Regulatory Story

Go to market news section

Motability Operations Group PLC - 71CH Statement re: Company Event
Released 14:01 15-May-2020

RNS Number : 0945N
Motability Operations Group PLC
15 May 2020

15 May 2020

Motability Operations Group plc

Management Statement regarding Covid-19 and Half Year Reporting update

At this point in our financial year, Motability Operations Group plc ("Motability Operations") usually opt, voluntarily, to publish a Half Year Report containing Interim Financial Statements. However, given that it is currently impossible to put a value on future sales in the used car market (there is currently very little activity in the used car market and consequently no reliable view of what price vehicles will sell for), this inhibits our ability to produce meaningful financial statements. We have therefore elected instead to issue this Management Statement. This decision has been taken after careful consideration and we believe it to be the most responsible approach, rather than attempting to produce a set of financial statements based on a mark-to-market which, at this point in time, runs the risk of significantly under or overstating the value of the fleet.

Financial Overview

Motability Operations is, by design, a financially and operationally robust business. This provides reassurance that we are well placed to weather the impacts of the pandemic and continue to offer our customers access to affordable, worry-free, mobility. The following financial headlines provide useful context:

- We entered the Covid-19 crisis with current year profitability, ahead of plan. This trading performance was supported by a buoyant used car market and therefore favourable vehicle disposal results between 1 October 2019 up until to the imposition of the Government's lock-down measures in late March 2020

- Our business model has been built to provide long-term sustainability for the Motability Scheme and customers, so despite the economic challenges, we remain secure. We confirmed in our FY2019 Annual Report our commitment to hold capital reserves at a level consistent with a 99.99% confidence level (one in ten thousand loss event) plus 15% headroom, equating to £2.2bn as at 30 September 2019
- Fleet volumes are stable. In addition, the Government recently announced an initial three-month hiatus to scheduled customer mobility allowance reviews. This has meant a reduction in the volume of customers we would ordinarily expect to leave the Scheme during this period, through loss of their qualifying allowance
- Rental revenue, assigned by customers, but collected directly from Government, is not affected by the pandemic and will continue to be received while customers retain their cars
- In December the Group settled a £300m bond maturity from cash balances carried through the September 2019 year end; the next bond maturity (£400m) is not due until June 2022. The Group has £1.9 billion of committed bank facilities, including a £400m term loan and £1.5 billion Revolving Credit Facility (RCF), with over three years remaining (September 2023). As at 30 April 2020 the Group had £1.45 billion of liquidity headroom (comprising undrawn Revolving Credit Facility and cash on deposit)
- In April, the Group's credit rating was reaffirmed by Standard & Poor's as A, with Moody's maintaining their A1 rating as reflected in their updated Credit Opinion, both reporting a stable outlook.

Customer Focus, Employees and Operational Response

Our priority has been our customers and the safety and wellbeing of our employees, and from the earliest stage of the pandemic we took immediate steps to address this. Once lockdown was announced in March, we took final measures to enable the vast majority of our employees to operate through home working arrangements, utilising the capacity and resilience built into our systems infrastructure.

Among many decisions taken by the Executive was to retain all employees. We strongly believe this is the right thing to do, especially for a financially robust organisation that relies on its employees' engagement for delivery of excellent customer service. The Executive have decided not to make use of any Government support schemes, including the furlough scheme, respecting the fact that these were not designed to be channelled into financially resilient businesses.

For customers, our priority has been to maintain mobility, which has meant keeping the business fully operational, while transferring rapidly to a home-based model. We have kept our customer call centre fully functioning throughout, to respond to customer calls. We have helped customers by offering additional flexibility and support, including allowing additional drivers to be added to Scheme insurance, and providing taxis where appropriate.

An early decision was made to automatically extend each lease, for six months beyond its end date. This step gave greater clarity for customers, and avoided having to arrange car handovers early on in the context of social distancing. Notwithstanding the lease extensions, we continue to pay customers their good condition bonus in the usual timescales. This decision will mean that vehicle resale proceeds will drop significantly in the second half of the year as leases have been extended, enabling customers to keep their car until it is appropriate to proceed with their renewals (91% of customers continue to take a new car at the end of their original lease term).

Fewer customer journeys, combined with less traffic generally has led to a reduction in the number of accidents and a decrease in insurance claims. Following engagement with Motability, it has been agreed that this cost reduction will be shared with customers. Through late May and June, we will send a £50 insurance refund to every customer. Where customers are on the road, they continue to receive support from Scheme partners, who remain operational, including RAC, RSA and Kwik Fit.

In April, as part of our commitment to helping customers more broadly, and taking into account Financial Conduct Authority guidance on supporting customers facing temporary financial need, we provided customers with the option to reschedule end of contract payments. Customers in this position can therefore request the £600 good condition bonus early. This provides customers with increased financial flexibility, but avoids the risk of their taking on debt.

Outlook

Looking ahead, Motability Operations will undoubtedly face challenges. These include uncertainty around the used car market, at a time when customers will likely wish to reactivate their new vehicle orders. We will therefore remain agile in our approach as both the new and used car markets recommence activity. It is likely that we will continue to extend leases for the time being as we manage our path out of the current lockdown, balancing the needs of customers, suppliers and other stakeholders, whilst ensuring that we maintain appropriate liquidity headroom and capital.

However, with the measures already taken and given the business's sound financial foundations, we believe we are well placed to meet these challenges as the market rebalances.

END

STRFLFEFEDIELII

Statement re: Company Event - RNS