ALD|LeasePlan Capital Markets Day 2023

Thursday, 21 September 2023

Introduction

Tim Albertsen

Group CEO, ALD|LeasePlan

Welcome

Good afternoon to this ALD| LeasePlan Capital Markets Day, we have been looking forward to this event. The LeasePlan acquisition initially created a lot of enthusiasm in the market and among shareholders, not least because it propelled ALD towards clear leadership,in a market where scale is critical.Expectations were set high and rightfully so.. For that reason, we share the disappointment that the new objectives we gave on Monday have created. Ever since the IPO in 2017, the team and myself have been keen to be transparent and set clear objectives that we have delivered on quarter after quarter. That is our track record.

A few unforeseen events took place between the signing of the deal in January 2022 and the closing of the transaction in May 2023. Those events have had an adverse impact on our initially expected costs and margin base. The two main ones are: first, IT investments at LeasePlan increased very materially in 2022, a period where we had no control due to antitrust requirements. John is on top of it since the closing of the transaction, but it will take a few more months for us to take the best decision on the evolution of our combined IT platform.

Second, ECB decided to put a floor to the LeasePlan advanced internal risk models before the closing and without prior warning. This decision has had an adverse impact on our solvency trajectory.

Patrick and John will come back on these two unexpected negative items in the presentation.

We are certainly not looking for excuses, but it is worth mentioning that since we announced this transformational deal in early 2022, the world has changed quite a bit. The aftermath of the pandemic and the war in Ukraine have had severe impact on the automotive industry and the macroeconomic environment. Some of those evolutions had a positive impact on our revenues, mainly the used car sales profit. Some had negative impacts, mainly inflation on wages and other costs.

Taken together, all of these moving parts have resulted in distorting numbers and practices in our industry, particular prospective depreciation. So, part of the disappointment on Monday is arguably also related to bringing back the business to normality, which we anticipate clearly over the period of 2023 to 2026. We will try to show all the clarity these subjects deserve during this presentation.

Now having said all this, it is important for me to emphasise that the strong fundamentals of this acquisition of LeasePlan are still fully intact, and to reiterate our confidence in the compelling merits of this deal for ALD. The substantial synergies identified will be realised, and the complementarity of the two companies remain extraordinary with clear avenues of value creation in a very attractive market.

So, even with the negative surprises that occurred lately, we would still firmly recommend this transaction to our Supervisory Board today.

On top of giving you a better idea of the reasons explaining the diversions between the starting point versus our initial expectations, our aim today is to demonstrate to you the compelling power of the ALD-LeasePlan combination at this junction, and to demonstrate our confidence in managing the integration and having all the shareholders' benefits outlined.

Today's speakers

Let me present the speakers of today, which you see on the slide.

As you know, at closing on late May, we announced the new Exco of ALD-LeasePlan. It was a great opportunity to select the best talent in this industry at the top of the new group-choosing amongst the best people in the market, is a unique opportunity.

John and Berno were obvious selections, and Patrick joined us the 1st of September. When we closed the acquisition, ALD-LeasePlan became regulated on top of being a listed group. And with Patrick's background, we now have a CFO that fulfils all the requirements in such an environment.

Patrick will be a great support together with the rest of the senior management team to get us through the next exciting and challenging years of integration and development. You know myself and John well, but Berno and Patrick will give a short intro themselves when they take the word.

ALD | LeasePlan key highlights

So, to set the scene for the next hours, let me highlight the strong and positive attributes of the new combined ALD-LeasePlan Group.

ALD-LeasePlan has today an undisputed leadership in an industry where scale is essential for strong performance. Leadership means that we are always considered by clients and partners, that we attract the best talents, that we offer the best deals in the market, that partners want to work with us before any others, that we have pricing power, and actually, that we have a real steer on the future of our industry.

ALD-LeasePlan is exceptionally well-positioned to benefit and capture the structural growth that is ahead of this industry. We have an important role to play in helping our clients and our partners to reduce the CO_2 emissions from their mobility. And we are already well underway with the largest owned EV fleet in the world. Sustainability is a great business opportunity for us. Part of the DNA of ALD-LeasePlan is a very strong cost culture, and we already have a competitive advantage to our competitors with the best-in-class cost income level.

But the LeasePlan acquisition offers a strong margin and cost synergies, and this will allow us to improve the current levels over the next year, improving our cost competitiveness remaining well ahead of competition in this area.

ALD-LeasePlan has a very profitable, resilient and compelling business model. We interact with our clients and partners at many levels, which allows us to have a healthy mix of finance and service margins. We have a history of very long-lasting relationships and long contracts, which makes this a very predictable, resilient business with sustainable high returns.

ALD-LeasePlan has, in the last 30 years, never had a loss. On the contrary, both businesses have shown a continued improved growth and profitability. I have been in senior executive roles within ALD for more than 20 years. I have been part of the journey over the last years, including the different crises. And I have seen how resilient this business is also in adverse times, where we have kept growing, while managing our risk very tightly.

Agenda

This leaves me to share with you the agenda, which we will detail what I just went through: the fundamentals of our business model in a very attractive and profitable industry; our strategic ambitions up to 2026 and beyond; how we create strong value through the combination of ALD and LeasePlan. And here, I want to give you detailed deep dives into particular areas that can have significant impacts on our future strategy and performance; and of course, our financial trajectory up till 2026.

After the coffer break, we will take all the questions you may have in a dedicated Q&A session.

Leadership position in a very attractive industry

We expect that there are people in the room who are not so familiar with our business and industry. So I want to start by giving you some of the fundamentals of our business model and the industry that we operate in.

We make mobility easy for our clients, so they can focus on their business

It is a very attractive industry, and us being a clear leader gives us an incredible power and a strong position vis-à-vis competition. We make mobility easy and affordable for our clients, which are large corporates, SMEs and consumers. We buy the vehicles they want. We are independent from any manufacturer. We provide all the services, infrastructure and advice that they need over the period, where they have their vehicles. Sometimes we also provide other transportation means to fulfil even more mobility needs for our clients. In essence, ALD-LeasePlan is an independent one-stop mobility shop for our clients.

When the contract ends, historically, we would sell the vehicles. But more and more, we send the vehicles onto another contract, a second life lease, which allows us to prolong the lifetime of the assets in our portfolio, creating another round of margins and typically lower the residual value risk.

The advantages are many for our clients. Think about it in this way. Our clients have only one place to go when it comes to the vehicles and mobility. We take care of the service, the maintenance, the tyres, insurance, the fuel, electric charge, and in fact, everything. We also cover all the risks associated with ownership of vehicles, as well as the service and maintenance. It gives for our clients' full predictability of their total mobility cost as our rates are fixed over the term.

