10 September 2019

Unaudited results for the first quarter ended 31 July 2019

	2019[1]	2018	Growth[2]
	£m	£m	%
Underlying results[3]			
Rental revenue	1,164.5	961.0	16%
EBITDA	626.6	503.7	14%
Profit before taxation	319.0	285.6	9%
Earnings per share	51.4p	44.8p	12%
Statutory results			
Revenue	1,278.2	1,047.4	17%
Operating profit	358.3	305.2	11%
Profit before taxation	304.7	274.4	8%
Earnings per share	49.1p	43.0p	12%

Highlights

- Revenue up 17%[2]; rental revenue up 16%[2]
- Operating profit of £358m (2018: £305m)
- Pre-tax profit[3] of £319m (2018: £286m); £326m excluding the impact of IFRS 16
- Earnings per share[3] up 12%[2]
- £521m of capital invested in the business (2018: £465m)
- £196m spent on bolt-on acquisitions (2018: £145m)
- Net debt to EBITDA leverage[2] of 1.8 times (2018: 1.6 times)

1 The results for Q1 2019 are not comparable directly to the prior year due to the adoption of IFRS 16, Leases. Further details are provided in note 2 to the interim financial statements where we set out the impact of IFRS on the results and present the income statement on a comparable basis to the prior year.
2 Calculated at constant exchange rates applying current period exchange rates and excluding the impact of IFRS 16.
3 Underlying results are stated before intangible amortisation.
4 Throughout this announcement we refer to a number of alternative performance measures which are defined in the Glossary on page 31.

Ashtead's chief executive, Brendan Horgan, commented:

"The Group delivered a strong quarter with rental revenue increasing 16% and underlying pre-tax profit increasing 9%, excluding the impact of IFRS 16, both at constant exchange rates.

Our North American end markets remain strong and we continue to execute well on our strategy of organic growth supplemented by targeted bolt-on acquisitions. We invested £521m in capital and a further £196m on bolt-on acquisitions in the period, which has added 27 locations across the Group. This investment reflects the structural growth opportunity that we continue to see in the business as we broaden our product offering, geographic reach and end markets, thus increasing market share and diversifying our business.

We remain focused on responsible growth. Our increasing scale and strong margins are delivering good earnings growth and significant free cash flow generation. This provides significant operational and financial flexibility, enabling us to invest in the long-term structural growth opportunity and enhance returns to shareholders, while maintaining leverage within our target range of 1.9 to 2.4 times net debt to EBITDA (1.5 to 2.0 times excluding IFRS 16). We spent £125m under our share buyback programme in the quarter, and expect to spend a minimum of £500m on share buybacks in 2019/20.

Our business continues to perform well in supportive end markets. Accordingly we expect business performance in line with our expectations and the Board continues to look to the medium term with confidence."

Contacts:

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Brendan Horgan and Michael Pratt will hold a conference call for equity analysts to discuss the results and outlook at 8.30am on Tuesday, 10 September 2019. 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 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 details should contact the Company's PR advisers, Maitland/AMO (Audrey Da Costa) 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 2019	Revenue 2018	EBITDA 2019	EBITDA 2018	Profit[1] 2019	Profit[1] 2018
Sunbelt US in $m	1,380.9	1,167.5	716.0	590.6	446.6	385.8
Sunbelt Canada in C$m	94.8	76.9	37.6	28.3	16.0	14.3
Sunbelt US in £m	1,090.4	877.4	565.3	443.8	352.7	289.9
A-Plant	131.4	125.6	43.6	47.5	15.4	22.2
Sunbelt Canada in £m	56.4	44.4	22.4	16.3	9.5	8.3
Group central costs	-	-	(4.7)	(3.9)	(5.0)	(4.0)
	1,278.2	1,047.4	626.6	503.7	372.6	316.4
Net financing costs					(53.6)	(30.8)
Profit before amortisation and tax					**319.0**	**285.6**
Amortisation					(14.3)	(11.2)
Profit before taxation					304.7	274.4
Taxation charge					(76.5)	(64.5)
Profit attributable to equity holders of the Company					228.2	209.9
Margins as reported						
Sunbelt US			*51.9%*	*50.6%*	*32.3%*	*33.0%*
A-Plant			*33.2%*	*37.8%*	*11.7%*	*17.6%*
Sunbelt Canada			*39.7%*	*36.8%*	*16.8%*	*18.6%*
Group			*49.0%*	*48.1%*	*29.2%*	*30.2%*

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

The Group adopted IFRS 16, Leases ('IFRS 16') on 1 May 2019. The Group elected to apply IFRS 16 using the modified retrospective approach with no restatement of comparative figures. As a result, the results for the quarter are not comparable directly to the prior year with the adoption of IFRS 16 resulting in higher EBITDA and operating profit but lower profit before amortisation and tax than under the previous accounting standard. As a result, our comments below are on both the reported figures and those excluding the impact of IFRS 16 to aid comparability. Margins excluding the impact of IFRS 16 are summarised below. Further details on the adoption and impact of IFRS 16 are provided in note 2 to the interim financial statements.

Margins excluding the impact of IFRS 16	*2019*	*2018*	*2019*	*2018*
Sunbelt US	*50.0%*	*50.6%*	*32.1%*	*33.0%*
A-Plant	*31.5%*	*37.8%*	*11.5%*	*17.6%*
Sunbelt Canada	*37.0%*	*36.8%*	*16.6%*	*18.6%*
Group	*47.2%*	*48.1%*	*28.9%*	*30.2%*

Group revenue for the quarter increased 22% to £1,278m (2018: £1,047m) with strong growth in the US and Canadian markets. This revenue growth, combined with our focus on drop-through, generated underlying profit before tax of £319m (2018: £286m) or £326m excluding the impact of IFRS 16. This performance reflects strong profit growth in the US, a more moderate improvement in Canada as we invest in the business and a slight drag from weakness in the UK.

The Group's strategy remains unchanged with growth being driven by strong organic growth (same-store and greenfield) supplemented by bolt-on acquisitions. Sunbelt US and Sunbelt Canada delivered 18% and 26% rental only revenue growth respectively, while A-Plant's rental only revenue decreased by 1% reflecting the more competitive landscape within a flatter UK market. The growth in Sunbelt Canada continues to reflect the impact of recent acquisitions.

