> Chief Financial Officer's Report

Strong progress and growth in our performance

It has been an exciting year for Ashtead Technology as we returned to growth following the downturn in 2020 caused by COVID-19 restrictions.

Our IPO in November 2021 is testament to the quality of our business and the resilience shown through the latest downturn, and was the culmination of a lot of hard work from many people in the organisation. I would like to express my sincere thanks to those involved in helping us reach this milestone in our Group's history.

Revenue

Group revenue grew year-on-year by 32% from £42.4m to £55.8m driven by an increase in demand from both the offshore renewables and offshore oil and gas markets.

Renewables revenues accounted for 33% of Group revenue in 2021 (2020: 29%) representing over 50% growth from this market, whilst revenues from oil and gas also grew by 23%.

Gross profit

Gross profit increased to £40.5m (a gross margin of 73%) from £31.4m in 2020 (a gross margin of 74%) with the margin reduction due to a higher proportion of revenue in the year coming from equipment sales versus rental. In our rental business, we saw cost utilisation increase from 37% in 2020 to 43% in 2021.

Administration costs

Administration expenses of £33.9m in 2021 compared to £29.8m in 2020 with the increase (£4.1m) coming from personnel costs (£3.1m) and legal and professional fees (£2.6m) predominantly as a result of the IPO. Personnel cost increases were the result of post-COVID salary increases following salary reductions in 2020 as well as an increase in personnel from 172 at December 2020 to 204 at December 2021. This was offset by a decrease in depreciation of £2m. Whilst the Group maintains a blue-chip customer base, the Group also increased its provision for doubtful debts by £0.7m.

Profitability

Adjusted EBITA of £13.7m compares to £6.3m in 2020 and was ahead of our expectations at the time of the IPO process following a strong finish to the year. This represents an EBITA margin of 24.6% compared to 14.8% in the prior year. As a result, ROIC (Return on Invested Capital) increased to 17% (2020: 7%), a return to historical levels.

Where we have provided adjusted figures, they are after the add-back of various one-off items which, in relation to 2021 predominantly related to professional and other fees arising from the admission to AIM. Profit Before Tax of £2.5m, after IPO and other adjusting costs of £4.4m, compares to a loss before tax of £0.7m in 2020.

Net finance expense

Net finance costs were £4m in 2021, reflecting our pre-IPO debt structure. As part of the IPO process the Company raised £15m of primary capital that was utilised to repay existing debt facilities, including high interest loan notes held under the previous private equity ownership structure. The business also refinanced its external debt facilities and achieved more favourable pricing. The 2021 costs are not representative of ongoing expectations.

Taxation

The total tax charge was £1.1m (2020: £0.3m), giving rise to an effective tax rate of 29.5%. In future years we expect the Group's effective tax rate to be closer to the UK corporation tax rate although this will be impacted by the amount of profit the Group earns in its overseas jurisdictions where, in some cases, corporation tax rates are higher than those in the UK.

EPS and dividend

Adjusted EPS is 13.2 pence with statutory EPS at 3.6 pence. The adjusted figures exclude the impact of one-off costs as set out in Note 27 of the accounts as well as foreign exchange profit/loss and amortisation.

The Group paid dividends totalling £1,296,000 in 2021 which related to the pre-IPO group restructure. As noted at the time of the IPO, the Group has elected not to pay a further dividend in relation to the 2021 results. In terms of capital allocation, the Group's current focus is on organic fleet growth, complemented by bolt-on M&A. It is the Directors' intention to implement a progressive dividend policy in the near future, subject to the discretion of the Board and to the Company having distributable reserves.

Cash flow and net debt

Free cash flow in the year was impacted by one-off costs as a result of the admission to AIM as well as an increase in working capital caused by the uplift in trading and a general slowdown of debtor payments at the year end.

The Group increased investment in capital expenditure in the year to £7.9m, investing predominantly in rental equipment as the market continued to improve. Overall, net debt reduced from £36.2m to £22.7m from 31 December 2020 to 31 December 2021 due predominantly to the raising of £15m of primary capital. As a result of the primary capital raise, borrowings reduced during the year with drawn RCF of £25.0m at 31 December 2021 versus external bank loans of £43.0m at 31 December 2020. Leverage at 31 December 2021 was 1x.