It gives them very competitive mobility costs based on our superior scale, our operational excellence, our strong procurement power and our very good credit ratings. It gives them access to clear reporting a unique, sophisticated and independent advisory around mobility, all this across the globe in more than 44 countries.

For ALD-LeasePlan and our shareholders, it is a unique model that allows superior margins. We get a margin on the financing of the contract. We get a margin on every single service that we provide. And due to the bundling of their finance and the services, we create long-lasting client relationship and actually a constant opportunity to add new services and margins.

And as a monoline business, the risks are very limited, well-defined, and we believe very well managed. John will give you a specific insight into how we manage our residual value risk, which is the most important risk we carry.

Let us talk a bit about the industry.

The industry benefits from very attractive dynamics

We have an attractive business model, very well-positioned in a highly attractive industry that has been growing fast over the last years. As already mentioned, it is a structurally high return business based on the bundled services we are offering, all underpinned by the highly industrialised, digitised and scalable processes.

The inherent client stickiness and very long client relationship delivers a very predictable high margin over the cycle. As already mentioned, this industry has gone through different cycles, still growing while prudently managing our risks. As the industry is anticipated to have strong growth going forward, we will see probably more, and new competitors being interested in our market. But it is, in fact, an industry with quite high entry barriers.

First of all, scale really matters. You need bespoke systems and organisation to transact the business to the required high client expectations and operational excellence to achieve the cost competitive levels they expect. You need access to competitive fundingand here it is clearly a strong edge to be a bank.

You need to be able to offer your harmonised services globally across countries and regions. And looking into the future and the transformation of the mobility sector, the need for investments will be substantial, and only the companies with sufficient scale will be able to sustain this, which is a good transition to the next slide.

Long-term megatrends

The mobility sector is impacted by several longer-term megatrends providing very interesting opportunities for us going forward. The last years acceleration of electrification of vehicles and fleet has proven to be a strong growth opportunity for us. Our corporate clients are keen to pursue their net-zero emission trajectories, and here, the mobility plays an important role. Our clients need us more than before to help them do their transition to electric.

We are at the forefront of the market with our technologies and advisory tools, covering end-to-end solutions, which positions us very well to continue this growth opportunity. Berno will give you more detailed input on the electrification in terms of product offering and the opportunities we see for us here.

We see a behavioural change that gives a variety of interesting growth markets. The SME and the consumer segments are going from usership rather than ownership. This is a future structural strong growth opportunity in the years to come. Obviously, we are the one best positioned to capitalise here. In essence, it means that our products and services are going from being a kind of niche to becoming mainstream. It is very exciting.

We also see that our clients, whether they are corporates or consumers, are demanding more flexibility. Subscription will eventually become a larger part of the market. And again, we are extremely well-positioned with our already existing Flex products and Fleetpool, the largest subscription company in Europe.

And finally, we see an increased interest for used car leasing as well. With 600,000 to 700,000 used cars coming back each year, we have a very strong base to explore this market as well.

Our industry will be fully digitised over the next years. Clients are expecting to be able to transact seamlessly and get served 24/7 whatever aspect of our business. For us, there is a substantial further operational leverage to be taken and clearly it gives a lot of new revenue stream opportunities based on data capabilities. For artificial intelligence, we are already executing several use cases and driving substantial value with data through, amongst others, our insurance programmes with Pay as You Drive, Pay How You Drive, meaning reduced premiums for our clients and better margins for ALD-LeasePlan.

At closing, the combination ALD-LeasePlan is quite complementary, when it comes to digital. We have developed based on different focus', ALD having built digital platform, mainly for our partnership business and LeasePlan have a focus on going direct with digital platforms. The expectations from our clients to deliver more integrated mobility solutions is, in fact, not just vehicles, but multimodality, which means offering our clients ways to travel, not only by their car, but all kinds of transportation means.

This drives the creation of a more complex ecosystem. We have started the journey already with ALD Move and the strong partner DNA of ALD-LeasePlan enables us to move fast in this ecosystem. The size of ALD-LeasePlan in the market makes us a very attractive partner for any company who wants to get integrated into the broader ecosystem. And as I mentioned earlier, everyone would like to work with us due to our leadership.

We are sure that there are some interesting partnerships with more service providers, and, hence, margins opportunities here as well.

Last but not least, as earlier mentioned, a very attractive market attracts more and new competition to our sector. We also see movements in the market through the car manufacturers' quest for putting in place an "agency model", meaning that the dealer network will have different roles going forward. Overall, we see more opportunities in these moments than the opposite in terms of new partnerships.

ALD being seen as an Agent could be one, new car manufacturers needing to establish themselves seeing us as a great channel for that. And in terms of competition overall, our core competitive advantages being multi-brand, funding capacity, having bespoke IT systems, our people and our talent, and being global means that we are positioned to withstand any new or existing competition.

The strongest business model in the sector

With this in mind, I would just like to wrap-up on our leadership position, and I firmly believe that we have the strongest business model in the sector.

Our undisputed leadership, our powerful global operating platform and our strong financial profile. No doubt, we are uniquely positioned to create value in a very buoyant mobility sector.

Our strategic ambition: shape the future of mobility

Let us now talk about our strategic ambitions going forward. Let us start with ESG.

ESG drives everything we do

ESG will drive and be embedded in everything we do. I already mentioned that ALD-LeasePlan has an important role to play in terms of ESG, and we are perfectly positioned to help our clients to their net-zero targets. But it goes further than this-Many other business' are struggling to find real business opportunities for sustainability,for us, it is different. We consider this area to be a strong business enabler for us in the years to come.

And it means having a 360-approach to all areas across the ESG space where ALD-LeasePlan has an impact.

First, with regards to the climate change, we believe we could be part of the solution, primarily by leasing more new or used electric vehicles. I already talked about EVs, so not to further comment on that. But secondly, with the large value chain and expanding business model, we have the opportunity to use every touch point throughout the customer journey to make a positive impact end to end.

We will reduce our carbon footprint across Scope 1, 2 and 3 at a pace that is in line with the net-zero 2050 climate scenario. We will also place a stronger focus on responsible procurement and implementing circularity in our maintenance and repair activities. This means as an example, that we will be buying recycled tyres, recycled parts for our cars. That means less CO2 emissions, cheaper rates for our clients and better margins for us.

As a market leader being listed and regulated, ALD-LeasePlan will also comply with increasing regulatory requirements and act with exemplarity and transparency. When it comes to external stakeholders, this implies high standards in terms of satisfaction and also reinforced focus on the ESG credentials of clients, suppliers and partners.

