



# Q3 FY21 Results

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James Davies, Chief Financial Officer

25 February 2021

# Q3 YTD FY21

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D&G continues to demonstrate growth and resilience

## Financial performance

- + Double digit growth in YTD total subscription plan sales drives real medium-term value
- + Accelerating YOY growth in revenue, Group EBITDA broadly flat despite temporary supply chain issues across the UK market. International EBITDA ahead of expectations

## Operational progress

- + Digitalisation continues at pace – YoY growth of 130% in new subscriptions signed up digitally in Q3
- + Contact centre KPIs, particularly conversion, continue to be strong
- + US launch preparations on track

## Cashflow and capital

- + Underlying cash generation remains strong, but impacted by timing issues on Brexit related Part VII cashflows
- + Continue to be well covered from a Solvency II perspective
- + Future capital efficiencies expected within European business

# Brexit & Covid

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Brexit - transition completed as planned

Covid – our business is resilient, and we continue to serve our customers

## Brexit Part VII

- + Part VII transfer of business from DGI to DGIEU was successfully completed on 31 December 2020
- + Group Solvency II coverage ratio and cash (distributable reserves) reduced by Part VII transfer, reflecting investment required to capitalise German regulated entity. Approval for the German Undertaking Specific Parameters is expected later this year which should reduce capital requirements
- + The group continues to have strong solvency coverage. Capital optimisation is a focus
- + We continue to operate business as usual post Brexit

## Covid

- + Our business remains resilient, but we have been affected by temporary supply chain issues which have caused an increase in our claims costs as we protected customer service
- + Our fixed margin mechanism provides partial protection against these type of rare events
- + KPI's on the effectiveness of remote working remain positive
- + Customer satisfaction measures remain strong despite the current environment
- + Progressing with future hybrid ways of working