Sunbelt US's revenue growth continues to benefit from cyclical and structural trends and can be explained as follows:

		$m
2018 rental only revenue		872
Organic (same-store and greenfields)	12%	105
Bolt-ons since 1 May 2018	6%	53
2019 rental only revenue	18%	1,030
Ancillary revenue	17%	249
2019 rental revenue	18%	1,279
Sales revenue	23%	102
2019 total revenue	18%	1,381

Sunbelt US's revenue growth demonstrates the successful execution of our long-term structural growth strategy. We continue to capitalise on the opportunity presented by our markets through a combination of organic growth (same-store growth and greenfields) and bolt-ons as we expand our geographic footprint and our specialty businesses. We added 22 new stores in the US in the quarter, almost half of which were specialty locations.

Rental only revenue growth was 18% in strong end markets. This growth was driven by increased fleet on rent year-over-year. Sunbelt US's total revenue, including new and used equipment, merchandise and consumable sales, increased 18% to $1,381m (2018: $1,168m).

A-Plant generated rental only revenue of £94m, down 1% on the prior year (2018: £95m). This resulted from a 3% reduction in fleet on rent offset substantially by an improvement in yield, mainly due to product mix. The rate environment in the UK market remains competitive. A-Plant's total revenue increased 5% to £131m (2018: £126m) reflecting higher used equipment sales as A-Plant defleeted, selling under-utilised and low returning assets.

Sunbelt Canada's rental only revenue increased 26%, including the benefit of recent acquisitions. On an organic basis, Sunbelt Canada's rental only revenue increased 13%. Sunbelt Canada's total revenue was C$95m (2018: C$77m).

We continue to focus on operational efficiency as we look to maintain or improve margins. In Sunbelt US, excluding the impact of IFRS 16, 50% 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 and acquired stores. This contributed to a reported EBITDA margin of 52% (2018: 51%) and a 16% increase in operating profit to $447m (2018: $386m) at a margin of 32% (2018: 33%). Excluding the impact of IFRS 16, the EBITDA and operating profit margins were 50% and 32% respectively for the current period.

The UK market remains competitive and after a period of sustained growth for the business, the focus is now on operational efficiency and improving returns. The EBITDA margin of 33% (2018: 38%) included the drag effect of increased fleet disposals in relation to under-utilised and poor returning assets. Excluding the impact of these disposals and the adoption of IFRS 16, A-Plant generated an EBITDA margin of 36% (2018: 39%). Operating profit of £15m (2018: £22m) at a margin of 12% (2018: 18%) also reflected these impacts.

Sunbelt Canada is in a growth phase as it invests to expand its network and develop the business. Significant growth has been achieved while delivering a 40% EBITDA margin (2018: 37%) and generating an operating profit of C$16m (2018: C$14m) at a margin of 17% (2018: 19%). Excluding the impact of IFRS 16, the EBITDA and operating profit margins were 37% and 17%, respectively. We continue to expect the Canadian business to generate EBITDA and operating profit margins of around 40% and 20% respectively in the near term.

Reflecting the strong performance of the divisions, Group underlying operating profit increased to £373m (2018: £316m), up 12% at constant exchange rates. Net financing costs increased to £54m (2018: £31m) reflecting the impact of the adoption of IFRS 16 which resulted in an incremental interest charge of £10m in the quarter, and higher average debt levels. As a result, Group profit before amortisation of intangibles and taxation was £319m (2018: £286m). After a tax charge of 25% (2018: 24%) of the underlying pre-tax profit, underlying earnings per share increased 10% at constant currency to 51.4p (2018: 44.8p). Excluding the impact of IFRS 16, Group profit before amortisation of intangibles and taxation was £326m and underlying earnings per share increased 12% at constant currency. The underlying cash tax charge was 9%.

Statutory profit before tax was £305m (2018: £274m). This is after amortisation of £14m (2018: £11m). The tax credit of £3m (2018: £3m) relates to a tax credit in relation to the amortisation of intangibles. As a result, basic earnings per share were 49.1p (2018: 43.0p).

Capital expenditure and acquisitions

Capital expenditure for the quarter was £521m gross and £451m net of disposal proceeds (2018: £465m gross and £415m net). This level of capital expenditure reflects the strong market and our ability to take market share. Reflecting this investment, the Group's rental fleet at 31 July 2019 at cost was £9.2bn. Our average fleet age is now 33 months (2018: 32 months).

We invested £196m (2018: £145m), including acquired debt, in six bolt-on acquisitions during the period as we continue to expand our footprint and look to diversify our specialty markets.

Return on Investment

Sunbelt US's pre-tax return on investment (excluding goodwill and intangible assets) in the 12 months to 31 July 2019 was 24% (2018: 24%). In the UK, return on investment (excluding goodwill and intangible assets) was 8% (2018: 11%). This decline reflects the competitive nature of the UK market and the rate environment. In Canada, return on investment (excluding goodwill and intangible assets) was 11% (2018: 12%). We have made a significant investment in Canada and, as we develop the potential of the market, we expect returns to increase. For the Group as a whole, return on investment (including goodwill and intangible assets) was 17% (2018: 18%). For comparability, return on investment excludes the impact of IFRS 16.

Cash flow and net debt

As expected, debt increased during the quarter as we continued to invest in the fleet and made a number of bolt-on acquisitions but also due to the adoption of IFRS 16, which added £883m to debt as at 1 May 2019. In addition, weaker sterling increased reported debt by £291m. During the quarter, we spent £125m on share buybacks.

As a result net debt at 31 July 2019 was £5,161m (2018: £3,033m), resulting in a net debt to EBITDA ratio of 2.1 times on a pro forma 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 the transition to IFRS 16, net debt at 31 July 2019 was £4,184m, while the ratio of net debt to EBITDA was 1.8 times (2018: 1.6 times) on a constant currency basis. The Group's debt facilities are committed for an average of five years at a weighted average interest cost of less than 5%.

At 31 July 2019, availability under the senior secured debt facility was $1,375m, with an additional $2,686m of suppressed availability – substantially above the $410m 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).

Current trading and outlook

Our business continues to perform well in supportive end markets. Accordingly we expect business performance in line with our expectations and the Board continues to look to the medium term with confidence.