Our strategy: leveraging on the power of leadership to shape the future of mobility

We do believe that we can leverage on our undisputed leadership position to shape the future of mobility. But let me put it into a bit of perspectives. Our global ALD Move 2025 strategic plan had the ambition for ALD to become the global leader in sustainable mobility by 2025.

Now with the acquisition of LeasePlan, we have achieved those ambitions here in 2023 and one can state that this acquisition has actually been a substantial acceleration of the ALD Move 2025 plan. Now of course, this is much more than that. And of course, it is clear that we need to execute the integration without delay and capture all the outlined synergies first of all.

But before we move on, I think it is worth mentioning some of the achievements we had of substantial milestones within the ALD Move 2025 and before closing the LeasePlan acquisition. We secured our competencies in the subscription market via the acquisition of Fleetpool. We industrialised our second life-lease capacity. We developed ALD Flex for corporates. We went live with our multi-modality solutions, ALD Move. We launched the data-driven insurance products and the connected car capacity.

And with LeasePlan came the capacity to serve the fast-growing segment of last-mile delivery. They came with a much more efficient procurement organisation and governance, and they came with a strong performing bank that collects deposits, enhancing our funding capabilities.

The next 18 to 24 months will be very much dedicated to get the two companies fully integrated, secure the synergies and implement a global governance model and build strong operational excellence in our platforms. In this perspective, the milestone just achieved and that I just mentioned are important to have in mind as it means that we are ready to lead the industry through innovation and having substantial building blocks for the future of mobility in place.

Now it will be wrapped into strong governance and with an unprecedented scale. The future of mobility, we believe, will be ours.

A bit separately, I think it is worth mentioning that the fact that we will actually be getting a new brand, a new name and identity in October. A name and a brand that will underline the "birth" of a new global leader in sustainable mobility. A name and a brand that will allow our teams to come together as one and a name and a brand that will talk to our corporate clients as well as our consumers. A name and a brand that will lead the mobility sector in the coming years.

Our main strategic and financial objectives for 2026

Now let me take you through the strategic objectives that we have set for 2026. As you will see, we have added a few new objectives. These new objectives are better suited for the change in our industry and to our regulatory status since the closing of the acquisition in May. The first evidence of this is that in terms of growth, we will now be guiding on earning asset growth. And we are anticipating a strong CAGR from 2023 to 2026 of plus 6%.

I would like to stress that we are not revising downwards our outlook. Previously, we were guiding on 6% fleet growth post-integration. We had not provided any guidance for the integration period 2023 to 2026. Our long-term growth perspectives remain intact. The reason why we are now guiding on earning assets instead of fleet is because earning assets are more relevant.

Earning assets capture both volumes and prices. And as you know that on top of the recent inflation on car prices, we are also seeing that the transitioning to EVs, which are higher-value than ICE cars. Earning assets is a balance sheet metric, which will help you better monitor the growth of our business.

Today, we are guiding on the period from 2023 to 2026, the integration phase. It is correct that our expected fleet growth is not matching the anticipated growth of the market of 7.7% over 2021 to 2030. This is because we have a more targeted commercial strategy, and Berno will give you details around how we see the market in the next three years.

In the next years, up till 2026, we will be targeting profitable growth, being selective in our approach to the market segments and customers to ensure that we have a strong and good margin in line with our earning assets growth when we get into 2026 and beyond.

We are also taking the commitment to keep pushing for getting an exciting and innovative Mobility-as-a-Service offering in place in several countries and having at least 200,000 active users on the platform. It is ALD Move.

We confirm our synergies of €440 million by 2026, and already touched upon the now targeted cost income of 52%. We always had a culture of efficiency at ALD. It is part of our DNA, and we always have been the best-in-class before integration. This culture of efficiency will remain a key principle for the combined entity. Our cost to income target of 52% for 2026 remains the best-in-class in the industry, even if it is higher compared to the one we previously expected based on the already inputs given.

As we are always transparent in our communication, you can find in the appendix the bridge between both targets, and Patrick will take you to all the details of our cost-to-income target later in the presentation.

Sustainability is, as I mentioned, a strong business opportunity for us, and we take serious commitment to drive down the CO2 emissions from our clients, from their vehicles and their fleet. This goes to a large extent through the electrification, and we will be delivering 50% of our vehicles in 2026 as EVs. This is well above the anticipated levels in Europe and guidance given by external agencies.

We are a people's business, and we know that it is our people that make the difference. In a period of integration and uncertainty for our staff that comes with mergers like ours, we want to ensure that the employee engagement remains intact and at the high levels that we have been used to. Hence, we take the commitment to reach an employee engagement of 75% in 2026. This is an ambitious level, given the circumstances around a substantial merger.

Profitability at the high end for financial institutions with a 13-15% return on tangible equity. Return on tangible equity is a new objective to demonstrate that we are committed to shareholder value. Return on tangible equity is a commonly used metric in the financial sector. We target a CET1 ratio of 12% as we are now a regulated entity. For those of you not familiar with the financial sector, core equity Tier 1 reflects our robustness and how we manage our capital. It is a key metric in our financial management.

We promise a dividend payout ratio of 50% for the years to come. Patrick will, again, give you a bit more details later.

How we create value: PowerUp 2026

Now let us have a quick look at what the combination actually means in terms of size and the positioning of ALD-LeasePlan.

Numbers behind our undisputed leadership

We are, by far, the undisputed leader in our industry worldwide, with an incredible footprint in the main European markets, number one positioning in nothing less than 29 mature markets, double the size of our closest competitor. We are having the largest multi-brand EV fleet of more than 400,000 vehicles.

In essence, it means that ALD-LeasePlan is the market for three to four-year-old multi-brand EVs, which, again, gives us a strong pricing power in this segment.

Scale is essential, as already mentioned many times. Our procurement power is second to none, buying above 800,000 vehicles a year, means that we are by far the largest buyer of new cars in Europe. Tyres, windscreens, rental cars, etc., most suppliers will need to partner with us under the right conditions.

And there is no one who has the geographical reach that we have and the combined products. And services offered by ALD-LeasePlan is, by far, the leading in the industry. John and Berno will give you more details around both product offering and our procurement capacity, which are both essential for our integration and for the synergies we have promised.

The best talents in the industry are committed to the success of our strategy

So let us talk about our main products in the coming two years, ensuring a fast and successful integration of LeasePlan into ALD. One of the main challenges in a large merger like this one, between ALD and LeasePlan, is to get people strongly engaged and behind the vision and the project.

From the beginning, it was clear that we wanted to secure the best value by choosing the best people for the key senior executive roles from both companies. Furthermore, we wanted to ensure that we worked to become one in terms of culture and values even before we closed. And we have succeeded very well on both these topics. We went through a very fair and thorough selection process, and we have ended up with a very equal split between ALD and LeasePlan's senior executives in the global leadership team, around 90 people.

