



Wincanton

IFRS 16 – IMPLEMENTATION OVERVIEW

20 September 2019

KEY MESSAGES



- Key changes under IFRS 16
 - No distinction between finance and operating leases – all leases on balance sheet
 - Operating lease charges replaced by depreciation and interest expense
- Economic impact
 - IFRS 16 has no underlying economic impact and no impact on cash flows
 - No commercial impact expected: market and customer behaviours unchanged
 - No impact on borrowing facilities or ability to fund dividends
- Presentational impact: Income statement (non-cash)
 - FY19/20 EBITDA and Operating Profit expected to increase by c.£32m and c.£4m
 - FY19/20 PBT decrease expected (c.£0.4m) due to timing of depreciation + interest expense vs. operating lease charges
- Presentational impact: Balance Sheet at 1 April 2019
 - Right of Use asset of c.£118m and lease liability of c.£138m recognised on adoption of IFRS 16
 - Net debt will continue to be measured as Bank Borrowings less Cash and Cash Equivalents

HEADLINE IMPACTS



• Proforma Income Statement extracts

£m	As reported 18/19	Total adjust.	IFRS 16 basis 18/19
Underlying EBITDA	66.7	32.3	99.0
Underlying Operating Profit	55.3	3.6	58.9
Net finance costs	(6.0)	(4.0)	(10.0)
Underlying PBT	49.3	(0.4)	48.9

- Impact on PBT from leases held at 1 April 2019 expected to be -£0.4m
- £11.2m increase in net liabilities and an £11.2m decrease in P&L reserve
- Nil impact on net cash flows

• Proforma Balance Sheet extracts

£m	As reported 31.3.19	ROU asset	Lease liability	Other	Total adjust.	IFRS 16 basis 31.3.19
Non-current assets	122.9	117.6	-	6.1	123.7	246.6
Liabilities excluding net debt & pension deficit	(163.6)	-	(137.5)	2.6	(134.9)	(298.5)
Net liabilities	(67.1)	117.6	(137.5)	8.7	(11.2)	(78.3)