CONSOLIDATED INCOME STATEMENT FOR THE THREE MONTHS ENDED 31 JULY 2019

	2019			2018		
	Before amortisation	Amortisation	Total	Before amortisation	Amortisation	Total
	£m	£m	£m	£m	£m	£m
Unaudited						
Revenue						
Rental revenue	1,164.5	-	1,164.5	961.0	-	961.0
Sale of new equipment, merchandise and consumables	46.6	-	46.6	38.5	-	38.5
Sale of used rental equipment	67.1	-	67.1	47.9	-	47.9
	1,278.2	-	1,278.2	1,047.4	-	1,047.4
Operating costs						
Staff costs	(285.4)	-	(285.4)	(231.5)	-	(231.5)
Used rental equipment sold	(58.6)	-	(58.6)	(39.4)	-	(39.4)
Other operating costs	(307.6)	-	(307.6)	(272.8)	-	(272.8)
	(651.6)	-	(651.6)	(543.7)	-	(543.7)
EBITDA*	626.6	-	626.6	503.7	-	503.7
Depreciation	(254.0)	-	(254.0)	(187.3)	-	(187.3)
Amortisation of intangibles	-	(14.3)	(14.3)	-	(11.2)	(11.2)
Operating profit	372.6	(14.3)	358.3	316.4	(11.2)	305.2
Interest expense	(53.6)	-	(53.6)	(30.8)	-	(30.8)
Profit on ordinary activities before taxation	319.0	(14.3)	304.7	285.6	(11.2)	274.4
Taxation	(80.0)	3.5	(76.5)	(67.2)	2.7	(64.5)
Profit attributable to equity holders of the Company	239.0	(10.8)	228.2	218.4	(8.5)	209.9
Basic earnings per share	51.4p	(2.3p)	49.1p	44.8p	(1.8p)	43.0p
Diluted earnings per share	51.2p	(2.3p)	48.9p	44.6p	(1.8p)	42.8p

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

All revenue and profit 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 financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 JULY 2019

	Unaudited	
	2019	2018
	£m	£m
Profit attributable to equity holders of the Company for the period	228.2	209.9
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences	156.3	102.9
Total comprehensive income for the period	384.5	312.8

CONSOLIDATED BALANCE SHEET AT 31 JULY 2019

	Unaudited 31 July 2019	Unaudited 31 July 2018	Audited 30 April 2019
	£m	£m	£m
Current assets			
Inventories	99.1	65.9	83.5
Trade and other receivables	967.5	777.6	843.6
Current tax asset	14.6	20.6	25.3
Cash and cash equivalents	17.0	10.1	12.8
	1,098.2	874.2	965.2
Non-current assets			
Property, plant and equipment			
- rental equipment	5,985.2	4,931.6	5,413.3
- other assets	655.2	484.0	573.7
	6,640.4	5,415.6	5,987.0
Right-of-use asset	982.1	-	-
Goodwill	1,277.3	969.8	1,144.7
Other intangible assets	312.4	224.8	260.6
Net defined benefit pension plan asset	-	4.4	-
	9,212.2	6,614.6	7,392.3
Total assets	10,310.4	7,488.8	8,357.5
Current liabilities			
Trade and other payables	790.6	719.7	632.4
Current tax liability	21.0	19.8	16.4
Lease liabilities	97.6	-	-
Short-term borrowings	-	2.7	2.3
Provisions	48.2	37.3	42.5
	957.4	779.5	693.6
Non-current liabilities			
Lease liabilities	884.7	-	-
Long-term borrowings	4,195.8	3,040.8	3,755.4
Provisions	31.0	28.9	46.0
Deferred tax liabilities	1,185.0	904.2	1,061.1
Net defined benefit pension plan liability	1.0	-	0.9
	6,297.5	3,973.9	4,863.4
Total liabilities	7,254.9	4,753.4	5,557.0
Equity			
Share capital	49.9	49.9	49.9
Share premium account	3.6	3.6	3.6
Capital redemption reserve	6.3	6.3	6.3
Own shares held by the Company	(745.7)	(254.8)	(622.6)
Own shares held by the ESOT	(27.6)	(24.4)	(24.6)
Cumulative foreign exchange translation differences	391.0	228.7	234.7
Retained reserves	3,378.0	2,726.1	3,153.2
Equity attributable to equity holders of the Company	3,055.5	2,735.4	2,800.5
Total liabilities and equity	10,310.4	7,488.8	8,357.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 JULY 2019

	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 2018	49.9	3.6	6.3	(161.0)	(20.0)	125.8	2,522.3	2,526.9
Profit for the period	-	-	-	-	-	-	209.9	209.9
Other comprehensive income:								
Foreign currency translation differences	-	-	-	-	-	102.9	-	102.9
Total comprehensive income for the period	-	-	-	-	-	102.9	209.9	312.8
Own shares purchased by the ESOT	-	-	-	-	(13.8)	-	-	(13.8)
Own shares purchased by the Company	-	-	-	(93.8)	-	-	-	(93.8)
Share-based payments	-	-	-	-	9.4	-	(7.6)	1.8
Tax on share-based payments	-	-	-	-	-	-	1.5	1.5
At 31 July 2018	49.9	3.6	6.3	(254.8)	(24.4)	228.7	2,726.1	2,735.4
Profit for the period	-	-	-	-	-	-	587.0	587.0
Other comprehensive income:								
Foreign currency translation differences	-	-	-	-	-	6.0	-	6.0
Remeasurement of the defined benefit pension plan	-	-	-	-	-	-	(3.7)	(3.7)
Tax on defined benefit pension plan	-	-	-	-	-	-	0.7	0.7
Total comprehensive income for the period	-	-	-	-	-	6.0	584.0	590.0
Dividends paid	-	-	-	-	-	-	(164.2)	(164.2)
Own shares purchase by the ESOT	-	-	-	-	(0.4)	-	-	(0.4)
Own shares purchased by the Company	-	-	-	(367.8)	-	-	-	(367.8)
Share-based payments	-	-	-	-	0.2	-	5.6	5.8
Tax on share-based payments	-	-	-	-	-	-	1.7	1.7
At 30 April 2019	49.9	3.6	6.3	(622.6)	(24.6)	234.7	3,153.2	2,800.5
Effect of initial application 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