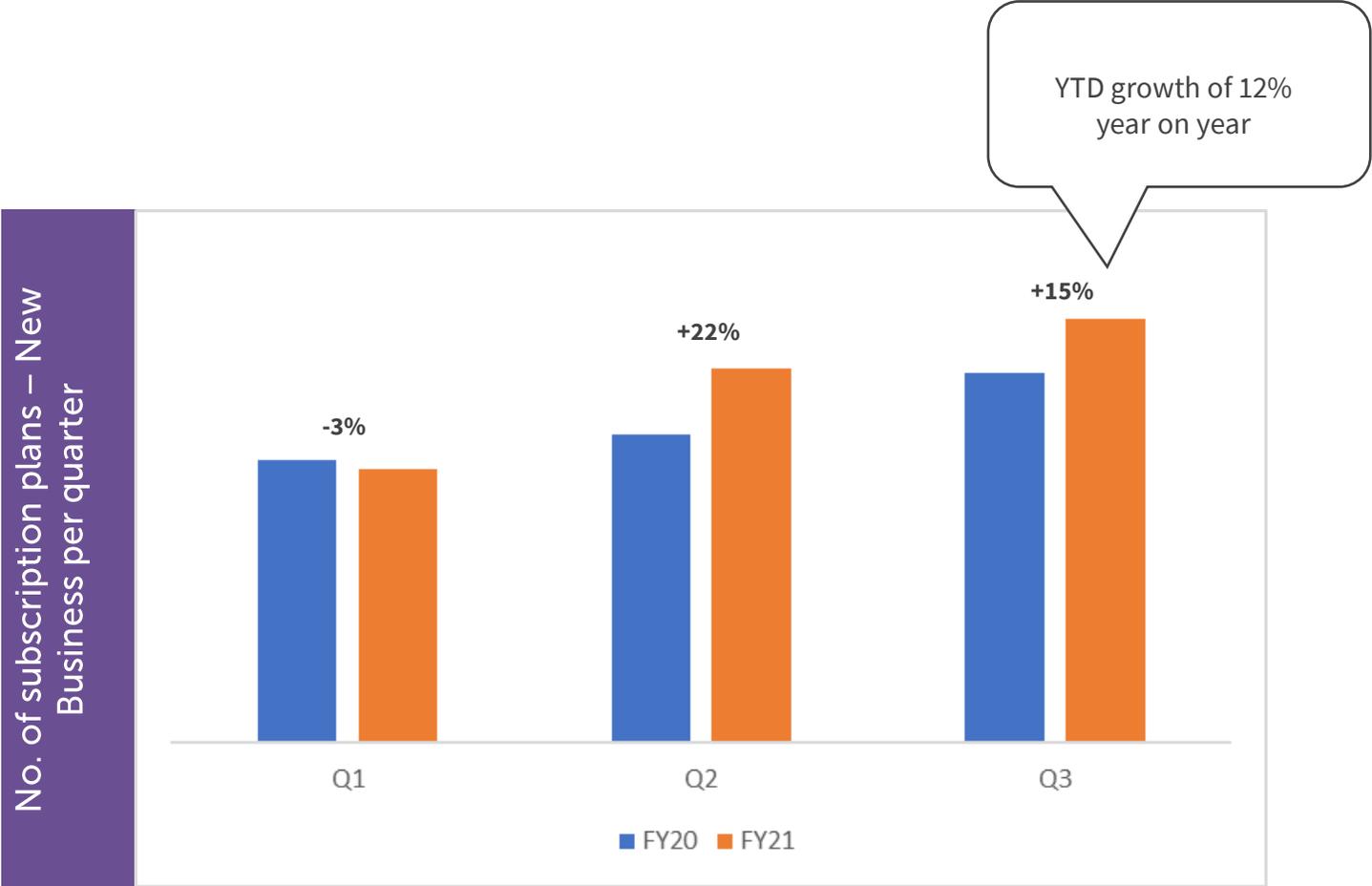


# Q3 FY21

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