The result is a strong, very experienced, diverse and international team, all ready to get the integration done and reach for the strong visions that we have with our new group. We have also set up a joint working group between ALD and LeasePlan, working on joint culture and values. Eventually, we experienced that the two organisations share a lot in common. In particular, it has been established that we both have had a strong client focus and a performance-driven mindset, indeed, something that will characterise the new group going forward.

Integration is fully on track

We have been successful in getting our teams and people behind the exciting story for the new group. And in many areas, we are already acting as one. The extraordinary commitment from the teams across the group will be a great enabler in our integration in the next months to come. And I can confirm that four months after closing, our ambitious integration programme is well on track. Back in April 2022, we set up the integration management office, which has been the backbone of outlining all the details in this integration plans for the countries and the central functions.

This is a sizeable organisation within the organisation, a value capture stream also under the IMO has identified, qualified and quantified all the synergies and the costs to achieve. The IMO will remain in place to manage the ongoing integration, which will allow the rest of our organisation to run the daily business, ensuring that we continue superior client service and keeping the daily business under control.

We have already achieved very important successes in key areas. We today have one team facing shared clients, and we have received very good feedback from our clients. We have now already bonus improvement agreement in place with most of the OEMs and other partners. We have launched the first RFPs, and we have new agreements in place with global contract partners in key countries.

In terms of governance, it is strong. And we make sure that the integration is followed by me and the entire Exco every two weeks, and we have a special committee from our Supervisory Board that also follows the integration closely as well. John will now take you through our integration plans in much more detail.

John, the floor is yours.

Creating Value like No One Else: The Power of Scale

John Saffrett

Group Deputy CEO, ALD|LeasePlan

Introduction

Thank you, Tim. Good afternoon, everyone. My name is John Saffrett. I am one of the deputy CEOs of ALD-LeasePlan.

As Tim has outlined in the previous sections, we have an ambitious plan for the future of our company, and we have a very well-defined and organised programme structure in place to support the effective delivery of those ambitions. In this next section, I will explain in more detail how we intend to achieve a level of unrivalled operational efficiency and excellence, and how we will crystallise the synergy commitments that you have heard about previously.

The ALD-LeasePlan programme will generate €440 million of synergies by 2026. We reaffirm the commitments we have shared previously with the market, having carried out a more detailed post-close analysis of the opportunity in front of us.

Now these synergies are split almost equally between top line margin-enhancing opportunities, notably, driven by significant procurement savings linked to our enhanced scale, and operating expense synergies, driven by mutualisation of our operating platforms.

Creating substantial synergies

And you will see a more detailed financial trajectory later on in the presentation. But on this slide, you see the timeline for crystallising those synergies, with a target to have secured nearly 80% in 2025 following the successful progressive delivery of the integration plans across our entities.

And as you have heard, we have made a rapid start commencing negotiations with some key suppliers and partners, including OEMs immediately after closing, and we will secure synergies worth €30 million in cash terms by the end of this year alone.

Leveraging our scale to buy more effectively

Now if we consider the margin and procurement savings in more detail, we have identified that a large proportion of these come from achieving pricing terms on the main goods and services we buy to service our clients, our direct costs. And our starting ambition is to achieve a normalisation of terms as a minimum across all categories of spend, including vehicles, service maintenance and repair costs.

Now let me give you an example to illustrate this by considering the opportunity on vehicle purchasing, which contributes 25% of the total value creation here. When we review the respective existing terms of both companies, we see and have already crystallised with some OEMs, the value creation across three dimensions. The global bonuses that ALD-LeasePlan receives linked to our enhanced buying power, buying more cars.

The local bonus terms and discounts we can obtain due to an alignment of existing terms at the local level, and an increase in the discounts we can obtain on bulk purchase in preconfigured vehicles due to our plans to expand the volume of vehicles we will buy in this way. Each of these elements is relatively simple for us to execute, and the early synergies we have secured are an illustration of this.

But there are other categories of spend, where the opportunities are significant, most notably linked to leveraging our increased scale and improving our steering capabilities using new digital tools and data analytics. For example, as previously mentioned, we will increase the amount of vehicles we prepurchase and direct to our clients via our various channels, doubling this volume and benefiting from the additional margin opportunity I outlined previously.

On average, historically, we have achieved savings of more than 20% when we can use preferred partners for our servicing work. And therefore, we will ensure an increased steering of our fleet to improve our margins using our digital tools. And on large commodities, such as parts and tyres, we will target a stronger control on selection of manufacturer here to enhance our profitability across these categories.

And a strong historical cost control culture means we are well placed to ensure that we continue to drive the best value for ALD-LeasePlan through our procurement scale. And therefore, as you see the power of scale which ALD-LeasePlan creates brings some clear competitive advantage, which can be crystallised efficiently and effectively, and which drive improved financial performance in the medium and long term.

Leveraging our scale to reduce costs

And the same scale effect is apparent across our operating platforms, where the combined size of ALD-LeasePlan allows us to mutualise processes, systems, real estate and operational functions. Our operational expense savings are built across three main pillars. The majority of these savings come from operational efficiency improvements linked to the consolidation and mutualisation of our service delivery platforms, savings from the harmonisation and mutualisation of our IT platforms and by leveraging the operational scale of Société Générale in areas such as infrastructure hosting and corporate platforms, and in the area of indirect spend, driven by achieving better terms across all categories, as well as on real estate.

And these synergies will contribute to some key improvements in our operating efficiency metrics, which contribute to the cost-to-income trajectory, which Tim has outlined earlier; an improvement in our IT cost per car to service our clients of 20%, showing the benefit of our ambitious digital harmonisation on investment plans, and our ability to manage IT costs, while still maintaining our ambitions to be best-in-class in terms of digital service levels to our clients; and a car to staff ratio improving to 300 cars per FTE, a 15% improvement versus the combined ratio at the end of 2022 to reaffirm our position as the most efficient platform in our industry and with the cost-to-income level which is best-in-class.

Patrick will share more information on this later in the financial trajectory. And even during the integration coming from a higher starting point, these synergies will contribute key improvements in our operating efficiency metrics, which contribute to that cost-to-income trajectory Tim has outlined earlier.

Now, I would like to take an opportunity here to cover the increased IT costs, which we know has caused some anxiety to all, and has had a negative impact on our cost-to-income at this stage. In 2019, LeasePlan began an extensive technology programme to upgrade their existing systems and to digitise their core processes to address the growing competitive demands of the industry.

During the period between signing and closing, under antitrust rules, ALD were not allowed to monitor or intervene in that programme, and therefore, the project continued to be driven solely by LeasePlan management.