CONSOLIDATED CASH FLOW STATEMENT FOR THE THREE MONTHS ENDED 31 JULY 2019

		Unaudited 2019		2018
		£m		£m
Cash flows from operating activities				
Cash generated from operations before exceptional items and changes in rental equipment		541.5		437.1
Payments for rental property, plant and equipment		(333.3)		(388.8)
Proceeds from disposal of rental property, plant and equipment		50.1		43.6
Cash generated from operations		258.3		91.9
Financing costs paid (net)		(30.1)		(13.0)
Tax paid (net)		(12.6)		(2.7)
Net cash generated from operating activities		215.6		76.2
Cash flows from investing activities				
Acquisition of businesses		(204.7)		(115.9)
Payments for non-rental property, plant and equipment		(56.9)		(26.9)
Proceeds from disposal of non-rental property, plant and equipment		2.3		1.7
Net cash used in investing activities		(259.3)		(141.1)
Cash flows from financing activities				
Drawdown of loans		306.9		713.1
Redemption of loans		(102.7)		(550.3)
Repayment of principal under lease liabilities		(14.3)		(0.3)
Purchase of own shares by the ESOT		(17.2)		(13.8)
Purchase of own shares by the Company		(125.1)		(93.1)
Net cash generated from financing activities		47.6		55.6
Increase/(decrease) in cash and cash equivalents		3.9		(9.3)
Opening cash and cash equivalents		12.8		19.1
Effect of exchange rate difference		0.3		0.3
Closing cash and cash equivalents		17.0		10.1

Reconciliation of net cash flows to net debt

(Increase)/decrease in cash and cash equivalents in the period		(3.9)		9.3
Increase in debt through cash flow		189.9		162.5
Change in net debt from cash flows		186.0		171.8
Debt acquired		-		26.9
Exchange differences		290.9		121.5
Non-cash movements:				
- deferred costs of debt raising		1.4		0.9
- new lease liabilities		55.1		0.3
Increase in net debt in the period		533.4		321.4
Net debt at 1 May (as previously stated)	3,744.9		2,712.0	
Effect of initial application of IFRS 16	882.8		-	
Net debt at 1 May (restated)		4,627.7		2,712.0
Net debt at 31 July		5,161.1		3,033.4

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 2019 comprise the Company and its subsidiaries ('the Group').

The condensed consolidated interim financial statements for the three months ended 31 July 2019 were approved by the directors on 9 September 2019.

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 2019 were approved by the directors on 17 June 2019 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 2019 have been prepared in accordance with relevant International Financial Reporting Standards ('IFRS') as adopted by the European Union and the accounting policies set out in the Group's Annual Report and Accounts for the year ended 30 April 2019, except for the adoption of IFRS 16, Leases ('IFRS 16'), further details of which are set out below.

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 31.

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 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 condensed consolidated interim financial statements.

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

	US dollar		Canadian dollar	
	2019	2018	2019	2018
Average for the three months ended 31 July	1.27	1.33	1.68	1.74
At 30 April	1.30	1.38	1.75	1.77
At 30 July	1.22	1.31	1.61	1.71

2. Basis of preparation (continued)

IFRS 16, Leases

IFRS 16 has been applicable for the Group from 1 May 2019 and provides a new model for lease accounting under which lessees recognise a lease liability reflecting future lease payments and a right-of-use asset on the balance sheet for all lease contracts other than certain short-term leases and leases of low-value assets.

Under IFRS 16 the Group recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement, whereas under IAS 17, Leases ('IAS 17') operating leases previously gave rise to a straight-line expense included within other operating expenses. In addition, right-of-use assets will be tested for impairment in accordance with IAS 36, Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

Under IFRS 16 the Group separates the total amount of cash paid for leases that are on balance sheet into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement. Under IAS 17 operating lease payments were presented as operating cash outflows.

Details of the Group's accounting policies under IFRS 16 are set out below, together with a description of the impact of adopting IFRS 16. Significant judgements applied in the adoption of IFRS 16 included determining the lease term for those leases with termination or extension options and determining an incremental borrowing rate where the rate in the lease could not be determined readily.

Accounting policy under IFRS 16

The Group assesses whether a contract is a lease or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is measured initially at the present value of future lease payments at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. Lease payments included in the measurement of the Group's lease liability comprise:

- fixed lease payments, less any lease incentives received; and
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is presented as a separate line in the consolidated balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

2. Basis of preparation (continued)

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term changes, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use asset comprises the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset with depreciation commencing at the commencement date of the lease.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line “other operating costs” in the income statement.

For short-term leases (lease terms of 12 months or less) and leases of low-value assets (such as photocopiers, vending machines, etc.), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other operating costs in the consolidated income statement.

Approach to transition

The Group has elected to apply IFRS 16 using the modified retrospective approach, with the right-of-use asset equal to the lease liability on transition subject to required transitional adjustments. As such, the cumulative effect of adopting IFRS 16 of £8m has been recognised as an adjustment to opening retained earnings on 1 May 2019 with no restatement of comparatives.

The Group’s weighted average incremental borrowing rate applied to lease liabilities as at 1 May 2019 was 4.5%.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. Basis of preparation (continued)

Practical expedients adopted on transition

As part of the Group's adoption of IFRS 16 and application of the modified retrospective approach to transition, the Group elected to use the following practical expedients:

- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics;
- right-of-use assets have been adjusted by the carrying amount of onerous lease provisions at 30 April 2019 instead of performing impairment reviews under IAS 36;
- hindsight has been used in determining the lease term and as such the Group has assumed that all available lease extension options are taken unless there are plans to exit a location based on our historical experience; and
- leases where the remaining lease term on transition was less than 12 months have been excluded from the lease liability on transition.

Financial impact

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. The table below sets out the adjustments recognised at the date of initial application of IFRS 16 in relation to the opening balance sheet:

	As previously reported at 30 April 2019	Impact of IFRS 16	As restated at 1 May 2019
	£m	£m	£m
Current assets			
Trade and other receivables	843.6	(8.0)	835.6
Other current assets	121.6	-	121.6
	965.2	(8.0)	957.2
Non-current assets			
Property, plant and equipment	5,987.0	(4.8)	5,982.2
Right-of-use asset	-	894.3	894.3
Other non-current assets	1,405.3	-	1,405.3
	7,392.3	889.5	8,281.8
Current liabilities			
Trade and other payables	632.4	(10.6)	621.8
Lease liabilities	-	89.0	89.0
Short-term borrowings	2.3	(2.3)	-
Provisions	42.5	(0.5)	42.0
Other current liabilities	16.4	-	16.4
	693.6	75.6	769.2
Non-current liabilities			
Lease liabilities	-	798.8	798.8
Long-term borrowings	3,755.4	(2.7)	3,752.7
Provisions	46.0	(0.9)	45.1
Deferred tax liabilities	1,061.1	2.6	1,063.7
Other non-current liabilities	0.9	-	0.9
	4,863.4	797.8	5,661.2
Net assets	2,800.5	8.1	2,808.6

2. Basis of preparation (continued)

The table below presents a reconciliation of the minimum operating lease commitments disclosed at 30 April 2019 to the lease liabilities recognised at 1 May 2019 under IFRS 16:

	£m
Minimum operating lease commitments disclosed under IAS 17 at 30 April 2019	495.2
Commitments under reasonably certain extension options	761.8
Short-term and low value lease commitments	(5.4)
Effect of discounting	(368.8)
Finance lease liabilities recognised under IAS 17 at 30 April 2019	5.0
Lease liabilities recognised at 1 May 2019 under IFRS 16	887.8

In terms of the income statement impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. The impact on the consolidated income statement is detailed below where pro forma adjustments have been made to eliminate the depreciation and interest which arise under IFRS 16 and to recognise the facility costs within EBITDA which would have been recorded under IAS 17.