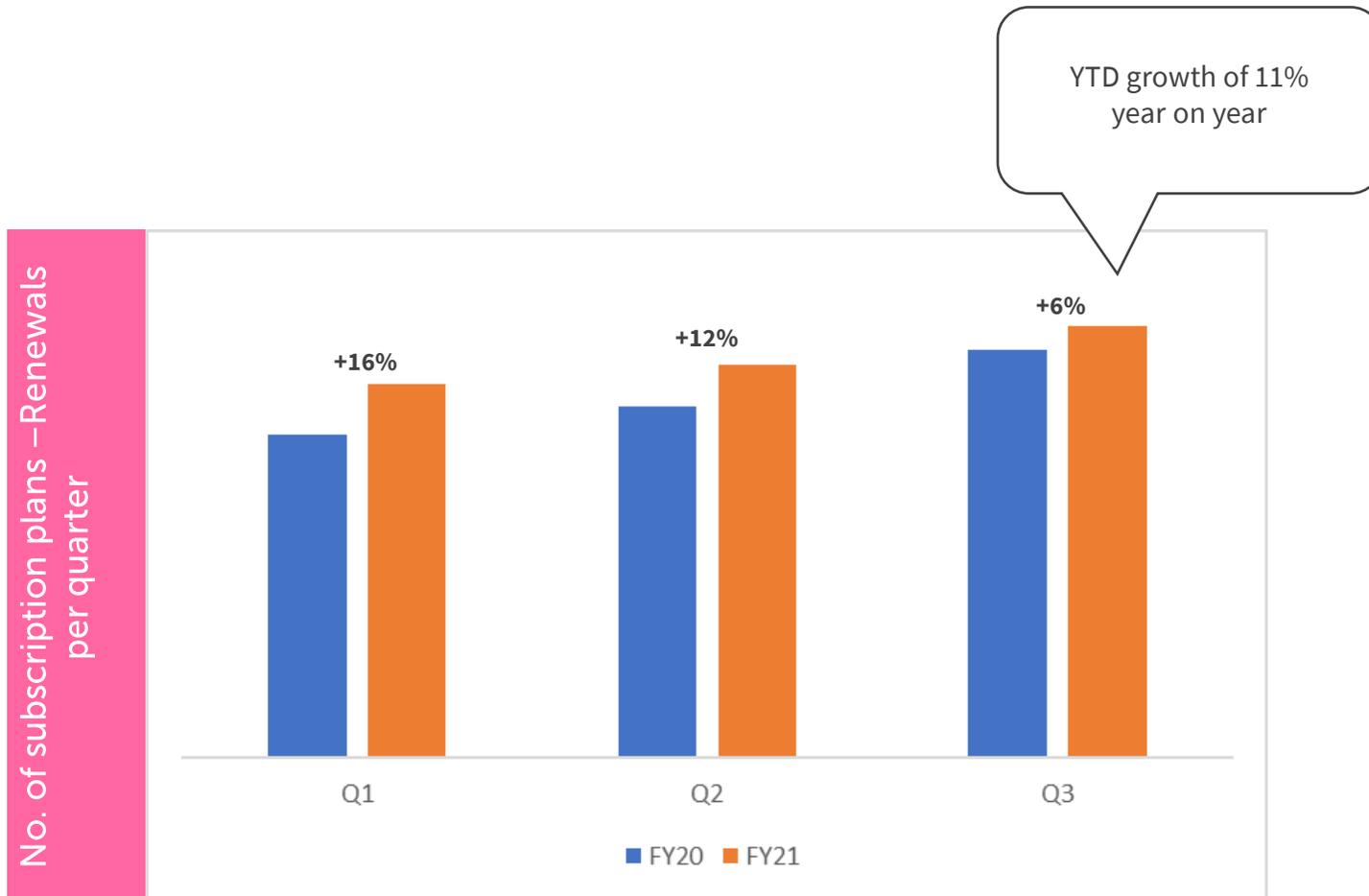
Further growth and resilience