However, upon closing, it was one of the first priorities to review this programme and assess how it could support ALD-LeasePlan in the future. And following these first reviews, we see a significant increase in spend compared to what was anticipated in January 2022. Whilst the programme continues, we have put some additional controls around spending to enable us to carry out a more accurate assessment of the benefits of this investment. And this is being done as part of our global digital architecture definition for ALD-LeasePlan, to assess how all of our digital assets can best be leveraged going forward.

Now we continue this review of our combined existing platforms to define that target digital platform for ALD and LeasePlan. And once we have a clearer understanding of the ongoing costs and benefits of these investments, we will update you accordingly. We do, however, anticipate that overall IT costs will reduce further once we have completed our review. But we should reemphasise our ambitions to deliver best-in-class digital service to our clients at competitive digital cost levels in the medium term. And our target digital architecture, including some of the LeasePlan systems, which look extremely promising, will be defined and delivered with this ambition in mind.

In conclusion, we remain very confident of our ability to deliver these synergies over the course of the programme. And to build on what has been presented earlier, let me just give you a more detailed view of what the integration programme looks like operationally at the country level.

Integration of local entities: go fast and efficient - Example of France, our largest market

Here, you see the main highlights of the integration plan for our biggest entity in France, over 600,000 vehicles, and one of the largest European vehicle leasing entities on a stand-alone basis. A clear governance has been established with the country managing director and local coordination management team now operating the business on a consolidated basis; an ongoing open and transparent dialogue with our key asset, our employees, to ensure that they understand and buy into our ambitions; a clear communication plan with clients to establish a single point of contact for them to deal with as well as with our key suppliers and partners; as you would expect, a laser-like focus on securing those synergy commitments made and outlined on the previous slides; and IT operational integration plan, which has been defined in detailed pre-closing, has been rectified and is now in progress post closing as well as real estate plans being confirmed; and finally, a rapid rollout of the Société Générale Group Risk and compliance management framework to ensure we keep the business secure and safe during the integration process and beyond.

As a management team, we have full confidence in the execution of our integration plans and the management teams we have put in place, and it is why we are confident to reconfirm our synergies ambitions to you today.

I will now hand you over to Berno, who will tell you how this scale translates into a power of choice for our customers.

Offering the Power of Choice to our Customers

Berno Kleinherenbrink

Group Deputy CEO, ALD|LeasePlan

Introduction

Thank you, John, and good afternoon. As I am new to this team and have not met all of you, allow me to introduce myself to you. My name is Berno Kleinherenbrink. I have been with LeasePlan for 22 years, initially as country CEO for the Netherlands business and since 2016 as a member of the Executive Committee responsible for commerce and a cluster of countries containing France, Germany and the Benelux.

Within LeasePlan Netherlands, I have managed the integration of three leasing companies into what is LeasePlan Netherland's today. And when I started in the Dutch business, we had less than 50,000 vehicles. Currently, it is more than five times that size.

During my tenure, we have successfully entered the direct SME segment. We pioneered private lease with well over 40,000 contracts today and created a complete online services suite for our drivers. I am honoured to be a management board member of the combination ALD LeasePlan and to share with you the choices we have to offer to our customers.

And coming from LeasePlan, we have seen this merger as a huge strategic opportunity. And as Tim explained, the integration is progressing very well.

Transition from ownership to usership creates significant growth opportunities

Over the past years, we have seen a continued shift from ownership of passenger cars and light commercial vehicles to usership. And when we refer to ownership in this case, we mean outright purchase, car loans and financial lease.

Usership is operational lease, flexible lease, rental as well as any form of pay per use. Analysis conducted by CVA shows that in 2021, about two-thirds of all new car registrations in Europe were in some form of ownership. By 2030, the percentage is forecasted to be only 40%. And as a result, the market for operational lease is expected to grow significantly at an average growth rate of close to 8%, or from 4.9 million registrations in 2021 to 9.5 million in 2030.

The more traditional operational lease segments, corporate and SMEs, will continue to grow both at approximately 6%. And in particular, the private lease segment is expected to increase dramatically from 1.8 million to 4.2 million vehicles. The growth in the private lease segment is driven by the overall trends from ownership to usership as well as a better understanding of the true cost of owning a vehicle.

Currently, consumer demand has slowed down due to economic uncertainty and high interest rates, but we expect that to pick up again in the second half of the period. The transition to electric vehicles is another factor that enhances demand for operational lease from private individuals. The demand for operational lease for light commercial vehicles also continues to grow, in particular, in the SME segment. And the shift from ownership to usership is even stronger due to an accelerated shift towards electric vehicles as major European cities are contemplating restrictions on diesel and petrol vans driving into congested urban areas.

Uniquely positioned in all market segments and channels

ALD-LeasePlan, as a combined entity, has tremendous competitive advantage in almost all segments of the traditional lease market. The merger brings together ALD, leading in the partner channel, and LeasePlan with a superior position in the corporate segment. In this overview, we have highlighted in the blue colour, where we (and our customers) believe we have a best-in-class competitive advantage.

As you can see, for virtually all of the items crucial or important to customers in a selection process, we are best-in-class. We offer a full coverage of all available make models in the market, superior consulting skills, a very compelling energy transition support model, digital solutions for drivers and scale that allow very attractive total cost of ownership.

In the partnership channels, we know what it takes to succeed and spend years in fine-tuning our offer to the evolving needs of our partners and their end customers. Our scale also allows to further improve the curated offer of very attractive pre-configured vehicles.

Before the merger, we jointly already pre-bought well over 50,000 vehicles per annum, and we expect to substantially increase that volume. Although, we are very well positioned in the direct private segment, D2C, we will continue to invest to further improve our position, in particular, a smooth digital onboarding journey with superb lead generation and conversion practices allow us to capture this evolving opportunity.

#1 global multi-brand, multi-channel player offering the broadest range of products across all segments

ALD-LeasePlan have a best-in-class product range that we offer for a broad range of customers. With a global fleet of more than 130,000 rental vehicles, we satisfy mobility requirements that require the highest level of flexibility that can be as short as a one-day contract. This is not limited to passenger vehicles, but also applies to light commercial vehicles.

In Germany, we offer a subscription service via a wholly-owned subsidiary, Fleetpool. Corporate clients are requiring more and more multi-modality solutions combining modes of transportation from bicycles, car sharing, trains, buses or a tax-optimised travel budget.

And via our Belgium-based entity, Skipr, we offer this highly appreciated service to an increasing customer base. Our international key account team serves more than 500 clients, most of which have a truly global fleet.

We are the undisputed leader in this segment, where we continue to invest to meet the evolving needs. Scale and digitisation are key components to remaining successful.