	2019			2018
	Pre IFRS 16	IFRS 16 Impact	As reported	Total
	£m	£m	£m	£m
Unaudited				
Revenue				
Rental revenue	1,164.5	-	1,164.5	961.0
Sale of new equipment, merchandise and consumables	46.6	-	46.6	38.5
Sale of used rental equipment	67.1	-	67.1	47.9
	1,278.2	-	1,278.2	1,047.4
Operating costs				
Staff costs	(285.4)	-	(285.4)	(231.5)
Used rental equipment sold	(58.6)	-	(58.6)	(39.4)
Other operating costs	(331.4)	23.8	(307.6)	(272.8)
	(675.4)	23.8	(651.6)	(543.7)
EBITDA*	602.8	23.8	626.6	503.7
Depreciation	(233.2)	(20.8)	(254.0)	(187.3)
Amortisation of intangibles	(14.3)	-	(14.3)	(11.2)
Operating profit	355.3	3.0	358.3	305.2
Interest expense	(43.4)	(10.2)	(53.6)	(30.8)
Profit on ordinary activities before taxation	311.9	(7.2)	304.7	274.4
Taxation	(78.4)	1.9	(76.5)	(64.5)
Profit attributable to equity holders of the Company	233.5	(5.3)	228.2	209.9

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. Segmental analysis

Three months to 31 July 2019

	Sunbelt US	A-Plant	Sunbelt 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

Three months to 31 July 2018

	Sunbelt US	A-Plant	Sunbelt Canada	Corporate items	Group
	£m	£m	£m	£m	£m
Revenue					
Rental revenue	814.9	110.2	35.9	-	961.0
Sale of new equipment, merchandise and consumables	23.2	9.7	5.6	-	38.5
Sale of used rental equipment	39.3	5.7	2.9	-	47.9
	877.4	125.6	44.4	-	1,047.4
Operating profit before amortisation	289.9	22.2	8.3	(4.0)	316.4
Amortisation					(11.2)
Net financing costs					(30.8)
Profit before taxation					274.4
Taxation					(64.5)
Profit attributable to equity shareholders					209.9

	Sunbelt US	A-Plant	Sunbelt Canada	Corporate items	Group
	£m	£m	£m	£m	£m
At 31 July 2019					
Segment assets	8,784.2	901.0	593.1	0.5	10,278.8
Cash					17.0
Taxation assets					14.6
Total assets					10,310.4
At 30 April 2019					
Segment assets	6,991.8	851.6	475.7	0.3	8,319.4
Cash					12.8
Taxation assets					25.3
Total assets					8,357.5

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. Operating costs and other income

	2019			2018		
	Before amortisation	Amortisation	Total	Before amortisation	Amortisation	Total
	£m	£m	£m	£m	£m	£m
Three months to 31 July						
Staff costs:						
Salaries	260.3	-	260.3	211.5	-	211.5
Social security costs	20.0	-	20.0	16.1	-	16.1
Other pension costs	5.1	-	5.1	3.9	-	3.9
	285.4	-	285.4	231.5	-	231.5
Used rental equipment sold	58.6	-	58.6	39.4	-	39.4
Other operating costs:						
Vehicle costs	75.5	-	75.5	62.5	-	62.5
Spares, consumables & external repairs	65.3	-	65.3	50.5	-	50.5
Facility costs	12.1	-	12.1	28.9	-	28.9
Other external charges	154.7	-	154.7	130.9	-	130.9
	307.6	-	307.6	272.8	-	272.8
Depreciation and amortisation:						
Depreciation	254.0	-	254.0	187.3	-	187.3
Amortisation of intangibles	-	14.3	14.3	-	11.2	11.2
	254.0	14.3	268.3	187.3	11.2	198.5
	905.6	14.3	919.9	731.0	11.2	742.2

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 Group's financial performance. Underlying profit and earnings per share are stated before amortisation of intangibles.

	Three months to 31 July	
	2019	2018
	£m	£m
Amortisation of intangibles	14.3	11.2
Taxation	(3.5)	(2.7)
	10.8	8.5

6. Interest expense

	Three months to 31 July	
	2019	2018
	£m	£m
Bank interest payable	20.0	14.4
Interest payable on second priority senior secured notes	21.8	15.2
Interest payable on lease liabilities	10.2	0.1
Non-cash unwind of discount on provisions	0.2	0.2
Amortisation of deferred debt raising costs	1.4	0.9
	53.6	30.8

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. Taxation

The tax charge for the period has been computed using a tax rate of 25% in the US (2018: 25%), 19% in the UK (2018: 19%) and 27% in Canada (2018: 27%). The blended rate for the Group as a whole is 25% (2018: 24%).

The tax charge of £80m (2018: £67m) on the underlying profit before taxation of £319m (2018: £286m) can be explained as follows:

	Three months to 31 July	
	2019	2018
	£m	£m
Current tax		
- current tax on income for the period	30.9	18.5
- adjustments to prior year	(1.9)	(4.0)
	29.0	14.5
Deferred tax		
- origination and reversal of temporary differences	49.2	50.4
- adjustments to prior year	1.8	2.3
	51.0	52.7
Tax on underlying activities	80.0	67.2
Comprising:		
- UK	5.6	4.6
- US	73.0	61.2
- Canada	1.4	1.4
	80.0	67.2

In addition, the tax credit of £3m (2018: £3m) on amortisation of £14m (2018: £11m) consists of a deferred tax credit of £nil (2018: £1m) relating to the UK, £2m (2018: £1m) relating to the US and £1m (2018: £1m) relating to Canada.

