</th><th>2020</th><th>2019</th></tr>
<tr><td>Net debt (at constant currency)</td><td>3,726</td><td>3,912</td><td>4,822</td><td>4,820</td></tr>
<tr><td>EBITDA (at constant currency)</td><td>2,107</td><td>2,167</td><td>2,201</td><td>2,174</td></tr>
<tr><td>Leverage</td><td>1.8</td><td>1.8</td><td>2.2</td><td>2.2</td></tr>
</table>
This measure is used to provide an indication of the strength of the Group’s balance sheet and is widely used by investors and credit rating agencies. It also forms part of the remuneration targets of the Group and has been identified as one of the Group’s key performance indicators.
</td></tr>
<tr><td>Return on Investment (‘RoI’)</td><td>None</td><td>
Last 12-month (‘LTM’) 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 tax. RoI is calculated excluding the impact of IFRS 16.

RoI is used by management to help inform capital allocation decisions within the business and has been identified as one of the Group’s key performance indicators. It also forms part of the remuneration targets of the Group.
</td></tr>
</table>

<table>
<tr><th>Term</th><th>Closest equivalent statutory measure</th><th>Definition and purpose</th></tr>
<tr><td></td><td></td><td>
A reconciliation of Group RoI is provided below:
<table>
<tr><th></th><th>2020</th><th>2019</th></tr>
<tr><td>Underlying operating profit (£m)</td><td>1,160</td><td>1,317</td></tr>
<tr><td>Average net assets (£m)</td><td>8,485</td><td>7,541</td></tr>
<tr><td>Return on investment (%)</td><td>14%</td><td>17%</td></tr>
</table>
RoI for the businesses is calculated in the same way, but excludes goodwill and intangible assets:
<table>
<tr><th></th><th>US</th><th>Canada</th><th>UK</th></tr>
<tr><td>Underlying operating profit</td><td>1,419</td><td>36</td><td>28</td></tr>
<tr><td>Average net assets, excluding goodwill and intangibles</td><td>7,499</td><td>606</td><td>632</td></tr>
<tr><td>Return on investment</td><td>19%</td><td>6%</td><td>5%</td></tr>
</table>
</td></tr>
</table>

Other terms used within this announcement include:

- **Availability:** represents the headroom on a given date under the terms of our $4.6bn asset-backed senior bank facility, taking account of current borrowings.

- **Capital expenditure:** represents additions to rental equipment and other tangible assets (excluding assets acquired through a business combination).

- **Cash conversion ratio:** represents cash flow from operations before exceptional items and changes in rental equipment as a percentage of underlying EBITDA. Details are provided within the Review of Balance Sheet and Cash Flow section.

- **Dollar utilisation:** dollar utilisation is trailing 12-month rental revenue divided by average fleet size at original (or 'first') cost measured over a 12-month period. Details are shown within the Review of Balance Sheet and Cash Flow section.

- **EBITDA and EBITDA margin:** EBITDA is earnings before interest, tax, depreciation and amortisation. A reconciliation of EBITDA to profit before tax is shown on the income statement. EBITDA margin is calculated as EBITDA before exceptional items divided by revenue. Progression in EBITDA margin is an important indicator of the Group's performance and this has been identified as one of the Group's key performance indicators.

- **Exceptional items:** those items of income or expense which the directors believe should be disclosed separately by virtue of their significant size or nature to enable a better understanding of the Group's financial performance. Excluding these items provides readers with helpful additional information on the performance of the business across periods and against peer companies. It is also consistent with how business performance is reported to the Board and the remuneration targets set by the Company. .

- **Fleet age:** net book value weighted age of serialised rental assets. Serialised rental assets constitute the substantial majority of our fleet.

- **Fleet on rent:** quantity measured at original cost of our rental fleet on rent. Fleet on rent has been identified as one of the Group's key performance indicators.

- **Free cash flow:** cash generated from operating activities less non-rental net property, plant and equipment expenditure. Non-rental net property, plant and equipment expenditure comprises payments for non-rental capital expenditure less disposal proceeds received in relation to non-rental asset disposals. This measure shows the cash retained by the Group prior to discretionary expenditure on acquisitions and returns to shareholders. A reconciliation of free cash flow is shown in the Review of Balance Sheet and Cash Flow section.

- **Net debt:** net debt is total borrowings (bank, bonds) and lease liabilities less cash balances, as reported. This measure is used to provide an indication of the Group's overall level of indebtedness and is widely used by investors and credit rating agencies. An analysis of net debt is provided in note 14.

- **Operating profit and operating profit margin:** Operating profit is earnings before interest and tax. A reconciliation of operating profit to profit before tax is shown on the income statement. Operating profit margin is calculated as operating profit before exceptional items and the amortisation of intangibles divided by revenue. Progression in operating profit margin is an important indicator of the Group's performance.

- **Organic:** organic measures comprise all locations, excluding locations arising from a bolt-on acquisition completed after the start of the comparative financial period

- **Same store:** same-stores are those locations which were open at the start of the comparative financial period.

- **Suppressed availability:** represents the amount on a given date that the asset base exceeds the facility size under the terms of our $4.6bn asset-backed senior bank facility.

- **Underlying:** underlying results are results stated before exceptional items and the amortisation of acquired intangibles. A reconciliation is shown on the income statement.

- **Yield:** is the return we generate from our equipment. The change in yield is a combination of the rental rate charged, rental period and product and customer mix.