ACCOUNTING CHANGES



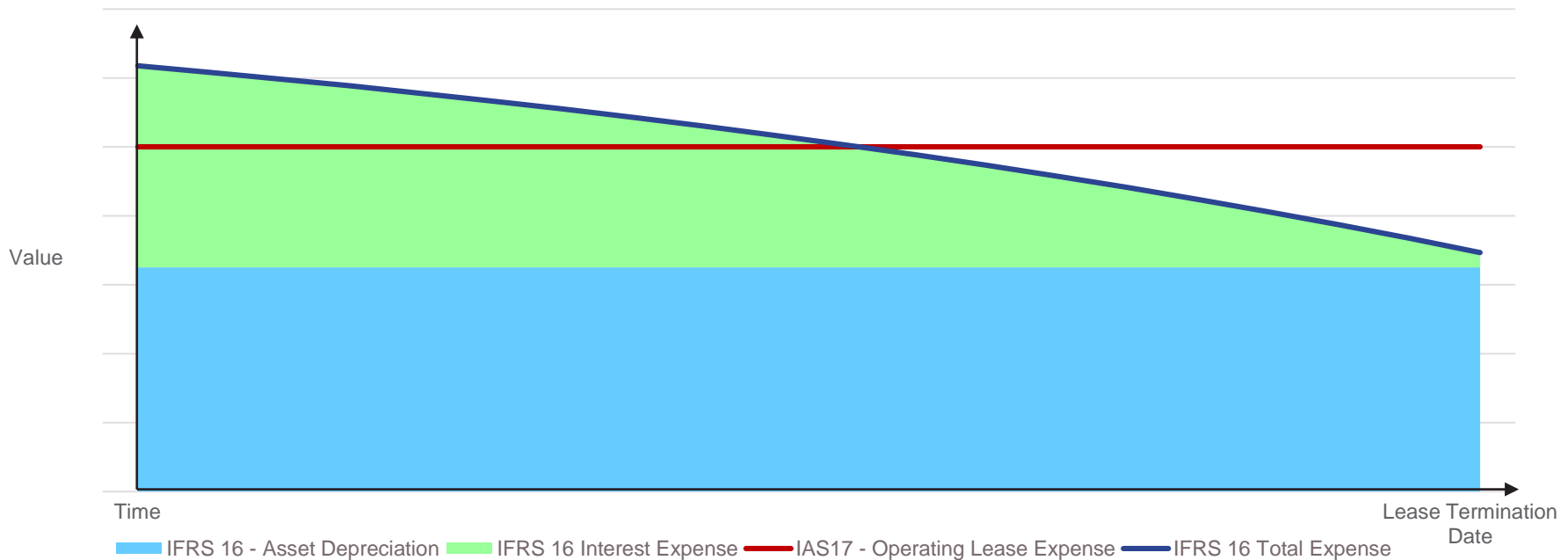
Old world

- Under IAS 17, distinction was made between:
 - finance leases – on balance sheet
 - operating leases – off balance sheet

New world

- Under IFRS 16:
 - No distinction between finance leases and operating leases
 - All leases brought on balance sheet

Income statement impact:



IMPLEMENTATION APPROACH



- Effective 1 April 2019
- Modified retrospective approach
- No restatement of prior periods
- Right of Use (ROU) asset valuation:
 - Determined on lease by lease basis
 - Calculated as if IFRS 16 had always been applied
- Practical expedients applied:
 - Leases < 12 months excluded
- Lease liability valuation:
 - Calculated to end of lease commitments, including extension options where expected to be exercised

PROFORMA IFRS 16 BALANCE SHEET



Based on leases at 31 March 2019

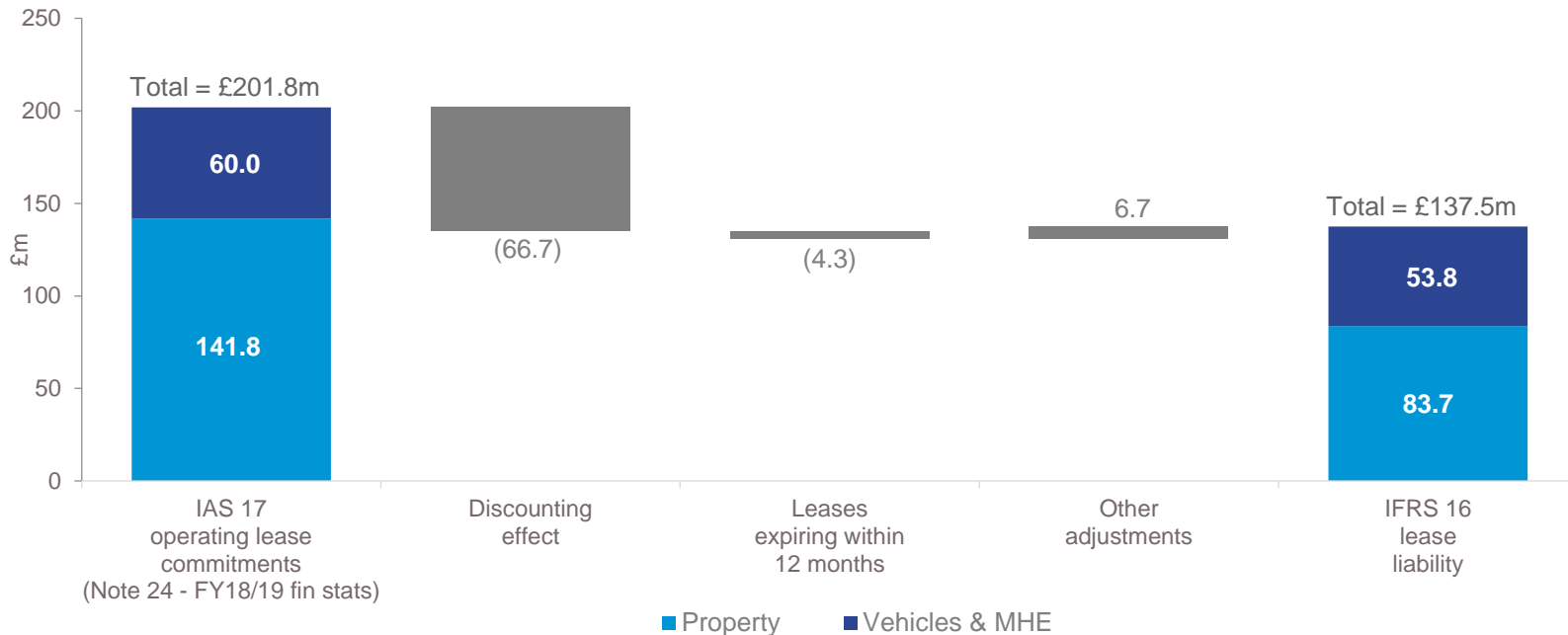
£m	As reported 31.3.19	ROU asset	Lease liability	Deferred Tax Asset	Other	Total adjust.	IFRS 16 Basis 31.3.19
Non-current assets	122.9	117.6	-	2.0	4.1	123.7	246.6
Net current liabilities (excl. net debt)	(133.2)	-	(31.5)	-	1.3	(30.2)	(163.4)
Non-current liabilities (excl. net debt & pension deficit)	(30.4)	-	(106.0)	-	1.3	(104.7)	(135.1)
Net debt	(19.3)	-	-	-	-	-	(19.3)
Pension deficit	(7.1)	-	-	-	-	-	(7.1)
Net liabilities	(67.1)	117.6	(137.5)	2.0	6.7	(11.2)	(78.3)