8. Earnings per share

Basic and diluted earnings per share for the three months ended 31 July 2019 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	
	2019	2018
Profit for the financial period (£m)	228.2	209.9
Weighted average number of shares (m) - basic	464.7	487.7
- diluted	466.5	489.9
Basic earnings per share	49.1p	43.0p
Diluted earnings per share	48.9p	42.8p

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 2019	Three months to 31 July 2018
Basic earnings per share	49.1p	43.0p
Amortisation of intangibles	3.1p	2.3p
Tax on exceptional items and amortisation	(0.8p)	(0.5p)
Underlying earnings per share	51.4p	44.8p

9. Property, plant and equipment

Net book value	2019 Rental equipment £m	2019 Total £m	2018 Rental equipment £m	2018 Total £m
At 1 May (as previously stated)	5,413.3	5,987.0	4,430.5	4,882.0
Effect of initial application of IFRS 16	-	(4.8)	-	-
At 1 May (restated)	5,413.3	5,982.2	4,430.5	4,882.0
Exchange differences	316.4	348.4	191.2	209.5
Reclassifications	(0.4)	-	(0.6)	-
Additions	462.2	520.8	437.1	464.8
Acquisitions	58.6	83.2	78.3	87.8
Disposals	(59.2)	(61.3)	(39.7)	(41.2)
Depreciation	(205.7)	(232.9)	(165.2)	(187.3)
At 31 July	5,985.2	6,640.4	4,931.6	5,415.6

10. Right-of-use assets

Net book value	Property leases £m	Other leases £m	Total £m
At 1 May 2019 (as previously stated)	-	-	-
Effect of initial application of IFRS 16	889.5	4.8	894.3
At 1 May 2019 (restated)	889.5	4.8	894.3
Exchange differences	53.8	-	53.8
Additions	46.4	0.3	46.7
Remeasurement	8.6	-	8.6
Disposals	-	(0.2)	(0.2)
Depreciation	(20.8)	(0.3)	(21.1)
At 31 July 2019	977.5	4.6	982.1

On transition, the right-of-use asset has been adjusted for the impact of onerous lease provisions (£1m) and lease prepayments (£8m).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. Lease liability

	31 July 2019 £m	30 April 2019 £m
Current	97.6	-
Non-current	884.7	-
	982.3	-

12. Borrowings

	31 July 2019 £m	30 April 2019 £m
Current		
Finance lease obligations	-	2.3
Non-current		
First priority senior secured bank debt	2,340.7	2,010.7
Finance lease obligations	-	2.7
5.625% second priority senior secured notes, due 2024	404.0	379.3
4.125% second priority senior secured notes, due 2025	484.2	454.7
5.250% second priority senior secured notes, due 2026	483.1	453.6
4.375% second priority senior secured notes, due 2027	483.8	454.4
	4,195.8	3,755.4

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.

The $500m 5.625% senior secured notes mature in October 2024, the $600m 4.125% senior secured notes mature in August 2025, the $600m 5.25% senior secured notes mature in August 2026 and the $600m 4.375% senior secured notes mature in August 2027. Our debt facilities therefore remain committed for the long term, with an average maturity of five years. The weighted average interest cost of these facilities (including non-cash amortisation of deferred debt raising costs) is less than 5%. The terms of the 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 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 $410m. The covenant ratio is calculated each quarter. At 31 July 2019, the fixed charge ratio exceeded the covenant requirement.

At 31 July 2019, availability under the senior secured bank facility was $1,375m ($1,622m at 30 April 2019), with an additional $2,686m of suppressed availability, meaning that the covenant did not apply at 31 July 2019 and is unlikely to apply in forthcoming quarters.

12. Borrowings (continued)

Fair value of financial instruments

At 31 July 2019, the Group had no derivative financial instruments.

With the exception of the Group's second priority senior secured 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 2019		At 30 April 2019	
	Book value £m	Fair value £m	Book value £m	Fair value £m
5.625% senior secured notes	408.3	421.1	383.5	397.5
4.125% senior secured notes	490.0	493.0	460.3	455.1
5.250% senior secured notes	490.0	512.0	460.3	476.9
4.375% senior secured notes	490.0	490.0	460.3	451.6
	1,878.3	1,916.1	1,764.4	1,781.1
Deferred costs of raising finance	(23.2)	-	(22.4)	-
	1,855.1	1,916.1	1,742.0	1,781.1

The fair value of the second priority senior secured notes has been calculated using quoted market prices at 31July 2019.

13. Share capital

Ordinary shares of 10p each:

	31 July 2019 Number	30 April 2019 Number	31 July 2019 £m	30 April 2019 £m
Issued and fully paid	499,225,712	499,225,712	49.9	49.9

During the period, the Company purchased 5.8m ordinary shares at a total cost of £123m under the Group's share buyback programme, which are held in treasury. At 31 July 2019, 36.0m (April 2018: 30.3m) shares were held by the Company and a further 1.5m (April 2019: 1.6m) shares were held by the Company's Employee Share Ownership Trust.

14. Notes to the cash flow statement

a) Cash flow from operating activities

	Three months to 31 July 2019 £m	2018 £m
Operating profit before exceptional items and amortisation	372.6	316.4
Depreciation	254.0	187.3
EBITDA before exceptional items	626.6	503.7
Profit on disposal of rental equipment	(8.4)	(8.5)
Profit on disposal of other property, plant and equipment	(0.1)	-
Increase in inventories	(10.5)	(3.6)
Increase in trade and other receivables	(46.0)	(60.6)
(Decrease)/increase in trade and other payables	(22.8)	4.3
Exchange differences	0.6	-
Other non-cash movements	2.1	1.8
Cash generated from operations before exceptional items and changes in rental equipment	541.5	437.1

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 translated to pounds sterling at rates of exchange ruling at the balance sheet date.

				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

14. Notes to the cash flow statement (continued)

b) Analysis of net debt (continued)

	1 May 2018	Cash flow	Non-cash movements: Exchange movement	Non-cash movements: Debt acquired	Non-cash movements: Other movements	31 July 2018
	£m	£m	£m	£m	£m	£m
Short-term borrowings	2.7	(8.3)	-	7.9	0.4	2.7
Long-term borrowings	2,728.4	170.8	121.8	19.0	0.8	3,040.8
Total liabilities from financing activities	2,731.1	162.5	121.8	26.9	1.2	3,043.5
Cash and cash equivalents	(19.1)	9.3	(0.3)	-	-	(10.1)
Net debt	2,712.0	171.8	121.5	26.9	1.2	3,033.4

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 2019	Three months to 31 July 2018
	£m	£m
Cash consideration paid:		
- acquisitions in the period	194.3	115.9
- contingent consideration	10.4	-
	204.7	115.9

During the period, six businesses were acquired with cash paid of £194m (2018: £116m), after taking account of net cash acquired of £2m. Further details are provided in note 15.