# Continued double digit growth in new business volumes



- New business: mix of online and offline retail and manufacturer partners reinforces the resilience of our business model

# Continued double digit growth in renewal volumes



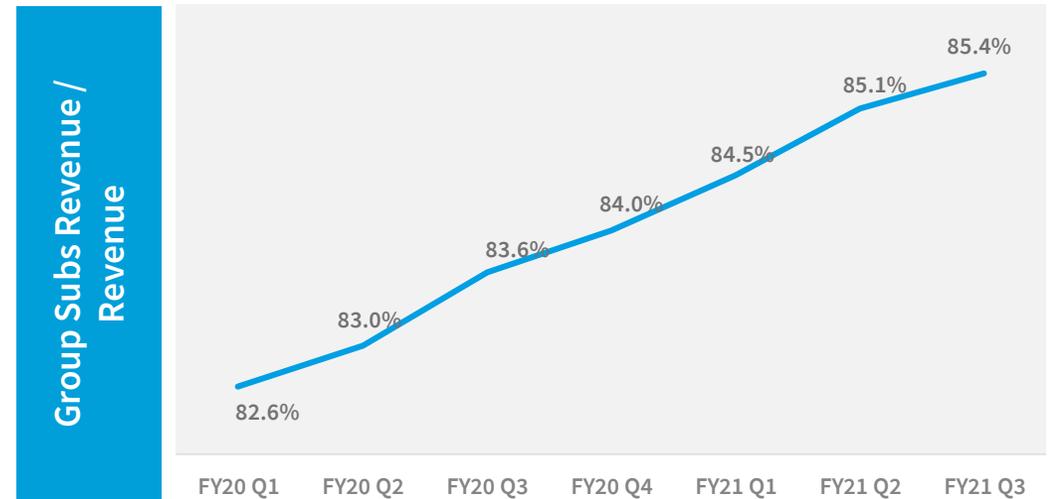
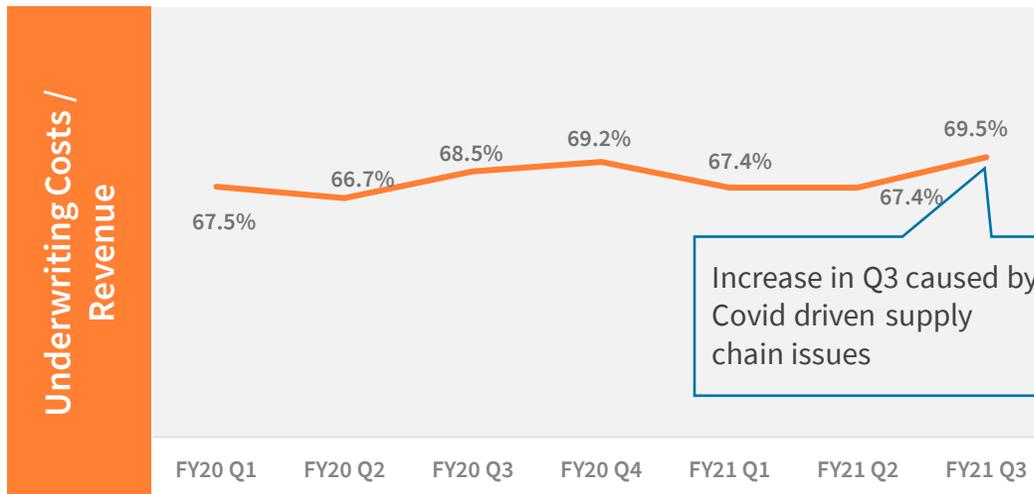
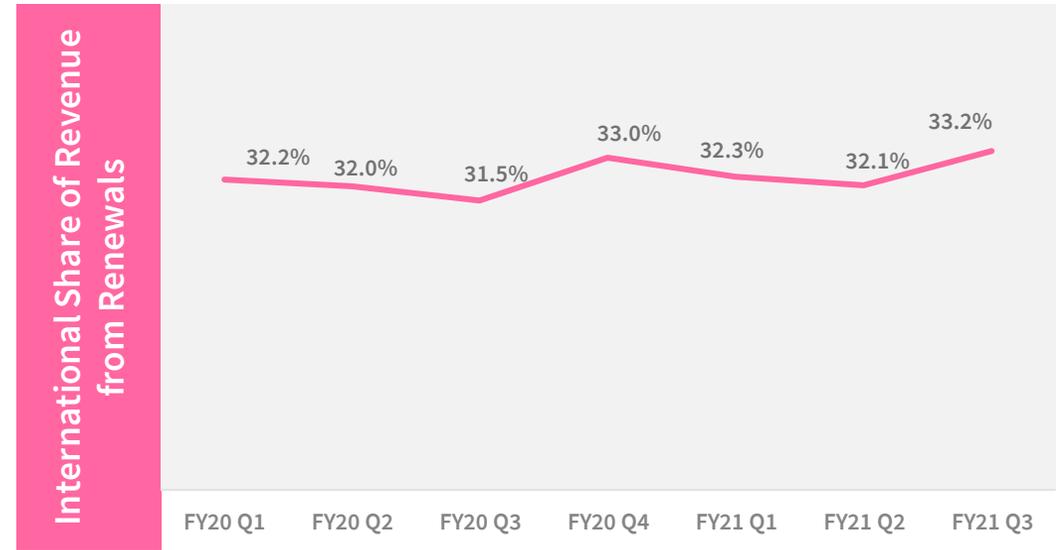
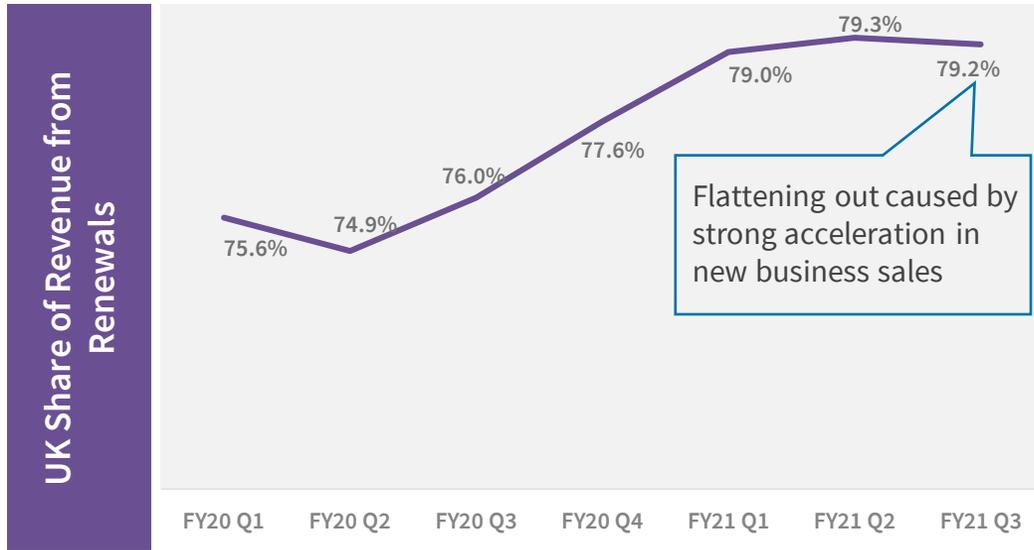
- Renewals: performing ahead of expectations supported by demonstrated value of D&G's product and service during lockdowns