- Lease assets and liabilities recognised on Balance Sheet
- £11.2m increase in net liabilities on recognition of ROU assets and lease liabilities
- £11.2m impact on reserves – no impact on ability to pay dividends

FROM UNDISCOUNTED COMMITMENTS TO LEASE LIABILITY



Total undiscounted operating lease commitments at 31 March 2019 of £201.8m give rise to a £137.5m lease liability

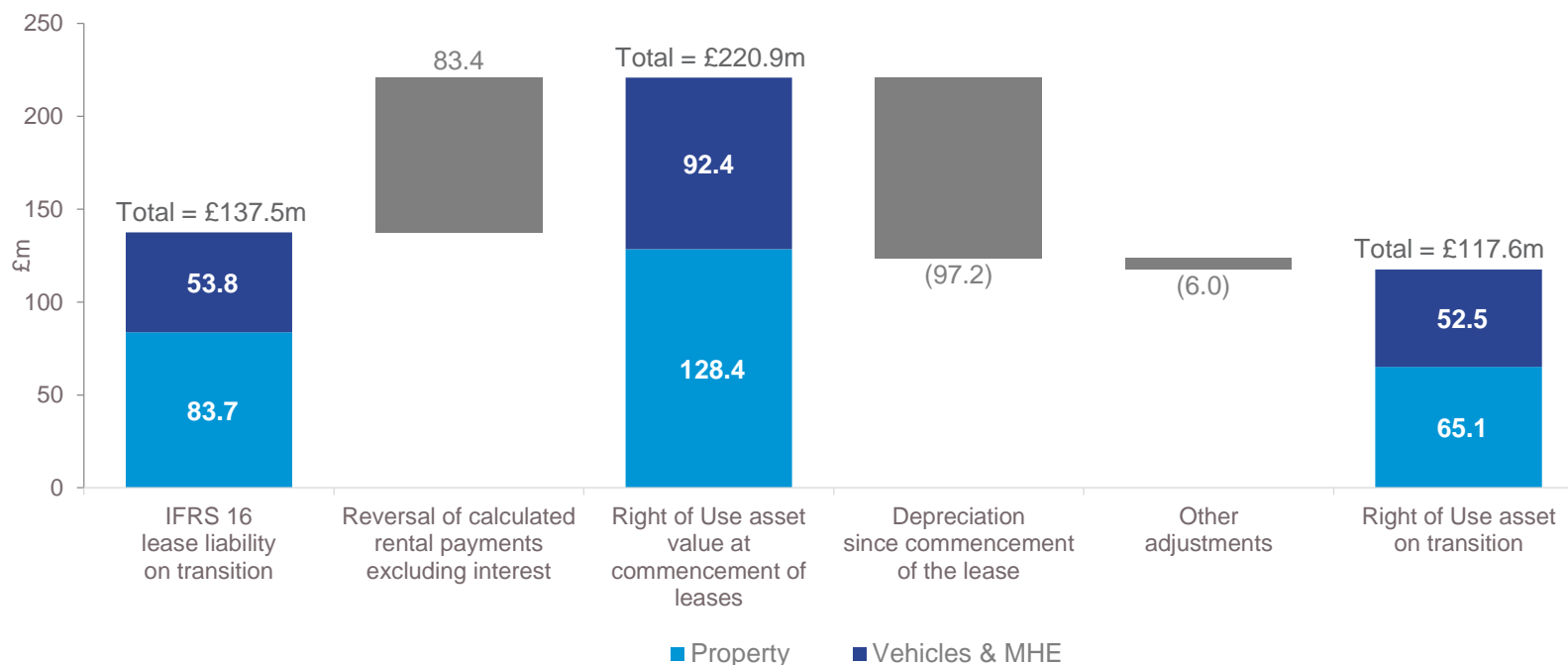


- Discount rate of 2.75% - 3.75% used based on incremental borrowing rates
- Lease liability covers 71 properties and leases for c.3,000 vehicles and manual handling equipment

FROM LEASE LIABILITY TO RIGHT OF USE ASSET



ROU assets are calculated as if IFRS 16 had always been applied



- ROU assets treated as if they had been depreciated from commencement of lease
- Difference between the lease liability and ROU asset values recognised in reserves
- Rate at which lease liability unwinds and ROU asset is depreciated differs over time
 - More interest expense in the P&L in the early years of a lease
 - Asset depreciated on a straight-line basis

INCOME STATEMENT – PROFORMA ADJS.



Based on leases at 31 March 2019

IFRS 16 adjustments

£m	As reported 18/19	Exclude: rent	Include: depn.	Include: interest	Total adjust.	IFRS 16 Basis 18/19
R&C EBITDA	36.9	14.8	-	-	14.8	51.7
I&T EBITDA	29.8	17.5	-	-	17.5	47.3
Underlying EBITDA	66.7	32.3	-	-	32.3	99.0
R&C Operating Profit	31.2	14.8	(12.4)	-	2.4	33.6
I&T Operating Profit	24.1	17.5	(16.3)	-	1.2	25.3
Underlying operating profit	55.3	32.3	(28.7)	-	3.6	58.9
Net finance costs	(6.0)	-	-	(4.0)	(4.0)	(10.0)
Underlying Profit before tax	49.3	32.3	(28.7)	(4.0)	(0.4)	48.9

- Impact on PBT in 19/20 expected to be -£0.4m. Final impact may differ depending on lease requirements for new business
- A reconciliation to a pre-IFRS 16 Income Statement will be included in notes to both half-year and full-year financial statements