ALD-LeasePlan has operations in 44 countries, and this offers an unrivalled geographical footprint, in particular to our international customers. A harmonised and when needed, centrally controlled account management programme is in place to match the requirements of our customers.

And over the years, ALD LeasePlan have built up a network of hundreds of partnerships. New OEM entrants in the European market are keen to partner with us to accelerate their entry into the evolving electric vehicle market. In the past, we have joined forces with entrants like

Tesla, Polestar, Lynk & Co, NIO, to name a few. And as we speak, our partnership team continue to close new OEM partnerships.

The partners we work with are very broad in nature, ranging from banks like Nordea, Sabadell or evidently Société Générale, but also car dealership groups, insurance companies, energy providers, and, of course, plain and straightforward brokers. This provides ALD-LeasePlan an excellent access to even the smallest of capillarities in the markets we operate in.

I would like to show you a few testimonials.

[Video starts]

Jan-Hendrik Rauhut: Hello, I am Jan-Hendrik Rauhut, Head of Mobility at Bayer. And I am happy to share my experience with collaborating and working together with ALD Automotive and LeasePlan.

To set a strategic roadmap for achieving our carbon emission targets in 2029, we started an intensive discussion with our Board of Management in 2021. And here, your expertise and strategic input played a crucial role be it by providing a market standard model for implementing a topic like fleet electrification, or by enabling us to translate the general topic like fleet electrification into a country specific storyline.

Those examples show the crucial role you play for us. And it does not only refer to your consulting expertise, it refers at the same time to the way you manage complex accounts like Bayer with different businesses and more than 90 countries.

Your support during the Electrification Day we did in Spain, the first event of its kind for Bayer, an event that was supported in person by our Chief Procurement Officer and Chief Sustainability Officer and Country President. Or the other example, where you conduct electrification workshops with us, especially in less mature markets, allowing us to have a way more target and outcome-oriented discussion with our stakeholders in those countries.

What I see in those examples is how we build on the history between our companies and how we continuously drive the success story onwards into the next years. And for that, I say thank you.

Dirk Adelmann: My name is Dirk Adelmann, and I am the CEO of Smart Europe. At Smart Europe, we have always been driven by the idea of creating a more sustainable future. And we believe that innovation is the key to achieve this. After an intense nine-month selection process, we signed ALD Automotive in September 2021.

At Smart, we were looking for a partner that is understanding and supporting our fully integrated online customer journey right from the beginning. As one of the strongest leasing companies in the world, ALD Automotive lease plan is the natural choice and the partner that we in the end also have selected for Smart as the exclusive online leasing partner Europe-wide, not only were we convinced by their outstanding digital capabilities. We also share the same mindset when it comes to the future of automotive sales.

With just a few clicks, our customers now can reserve, buy or lease a smart #1 and in the future #3 online, thanks to the digital capabilities of our partner ALD Automotive and LeasePlan. There is no paper, no hassle, and our customers are in full control of their journey.

We at Smart look forward to continuing our fruitful partnership with ALD Automotive-LeasePlan, and together lead the electric mobility revolution.

[Video ends]

Leading the way to sustainable mobility

As an example, I would like to dive a bit deeper into how we lead the way to sustainable mobility. Over 90% of our corporate clients see electrification as the number one fleet strategy topic.

We have a very powerful programme in place to support this transition. Our consultancy teams are trained to provide the right advice about the optimisation of car policy, total cost of ownership and CO2 footprint for our customers to achieve their ambitions. And we do not limit our offer to the car only but have created a full end-to-end solution containing home charging facilities and charging cards that allow free roaming and international use.

Monitoring the use of electric vehicles and plug-in hybrid electric vehicles is available in case our customers appreciate this additional service. By 2026, we expect that half of new registrations will be electric. ALD-LeasePlan have recently established a joint venture with ChargePoint, which offers full end-to-end solutions and allow us to tap into the attractive roaming value pool. This makes it all very simple to choose electric, and we, therefore, expect by 2026 to serve 400,000 drivers.

As mentioned before, beyond electrification, we offer Mobility-as-a-Service, helping our clients to move from car only to full mobility through our end-to-end multimodal solution. Virtually, all corporate customers are keen to offer their staff broader solutions than just a car. Mobility-as-a-Service is the combination of transportation alternatives, whether it is a leased car, a shared car, a bicycle, a train or a taxi. And we offer these solutions often in combination with local partners. By the end of 2026, we target to have 200,000 users of these services across six countries.

Commercial strategy designed to optimise financial return

Our commercial strategy is also designed to optimise financial return. In a three-step programme, we are preparing our future growth to ensure solid profitability. We are in the process of analysing our portfolio on a country-by-country, segment-by-segment and product-by-product basis to determine where we want to accelerate or moderate our growth.

In line with the profitable growth potential for each of these specific situations, targets will be applied. Execution playbooks are currently being prepared to support commercial and operational staff in accomplishing these targets.

A full continuous business review cycle is already in place to monitor, and where needed, to steer a successful implementation of this programme. And part of the margin improvement is upselling products and increasing the service penetration. We already looked closer at the bundled electric vehicle offer that will tap into new profit pools. And by 2026, we target to have 100,000 of our funded contracts provided with a fully bundled offer, and I already mentioned the 400,000 roaming contracts.

Demand for flexible solutions is expected to remain strong. ALD-LeasePlan offer various solutions, of which several comprise of used cars that have reached the end of their lease term. And as such, we offer both flexibility and affordability. Flexible contracts are more profitable, but require a different skill set to manage.

The main focus is on utilisation rate and short turnaround time. Also here, we have powerful playbooks in place that apply smart combinations of owned new and used vehicles. We combine that with third-party rentals to accomplish world-class utilisation rates that in some markets are well ahead of 90%. By 2026, we target to have at least 10% of all funded contracts to be flexible.

Light commercial vehicles is another opportunity. The margins, on average, are better than for passenger vehicles and the required capital we need to hold is lower. By 2026, we aim to have 750,000 light commercial vehicles in our fleet. And also here, an implementation playbook is available that has proven to be successful over the past years, in particular in the UK.

Back to you, John.

Managing Our Risks Responsibly

John Saffrett

Group Deputy CEO, ALD|LeasePlan

Introduction

Thank you, Berno. In this next section, we want to give you an insight into our global risk management framework, with a particular focus on residual value asset risk management, which we know is an area that could be challenging to understand and predict when viewed externally. We will illustrate how our extensive experience, knowledge and data in this space allows us to manage and mitigate this risk in an industrialised fashion.

Sound risk management framework

This slide provides a summary of the key elements of our approach to risk management. As a core business of Société Générale, ALD-LeasePlan benefit from expertise, support and platforms to manage the effective implementation of the appropriate risk and compliance policies.