## Increasing revenue quality – UK & International

	9m to 31 December	FY 21	FY 20	Change
Subscription Revenue	UK	489.3	467.0	4.8%
	International	64.8	52.1	24.4%
	<b>Group Subscription Revenue</b>	<b>554.1</b>	<b>519.1</b>	<b>6.7%</b> ①
Non-Subscription Revenue	UK	37.6	44.2	-14.9%
	International	56.7	57.7	-1.7%
	<b>Group Non-Subscription Revenue</b>	<b>94.3</b>	<b>101.9</b>	<b>-7.5%</b> ②
Revenue	UK	526.9	511.2	3.1%
	International	121.5	109.8	10.7% ③
	<b>Total Group Revenue</b>	<b>648.4</b>	<b>621.0</b>	<b>4.4%</b> ④

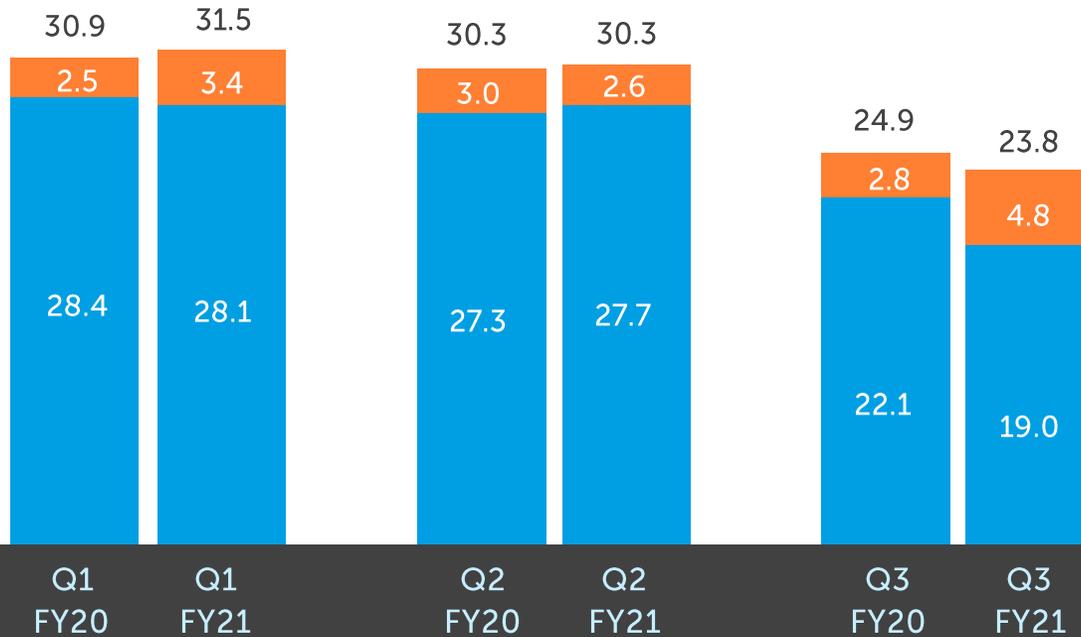
- ① Accelerating growth in subscription revenue – now +6.7% vs PY for YTD period
- ② Non-subscription revenue decreasing in-line with strategic focus on subscription business
- ③ Further success in the adoption of subscription model in Europe along with deepening relationships with key European clients has driven strong revenue growth
- ④ Q3 year on year revenue growth of 5.9%, leading to 4.4% YTD