Going concern

The consolidated financial statements of the Group are prepared on a going concern basis. The Directors of the Group assert that the preparation of the consolidated financial statements on a going concern basis is appropriate, which is based upon a review of the future forecast performance of the Group.

During 2021 the Group has continued to generate positive cash flow from operating activities with a cash and cash equivalents balance of £4.9m (2020: £11m).The Group has access to a multi currency RCF and additional accordion facility. The RCF and accordion facility have total commitments of £40m and £10m respectively, both of which expire in November 2024, with an option to extend subject to credit approval. As at 31 December 2021 the RCF had an undrawn balance of £15m and the £10m accordion facility was undrawn.

The Facility Agreement is subject to a leverage covenant of 2.5x and an interest cover covenant of 4:1, which are both to be tested on a quarterly basis. The Group has complied with all covenants from entering the Facility Agreement until the date of these financial statements.

The Group monitors its funding and liquidity position throughout the year to ensure it has sufficient funds to meet its ongoing cash requirements. Cash forecasts are produced based on a number of inputs such as estimated revenues, margins, overheads, collection and payment terms, capex requirements and the payment of interest and capital on its existing debt facilities. Consideration is also given to the availability of bank facilities. In preparing these forecasts, the Directors have considered the principal risks and uncertainties to which the business is exposed.

Taking account of reasonable changes in trading performance and bank facilities available, the cash forecast prepared by management and reviewed by the Directors indicates that the Group is cash generative, has adequate financial resources to continue to trade for the foreseeable future, and to meet its obligations as they fall due.

Reconciliation of adjusted and reported IFRS results

The Group uses certain measures that it believes assist a reader of the Report and Accounts in understanding the business. The measures are not defined under IFRS and, therefore, may not be directly comparable with adjusted measures presented by other companies. The non-GAAP measures are not intended to be a substitute for or superior to any IFRS measures of performance. However, they are considered by management to be important measures used in the business for assessing performance.

Ingrid Stewart
Chief Financial Officer
4 June 2022

In establishing Adjusted EBITDA, Adjusted EBITA and Adjusted EPS, the Group has added back various costs, deemed to be one-off in nature, which in 2021 predominantly relate to Admission costs and restructuring of the group entity structure in preparation for Admission.

Free cash flow £000	**2021**	**2020**
Adjusted EBITDA	**22,437**	17,037
Adjusted items	**(4,385)**	(1,688)
Gain on sale of fixed assets	**(995)**	(1,156)
Foreign exchange	**(215)**	(312)
Other	**(28)**	5
Cash generated before working capital movements	**16,814**	13,886
Working capital movement	**(5,105)**	4,743
Operating cash flow	**11,709**	18,629
Tax	**(858)**	(763)
Disposal of fixed assets	**1,453**	1,620
Capex	**(7,889)**	(5,073)
Leasing payments	**(1,012)**	(721)
Free cash flow	**3,403**	13,692

Results reconciliation £000	**Adjusted**	**IPO costs**	**Restructuring costs**	**Other**	**Reported**
Revenue	55,805	–	–	–	55,805
Gross profit	40,338	–	–	(205)	40,543
Administrative expenses	(29,210)	3,332	1,314	74	(33,930)
Other operating income	865	–	–	(130)	995
Operating profit	11,993	3,332	1,314	(261)	7,608
Finance cost	(2,902)	–	–	1,117	(4,019)
Profit before tax	9,091	3,332	1,314	856	3,589
Profit after tax	8,031	3,332	1,314	856	2,529
Foreign exchange	215				
Amortisation	1,516				
Tax impact of adjustments	(377)				
Adjusted profit after tax for EPS calculation	9,385				
EBITDA / EBITA / Adjusted Profit Before Tax					
Operating profit	11,993	3,332	1,314	(261)	7,608
Foreign exchange	215	–	–	–	215
Amortisation	1,516	–	–	–	1,516
EBITDA	22,437	3,332	1,314	(261)	18,052
Depreciation	(8,713)	–	–	–	(8,713)
EBITA	13,724	3,332	1,314	(261)	9,339
Finance cost	(2,902)				
Adjusted Profit Before Tax	10,822				