And now with our enhanced status as a financial holding company, we will further strengthen this framework and benefit from the enhanced supervision and oversight for the ECB. This compelling combination should give our investors significant comfort on the maturity of our risk management practices.

There are three main risk categories which impact our business: residual value risk, which I will cover in more detail shortly as the main risk we manage in our operating model today; credit risk, where we adopt a prudent underwriting approach to our client portfolio, with a significant share of our business focused on large corporate and international accounts, especially in less mature countries and regions – And you should not forget that our ultimate ownership of the vehicle asset means that even during peak financial crisis, we only experienced a minor increase in our cost of risk. And in fact, we have an extremely low average over the last ten years with a cost of risk c.25 bps – and ALM risks, which Patrick will cover, when he guides you through our approach to funding, but where we have limited exposure due to our matched funding approach.

A strong framework to monitor our residual value risk throughout the asset's life cycle

Therefore, I want to focus your attention on residual risk, and guide you through our approach, which, at a high level, consists of two primary controls and a series of global and industrialised operational mitigants to manage this risk.

Firstly, I want to ensure we have a common definition of what we mean by a residual value, an estimated value of a specific vehicle asset at a defined point in time in the future based on a contracted age, mileage and condition.

Let me elaborate a bit further on this. The future value of a specific car, make, model, specification and options. At a future point in time, considering prevailing market conditions, model life cycle factors and taking specific age and mileage-related conditions into account. It is set at the individual vehicle level using our industrial knowledge, our data analytics capabilities and close links with all of the stakeholders in the industry built over a long period of time.

And obviously, our first control is indeed to use this extensive pricing knowledge and experience developed over 30 years of setting the correct value at the point at which the asset first hits the ALD-LeasePlan balance sheet. And there are significant operational controls in place at the country and global level to ensure these pricing points are respected and cannot be adjusted for commercial reasons.

Then at regular intervals, during the life of the contract, we apply a revaluation on that asset to ensure that the forward-looking value is still valid, taking revised market contact and conditions into account, if necessary. This fleet revaluation is controlled by a central team, who apply a rigid methodology in assessing the price of these assets taking into account some local dynamics and specifics where necessary to form a robust opinion of the likely resale value of the vehicle at the end of the contract.

And as you have seen, if an adjustment is necessary, particularly in the event of an anticipated loss, we will begin to book additional depreciation on the affected vehicle on a monthly basis to offset any anticipated end of contract loss.

Now historically, we have not booked future-looking profit, taking a prudent approach to profit recognition. But in the recent context of strong used car results, we have been required to take some of these profits on assets due for sale in a short forward-looking time period. And we will take you through a working example of how this impacts our financial reporting later on.

It is worth noting that this revaluation process can take into account specific dynamics such as Dieselgate or EV pricing volatility in order to apply additional stresses on vehicles where we foresee uncertainty. And this is then treated from an accounting perspective in the same way. In fact, the Dieselgate scandal provides a good reference for the robustness of the control framework on our pricing expertise, noting that in the years following Dieselgate our used car sales performance has been strong and profitable.

And the EV revolution offers another opportunity for us to leverage our cross-enterprise expertise to bring together internal and external representatives covering all areas from pricing, commerce, operations and remarketing to develop a strong and accelerated understanding of the dynamics in this area. And accelerate our information, acquisition and knowledge in this new exciting market.

With the largest wholly-owned EV fleet in the world, we will be learning about the pricing dynamics on leased vehicles faster than anyone else, and hence, be able to adjust our price positions in advance of the market.

Now finally, as you would expect, we also developed some very strong operational mitigants to allow us to manage this risk on a day-to-day basis.

Firstly, we have an industrialised contract modification capability. This allows us to modify the current portfolio of contracts with clients and make appropriate adjustments to the accounting values, where necessary, within a set of defined parameters agreed with the client.

Secondly, and most importantly, we have a global industrialised remarketing capability, which allows us to sell or release our cars across more than 30 countries via a variety of channels, often simultaneously, to achieve the best price or outcome for ALD-LeasePlan. This capability, built since 2009, provides us with a digital in-house platform on which we sell more than 600,000 vehicles to more than 24,000 active traders. And it represents a significant strategic asset to allow us to maximise the value of the car at the end of the contract, and we continue to invest in data and artificial intelligence technology to help us to continue to drive performance on this platform.

And finally, we intend to improve this performance even more by increasing the share of exports, used car lease and retail sales in the coming years, which has historically provided an improvement of up to 20% over the normal trade sale price of the vehicle.

Now this control framework is overseen by a robust governance consisting of internal and external stakeholders, including the executive committee, the Main Board and Risk Committee of ALD-LeasePlan, and of course, our external auditors, who review our approach to ensure it is at the appropriate standard.

We trust this gives you a reasonable oversight of how we approach residual value risk at ALD-LeasePlan, and the robustness of our forward-looking used car performance. I am sure you will have questions, and we will be happy to take more questions on this later. But in the meantime, I hand over to Patrick, who will take you through our financial trajectory.

Our Financial Trajectory

Patrick Sommelet

Group Deputy CEO and CFO, ALD|LeasePlan

Introduction

Thank you, John. Hello, everyone. My name is Patrick Sommelet. I am Deputy CEO and CFO of ALD-LeasePlan. I am very excited to be with you today. And to tell you a bit about my background, I have been with SocGen for the past 20 years after having worked on capital markets and mergers and acquisitions for HSBC and Merrill Lynch.

At SocGen, I have had several positions, mostly in the financial department, Head of Investor Relations, CFO of Boursorama for six years, and most recently, Deputy CFO for the Societe Generale Group. I have taken this new role at ALD-LeasePlan since 1st September.

Strong historical performance further boosted by exceptionally favourable used car market since 2021

So moving to slide 36. The performance of ALD and LeasePlan has historically been strong and resilient. However, I remind you that over the past two years, our results have been boosted by a very specific environment. Indeed, COVID and the war in Ukraine disrupted the production and logistics chains for quite a long time. As a result, new passenger car production in Europe was down 27% in 2020-2022 on average versus 2019.

Today, the cumulative shortfall of new cars amounts to 12 million in Europe. This situation impacted the used car market leading both companies to register exceptionally higher UCS results since 2021. In addition, in accordance with IFRS accounting rules, both companies had to adjust higher the level of their car fleet, leading to reduction in depreciation cost with strong impact on quarterly results for both ALD and LeasePlan.