# Consistent financial performance



# Exceptional EBITDA resilience – business diversity driving value

FY21 v FY20 Quarterly Adjusted EBITDA



FY21 v FY20 YTD Adjusted EBITDA



## Adjusted EBITDA

- YTD Group EBITDA down 0.6% YoY
- Outperformance in International EBITDA offset by lower UK EBITDA being hit by inflated costs per claim due to third party supply chain issues in Q3
- We expect UK and International EBITDA to normalise going forward

## Exceptional costs

- Certain costs incurred in preparing our International business for Brexit, primarily relating to the Part VII transfer, plus some specific non-recurring Covid costs have been included as significant items, outside of Adjusted EBITDA

■ UK

■ International



# Solid cash generation and capitalisation

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# Summary Cash Flow

9m to 31 December	FY 21	FY 20	Change
<b>Adjusted EBITDA</b>	<b>85.6</b>	<b>86.1</b>	<b>-0.6%</b>
Less: Regulated Business adjusted EBITDA	(28.1)	(32.6)	
<b>Unregulated Business adjusted EBITDA</b>	<b>57.5</b>	<b>53.5</b>	<b>7.5%</b>
Capital expenditure	(18.5)	(13.7)	
Change in working capital	5.9	(29.5)	
<b>Unregulated Business Free Cash Flow</b>	<b>44.9</b>	<b>10.3</b>	<b>335.9%</b>
Increase/(Decrease) in distributable reserves in Regulated Business*	(5.6)	34.9	
<b>Group Free Cash Flow</b>	<b>39.3</b>	<b>45.2</b>	<b>-13.1%</b>
<i>Conversion</i>	45.9%	52.5%	
Tax received/(paid)	1.4	(11.7)	
<b>Post-Tax Free Cash Flow</b>	<b>40.7</b>	<b>33.5</b>	<b>21.6%</b>

\*Distributable reserves comprise net income of Regulated Business before significant items and as adjusted for changes in capital requirements and Solvency II valuation differences

## Adjusted EBITDA

- Decrease mainly driven by increasing UK claims costs in Q3 due to temporary supply chain issues

## Unregulated Business

- Increased capital investment in our digital capability
- The large working capital movement is due to
  - cash outflow in FY20 associated with Customer First as we transitioned products from our Unregulated to Regulated Business
  - cash inflow in FY21 due to actions to preserve short-term liquidity including time-to-pay arrangements with HMRC under Covid support measures (expected to unwind over FY22)

## Regulated Business

- The decrease in distributable reserves is due to:
  - FY20 included a one-off benefit due to Customer First transition and a change in the Lapse Risk calculation for the Solvency II capital requirements
  - FY21 includes an adverse impact from the Part VII transfer due to higher SII capital requirements. This impact should be partly offset once USPs are approved later in the year