PROFORMA CASH FLOW STATEMENT



Based on leases at 31 March 2019

£m	As reported 18/19	Reclassify rent payments	...as 'interest'...	...& 'lease repayments' ...	Total adjust.	IFRS 16 basis 18/19
Underlying EBITDA	67	32	-	-	32	99
Working Capital	1	-	-	-	-	1
Tax	(2)	-	-	-	-	(2)
Net interest	(4)	-	(4)	-	(4)	(8)
Other items	(9)	-	-	-	-	(9)
Capital expenditure	(10)	-	-	-	-	(10)
Net proceeds from disposals	14	-	-	-	-	14
Repayment of obligations under leases	-	-	-	(28)	(28)	(28)
Free cash flow	57	32	(4)	(28)	-	57

- Interest element of lease payments included within Net interest cash flows
- Capital element of lease payment classified as Repayment of obligations under leases
- No change to Free Cash Flow or to net cash

SUMMARY



- Minor net impact on PBT
- No impact on commercial arrangements
- No impact on cash
- No impact on ability to fund dividends or on dividend policy
- Bank covenants unaffected - will remain on a Frozen GAAP basis
- No change to guidance – presentational impacts only



QUESTIONS



APPENDICES

APPENDIX 1: DETAILED BALANCE SHEET



Balance Sheet	As reported	Recognition of ROU assets		Recognition of lease liabilities		Onerous lease	Lessor accounting	Deferred tax adjustment	Removal of prepayment and accrual under IAS17	Total adjustment	Restated
	31 March 2019	Plant & equipment	Land & buildings	Plant & equipment	Land & buildings		Recognition of lease debtor				31 March 2019
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-current assets											
Goodwill and intangible assets	84.0										84.0
Property, plant and equipment	34.5										34.5
Right-of-use Asset	-	52.5	67.2			(2.0)				117.6	117.6
Lease debtor							4.1			4.1	4.1
Investments, including those equity accounted	0.2									-	0.2
Deferred tax assets	4.2							2.0		2.0	6.2
	122.9	52.5	67.2	-	-	(2.0)	4.1	2.0	-	123.7	246.6
Current assets											
Inventories	3.7										3.7
Trade and other receivables	137.7								(1.0)	(1.0)	136.7
Assets classified as held for sale	2.4										2.4
Cash and cash equivalents	12.7										12.7
	156.5	-	-	-	-	-	-	-	(1.0)	(1.0)	155.5
Current liabilities											
Income tax payable	(6.1)										(6.1)
Borrowings and other financial liabilities	-			(19.3)	(12.2)					(31.5)	(31.5)
Trade and other payables	(260.8)										(260.8)
Employee benefits	-										-
Provisions	(10.1)					0.7			1.5	2.3	(7.8)
	(277.0)	-	-	(19.3)	(12.2)	0.7	-	-	1.5	(29.3)	(306.3)
Net current liabilities	(120.5)	-	-	(19.3)	(12.2)	0.7	-	-	0.5	(30.2)	(150.7)
Total assets less current liabilities	2.4	52.5	67.2	(19.3)	(12.2)	(1.3)	4.1	2.0	0.5	93.5	95.9
Non-current liabilities											
Borrowings and other financial liabilities	(32.0)			(34.5)	(71.4)					(105.9)	(137.9)
Employee benefits	(7.1)										(7.1)
Provisions	(30.4)					1.3				1.3	(29.1)
Deferred tax liabilities	-										-
	(69.5)	-	-	(34.5)	(71.4)	1.3	-	-	-	(104.7)	(174.2)
Net liabilities	(67.1)	52.5	67.2	(53.8)	(83.7)	-	4.1	2.0	0.5	(11.2)	(78.3)
Equity											
Issued share capital	12.5										12.5
Share premium	12.9										12.9
Merger reserve	3.5										3.5
Hedging reserve	-										-
Translation reserve	(0.3)										(0.3)
Retained earnings	(95.7)	52.5	67.2	(53.8)	(83.7)	-	4.1	2.0	0.5	(11.2)	(106.9)
Total equity deficit	(67.1)	52.5	67.2	(53.8)	(83.7)	-	4.1	2.0	0.5	(11.2)	(78.3)