Contingent consideration of £10m (2018: £nil) was paid relating to prior year acquisitions.

15. Acquisitions

During the quarter, the following acquisitions were completed:

i) On 9 May 2019, Sunbelt US acquired the business and assets of Westside Rental and Sales, LLC ('Westside'). Westside is a general equipment business in Tennessee.

ii) On 17 May 2019, Sunbelt US acquired the business and assets of the Harlingen Texas branch of Harris County Rentals, LLC, trading as Texas State Rentals ('HCR'). HCR is a general equipment business in Texas.

iii) On 29 May 2019, Sunbelt US acquired the business and assets of the Tampa branch of Contractors Building Supply Co., LLC ('CBS'). CBS is a general equipment business in Florida.

iv) On 20 June 2019, Sunbelt US acquired the business and assets of Six and Mango, LLP ('SME'). SME is a general equipment business in Texas.

v) On 28 June 2019, A-Plant acquired the entire share capital of Ellerbeck Industries Limited, trading as Inlec UK Limited ('Inlec') and Evercal Limited ('Evercal'). Inlec and Evercal are industrial test and measurement businesses.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

15. Acquisitions (continued)

vi) On 19 July 2019, Sunbelt US acquired the business and assets of King Equipment, LLC ('King') for a cash consideration of £152m ($191m), including properties for £21m, with contingent consideration of up to £2m ($3m) payable over the next year depending on revenue meeting or exceeding certain thresholds. King is a general equipment business in California.

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	9.1
Inventory	0.2
Property, plant and equipment	
- rental equipment	58.6
- other assets	24.6
Creditors	(1.2)
Current tax	(0.5)
Deferred tax	(0.5)
Intangible assets (non-compete agreements, brand names and customer relationships)	48.6
	138.9
Consideration:	
- cash paid and due to be paid (net of cash acquired)	195.8
- contingent consideration payable in cash	2.3
	198.1
Goodwill	59.2

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. £56m of the goodwill is expected to be deductible for income tax purposes.

The gross value and the fair value of trade receivables at acquisition was £9m.

Due to the operational integration of acquired businesses with Sunbelt US, Sunbelt Canada 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 2019 to their date of acquisition was not material.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

16. Contingent liabilities

The Group is subject to periodic legal claims in the ordinary course of its business, none of which is expected to have a material impact on the Group's financial position.

Following its state aid investigation, the European Commission announced its decision in April 2019 that the Group Financing Exemption in the UK controlled foreign company ('CFC') legislation does constitute state aid in some circumstances. In common with other UK-based international companies, the Group may be affected by the outcome of this investigation and is therefore monitoring developments. If the decision reached by the European Commission is not successfully appealed, we have estimated the Group's maximum potential liability to be £35m as at 31 July 2019. Based on the current status of the investigation, we have concluded that no provision is required in relation to this amount.

17. Events after the balance sheet date

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

i) On 28 August 2019, Sunbelt US acquired the business and assets of Redi-Rents, Inc. ('Redi-Rents'). Redi-Rents is a general equipment business in California.

ii) On 5 September 2019, Sunbelt US acquired the business and assets of Midwest Scaffold Services, LLC ('MSS'). MSS is a scaffold business in the US midwest.

The initial accounting for these acquisitions is incomplete. Had these acquisitions taken place on 1 May 2019, their contribution to revenue and operating profit would not have been material.

REVIEW OF BALANCE SHEET AND CASH FLOW

Fixed assets

Capital expenditure in the quarter totalled £521m (2018: £465m) with £462m invested in the rental fleet (2018: £437m). Expenditure on rental equipment was 89% of total capital expenditure with the balance relating to the delivery vehicle fleet, property improvements and IT equipment. Capital expenditure by division was:

	2019			2018
	Replacement	Growth	Total	Total
Sunbelt US in $m	143.4	367.7	511.1	491.1
Sunbelt Canada in C$m	24.6	25.2	49.8	57.9
Sunbelt US in £m	117.1	300.2	417.3	374.4
A-Plant	13.9	-	13.9	28.8
Sunbelt Canada in £m	15.3	15.7	31.0	33.9
Total rental equipment	146.3	315.9	462.2	437.1
Delivery vehicles, property improvements & IT equipment			58.6	27.7
Total additions			520.8	464.8

In a strong US rental market, $368m of rental equipment capital expenditure was spent on growth while $143m 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 2019 was 33 months (2018: 32 months) on a net book value basis. Sunbelt US's fleet had an average age of 33 months (2018: 32 months), A-Plant's fleet had an average age of 39 months (2018: 33 months) and Sunbelt Canada's fleet had an average age of 29 months (2018: 29 months).

	Rental fleet at original cost			LTM rental	LTM dollar
	31 July 2019	30 April 2019	LTM average	revenue	utilisation
Sunbelt US in $m	9,623	9,125	8,894	4,831	54%
Sunbelt Canada in C$m	685	660	643	302	47%
Sunbelt US in £m	7,858	6,999	6,903	3,750	54%
A-Plant	884	907	899	416	46%
Sunbelt Canada in £m	426	376	377	177	47%
	9,168	8,282	8,179	4,343	

Dollar utilisation was 54% at Sunbelt US (2018: 55%), 46% at A-Plant (2018: 47%) and 47% at Sunbelt Canada (2018: 59%). The lower Sunbelt Canada dollar utilisation reflects the mix of the business and the impact of the lower dollar utilisation Voisin's business.

Trade receivables

Receivable days at 31 July 2019 were 50 days (2018: 50 days). The bad debt charge for the last twelve months ended 31 July 2019 as a percentage of total turnover was 0.6% (2018: 0.6%). Trade receivables at 31 July 2019 of £809m (2018: £651m) are stated net of allowances for bad debts and credit notes of £62m (2018: £49m) with the allowance representing 7.0% (2018: 7.0%) of gross receivables.