# Capitalisation

	Q3 FY21			Q2 FY21			
	£m	Multiple of EBITDA	Price	£m	Multiple of EBITDA	Maturity	Price
Drawn Super Senior RCF	0.0	-	3m LIBOR + 3.00%	0.0	-	Apr-26	3m LIBOR + 3.00%
Senior Secured FRN (€200m)	180.6	1.7x	Euribor + 5.00%	180.6	1.7x	Jul-26	Euribor + 5.00%
Senior Secured Notes	405.0	3.8x	6.50%	405.0	3.8x	Jul-26	6.50%
<b>Total Super and Senior Secured Debt</b>	<b>585.6</b>	<b>5.5x</b>		<b>585.6</b>	<b>5.4x</b>		
Senior Notes	150.0	1.4x	9.25%	150.0	1.4x	Jul-27	9.25%
<b>Total Bonds</b>	<b>735.6</b>	<b>6.9x</b>		<b>735.6</b>	<b>6.8x</b>		
Lease liabilities	7.1			8.5			
<b>1 Total Gross Debt</b>	<b>742.7</b>	<b>7.0x</b>		<b>744.1</b>	<b>6.9x</b>		
<b>2 Unrestricted cash reserves</b>	<b>(84.6)</b>			<b>(129.2)</b>			
<b>3 Total Net Debt</b>	<b>658.1</b>	<b>6.2x</b>		<b>614.9</b>	<b>5.7x</b>		
Undrawn Super Senior RCF	100.0			100.0		Apr-26	

NOTE: EBITDA is underlying adjusted EBITDA

- 1 Total Gross Debt has reduced slightly as lease liabilities in the current quarter reflect capital repayments reducing future lease obligations
- 2 Unrestricted cash reserves decreased primarily due the Part VII comprising:
  - an increase in Solvency Capital Requirements to capitalise D&G's German entity, which we have plans to mitigate over time
  - a transfer of cash from Unregulated to Regulated Business which became temporarily restricted cash
- 3 Leverage calculated on basis of underlying adjusted LTM EBITDA of £106.7m (Q2 FY21 £107.9m)

# Appendix

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# Available Cash and Net Debt

£m	Q3 FY21 31 Dec 2020	Q2 FY21 30 Sep 2020
① <b>Group Free Cash flow</b>	<b>(7.7)</b>	9.4
② Debt Raise, Repayment (incl leases) & RCF Drawdown	<b>(1.4)</b>	21.3
③ Debt Interest	<b>(3.3)</b>	(21.2)
Corp Tax	<b>(0.2)</b>	(0.3)
④ Other	<b>(28.6)</b>	0.9
<b>Free Cash flow before exceptional items</b>	<b>(41.2)</b>	10.1
⑤ Significant items	<b>(3.5)</b>	(2.3)
<b>Unrestricted cash flow</b>	<b>(44.7)</b>	7.8
Unrestricted Cash b/f	<b>129.2</b>	121.4
Unrestricted Cash c/f	<b>84.6</b>	129.2

- ① In Q3 Group Free Cash outflows due to underlying cash generation being exceeded by Capex, reduction in working capital and increase in restricted cash due to the Part VII transfer
- ② Q2 includes proceeds of £100m fungible private placement net of RCF repayment; Q3 includes deferred loan fees
- ③ Debt interest relates to interest payments on external bonds
- ④ Other includes timing differences on intercompany loans between the regulated and unregulated businesses including temporary Part VII funding
- ⑤ Significant items relate to costs in connection with Brexit preparations, payments made under the Customer First Programme accrued in prior years plus some specific non-recurring Covid costs

# LTM Underlying Adjusted EBITDA Calculation

## Adjusted<sup>1</sup> / Underlying Adjusted<sup>2</sup> EBITDA by Quarter

£m	Q3 FY21 LTM			Q2 FY21 LTM		
	Adjusted EBITDA	Add: HoldCo Costs	U/L Adjusted EBITDA	Adjusted EBITDA	Add: HoldCo Costs	U/L Adjusted EBITDA
FY20 Q3				24.9	0.1	25.0
FY20 Q4	20.9	(0.0)	20.9	20.9	(0.0)	20.9
FY21 Q1	31.5	0.1	31.6	31.5	0.1	31.6
FY21 Q2	30.3	0.1	30.4	30.3	0.1	30.4
FY21 Q3	23.8	0.0	23.8			
<b>LTM U/L Adjusted EBITDA</b>			<b>106.7</b>			<b>107.9</b>

**Note:**

<sup>1</sup>Adjusted EBITDA refers to EBITDA, adjusted to include investment income and exclude non-trading items

<sup>2</sup>Underlying adjusted EBITDA is adjusted EBITDA, as further adjusted to exclude holding company costs

Q + A



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