Trade and other payables

Group payable days were 54 days in 2019 (2018: 58 days) with capital expenditure related payables, which have longer payment terms, totalling £325m (2018: £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		LTM to 31 July	Year to 30 April
	2019	2018	2019	2019
	£m	£m	£m	£m
EBITDA before exceptional items	626.6	503.7	2,229.6	2,106.6
Cash inflow from operations before exceptional items and changes in rental equipment	541.5	437.1	2,146.9	2,042.5
*Cash conversion ratio**	*86.4%*	*86.8%*	*96.3%*	*97.0%*
Replacement rental capital expenditure	(128.0)	(137.7)	(463.3)	(472.9)
Payments for non-rental capital expenditure	(56.9)	(26.9)	(198.7)	(168.7)
Rental equipment disposal proceeds	50.1	43.6	188.1	181.6
Other property, plant and equipment disposal proceeds	2.3	1.7	10.7	10.2
Tax (net)	(12.6)	(2.7)	(60.8)	(51.0)
Financing costs	(30.1)	(13.0)	(160.0)	(142.9)
Cash inflow before growth capex and payment of exceptional costs	**366.3**	**302.1**	**1,462.9**	**1,398.8**
Growth rental capital expenditure	(205.3)	(251.1)	(984.8)	(1,030.6)
Free cash flow	**161.0**	**51.0**	**478.1**	**368.2**
Business acquisitions	(204.7)	(115.9)	(680.1)	(591.3)
Total cash absorbed	**(43.7)**	**(64.9)**	**(202.0)**	**(223.1)**
Dividends	-	-	(164.2)	(164.2)
Purchase of own shares by the Company	(125.1)	(93.1)	(492.3)	(460.4)
Purchase of own shares by the ESOT	(17.2)	(13.8)	(17.6)	(14.2)
Increase in net debt due to cash flow	**(186.0)**	**(171.8)**	**(876.1)**	**(861.9)**

* 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 23% to £541m. The first quarter cash conversion ratio was 86% (2018: 87%).

Total payments for capital expenditure (rental equipment and other PPE) in the first quarter were £390m (2018: £416m). Disposal proceeds received totalled £52m (2018: £45m), giving net payments for capital expenditure of £338m in the period (2018: £371m). Financing costs paid totalled £30m (2018: £13m) while tax payments were £13m (2018: £3m). 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 £366m (2018: £302m) of net cash before discretionary investments made to enlarge the size and hence earning capacity of its rental fleet and on acquisitions. After growth capital expenditure, there was a free cash inflow of £161m (2018: £51m) and, after acquisition expenditure of £205m (2018: £116m), a net cash outflow of £44m (2018: £65m), before returns to shareholders. Excluding the impact of IFRS 16, there was a free cash inflow of £144m (2018: £51m) and a net cash outflow of £61m (2018: £65m), before returns to shareholders.

Net debt

	31 July		30 April
	2019	2018	2019
	£m	£m	£m
First priority senior secured bank debt	2,340.7	1,309.0	2,010.7
5.625% second priority senior secured notes, due 2024	404.0	376.5	379.3
4.125% second priority senior secured notes, due 2025	484.2	451.3	454.7
5.250% second priority senior secured notes, due 2026	483.1	450.2	453.6
4.375% second priority senior secured notes, due 2027	483.8	451.1	454.4
Total external borrowings	4,195.8	3,038.1	3,752.7
Lease liabilities	982.3	5.4	5.0
	5,178.1	3,043.5	3,757.7
Cash and cash equivalents	(17.0)	(10.1)	(12.8)
Total net debt	5,161.1	3,033.4	3,744.9

Net debt at 31 July 2019 was £5,161m with the increase since 30 April 2019 reflecting the adoption of IFRS 16, the net cash outflow set out above and the impact of weaker sterling (£291m). The Group's EBITDA for the twelve months ended 31 July 2019 was £2,230m. On a pro forma basis, including the impact of IFRS 16, the ratio of net debt to EBITDA was 2.1 times at 31 July 2019. Excluding the impact of IFRS 16, the ratio of net debt to EBITDA was 1.8 times (2018: 1.6 times) on a constant currency basis and 1.9 times (2018: 1.7 times) on a reported basis as at 31 July 2019.

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 2019 Annual Report and Accounts on pages 32 to 35.

The principal risks and uncertainties facing the Group are:

- economic conditions;
- competition;
- financing;
- cyber security;
- health and safety;
- people;
- environmental; and
- laws and regulations.

Further details, including actions taken to mitigate these risks, are provided within the 2019 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 2019, 94% 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 2019, dollar-denominated debt represented approximately 65% 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 2019, a 1% change in the US dollar exchange rate would impact underlying pre-tax profit by approximately £11m.

OPERATING STATISTICS

	Number of rental stores			Staff numbers		
	31 July		30 April	31 July		30 April
	2019	2018	2019	2019	2018	2019
Sunbelt US	793	686	773	13,551	11,793	13,015
A-Plant	191	193	196	3,799	3,622	3,789
Sunbelt Canada	68	61	67	1,009	889	984
Corporate office	-	-	-	17	14	15
Group	1,052	940	1,036	18,376	16,318	17,803

Sunbelt US's rental store number includes 19 Sunbelt at Lowes stores at 31 July 2019 (2018: 19).

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. Where relevant, the APMs exclude the impact of IFRS 16 to aid comparability with prior year metrics. 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.

Availability: represents the headroom on a given date under the terms of our $4.1bn asset-backed senior credit 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.

Constant currency: calculated by applying the current period exchange rate to the comparative period result. The relevant foreign currency exchange rates are provided within the Basis of Preparation 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: EBITDA is earnings before interest, tax, depreciation and amortisation. A reconciliation of EBITDA to profit before tax is shown on the income statement.

Drop-through: calculated as the incremental rental revenue which converts into EBITDA. In the current year, the impact of IFRS 16 has been excluded so as not to distort this metric.

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.

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.

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.

Leverage: leverage is net debt divided by underlying EBITDA. Leverage calculated at constant exchange rates uses the current balance sheet exchange rate.

Net debt: net debt is total debt less cash balances, as reported. An analysis of net debt is provided in note 13.

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

Return on Investment ('RoI'): 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. In the current year, the impact of IFRS 16 has been excluded so as not to distort this metric. RoI is used by management to help inform capital allocation decisions within the business and a reconciliation of Group RoI is provided below:

LTM underlying operating profit (£m)	1,317
Average net assets (£m)	7,541
Return on Investment	**17%**

RoI for the businesses is calculated in the same way, but excludes goodwill and intangible assets.

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 $4.1bn asset-backed senior credit 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: reflects a combination of the rental rate charged, rental period and product and customer mix.