As you can see on the chart, reduction in depreciation costs and exceptionally high used car sales results amounted to 23-24% of total revenues in 2021 and up to 41-42% in 2022 versus only 5% in normal years before 2021. All of you know that this exceptional environment cannot remain forever. We believe it will progressively normalise, and we have taken this into account in our financial projections with prudent levels of used car sales results per car for years 2024, 2025 and 2026. This does not mean that we will not have UCS profit in the next years, but that these profits will progressively normalise towards lower levels.

The same parameters have also been retained for the PPA exercise, the results of which will be finalized by the end of this year. I will come back to that in a minute.

Anticipations for the 2023-2026 period

On slide 37, we see our macroeconomic scenario, which takes a view that inflation starts from a high level in 2023, admittedly, and then should decrease in 2024. So, between 5% and 6% in 2023 and between 2% and 3% in the following years.

We anticipate GDP growth to be moderate in 2024 and outer years between 0.5% and 1%, in line with the various scenarios on the street. In this environment, interest rates should progressively decrease, while staying higher than pre-COVID levels, around 3% in 2024 and between 2% and 3% after.

Operational leasing demand in our businesses should remain strong despite the effect of higher interest rates on credits and lower GDP growth driven. And this trend should be driven by the structural trend from ownership to usership that we have talked about.

As I was saying, we anticipate a progressive and slow normalisation of UCS results and an acceleration of the transition to EVs.

Development supported by strong diversification of funding

On slide 38, we talk about our funding strategy. Access to funding is key in our business. We anticipate that the recent rating upgrades by the main agencies obtained following the closing of the acquisition in May 2023 will provide us with greater access to the market and to a larger pool of investors.

Moody's is rating us A1 since closing. It is a new rating. Fitch and S&P rate the Group A- up from BBB at S&P and BBB+ at Fitch. LeasePlan was investment grade, but had a lower rating. These ratings are today the best of the industry.

Our target funding structure is the following: Total funding should come at 25-30% from Société Générale. The amount of funding provided by Société Générale increases a bit, but moderately as LeasePlan comes in our balance sheet with a sound funding strategy. 25% to 30% would come from the issuance of bonds. ALD and LeasePlan are established market issuers, including of green bonds. 10% should come from loans from commercial banks, 10% from securitisation and 25-30% from the deposit base of LeasePlan in the Netherlands and in Germany. All these funding levels are already up and running and functioning well. There are no projects to be developed.

We intend to grow our earning asset by 6% per year between 2023 and 2026. This implies annual senior bond issuance of €4 billion to €5 billion per year, new securitisation transaction of €1 billion to €1.5 billion per year and a reasonable growth of our retail deposit base by €1 billion per year from €11 billion today.

Focus on ongoing PPA exercise and opening balance sheet

On slide 39, I would like to say a few words about the ongoing PPA exercise and opening balance sheet for the new co. IFRS rules for the accounting of acquisitions leaves the buyer up to one year to compute the opening balance sheet of the new company through a purchase price allocation exercise.

Depending on the fair value assessed by the buyer of acquired assets and liabilities, this exercise can have an impact on the goodwill of the transaction and lead to account for potential amortisation of new assets created. We expect to finalise the exercise by the end of 2023 with two main items to be fair valued: the future value of LeasePlan cash flows, which includes the value of the leasing contract, the service revenues and costs on one side; and the residual value and an intangible asset related to the value of the customer relationship on the other side.

We have no final clarity today about this exercise, but we do not anticipate major impact as the principles and policies applied by both companies are similar. The approaches to vehicles valuation are very consistent with similar and prudent future UCS profit curves. In both cases, it is assumed a significant and regular decrease from 2023 levels. The creation of an intangible asset does not have an impact on our CET1 ratio as it replaces goodwill, which we have already deducted. And the amortisation of this intangible asset has been included in our financial trajectory.

UCS profit assumption for the PPA in 2026 are at around 20% of current levels at ALD. This is very important because one should not anticipate that the acquired fleet is mark-to-market at current very elevated UCS profit levels leading to very important positive impact. Instead, our fair value is based on the anticipated UCS when we sell the car one, two or three years from today.

Financial trajectory to 2026

On slide 40, the main items of our financial trajectory to 2026. As already mentioned, we target a growth in earning assets of 6% per year from 2023 to 2026. This will be achieved, thanks to prudent development of top-line margins and supported by selective growth on our most profitable clients and segment, as commented earlier by Berno. By 2026, we expect to have a cost-to-income ratio of circa 52%, which represents a 4-percentage-point decrease compared to the pro forma level observed in 2022, adjusted for the exceptional items impacting 2022 numbers. And for that, we have provided you in appendix with the combined income statement for both companies in 2022 to help you understand and reconcile the underlying financials of the new firm.

As you will see, exceptional items are distorting financial performance, the first of which being the elevated levels of used car sales profit. We are well aware that this new guidance is less ambitious compared to what was previously communicated. We acknowledge and share your disappointment. But nevertheless, I would like to state that ALD LeasePlan remains best-in-class in terms of efficiency and will deliver attractive industry-leading profitability.

There are two main items, which explain the variance in our cost income estimated for 2026. First, the increase in the price of car further to the war in Ukraine, which inflates our earning assets. It inflated more than we had previously assessed. Therefore, the corresponding increase in risk-weighted assets has upside the debt instruments needed to comply with capital requirements, which ultimately weighs on revenues.

Then, and as mentioned by John, LeasePlan IT investments, which we looked at during the due diligence, increased materially in 2022 in the interim period between signing and closing. Since closing, we have had better clarity on these investments and are taking action to review them.

Taking all this into consideration, our cost-to-income is expected to remain the industry standard in terms of efficiency. It is also important to bear in mind that this cost/income is computed using only the leasing and service revenues and that we are excluding used car profit from the calculation, unlike some of our competitors. This means, obviously, that cost-to-income ratios are not directly comparable.

Our cost-to-income will reflect the benefit of €440 million of annual synergies, which will progressively materialise into our P&L into 2026. You see on the chart, the phasing of synergies as well as cost to achieve the integration of LeasePlan. Our return on tangible equity will range between 13% and 15% in 2026, which represents undoubtedly a very attractive level for a financial services company.

Improving our Cost/Income ratio (excl. Used Car Sales results)

On slide 41, we see how we get from the 56% combined 2022 levels to 52%. First, leasing margin will improve on the back of increasing earning assets, supported by a reasonable fleet growth and still some car price inflation. This will improve the cost-to-income ratio by 9 points.

Then we have the effect of synergies, which represent a 10-point improvement. On top of that, we have the adverse impact of the cost of the regulatory capital structure and the increase of funding costs, which comes from higher interest rates. In total, this represents an adverse impact of 5 points.

The inflation and overheads expansion on volume and cost of being regulated in the four years combined, represent an increase of 10 points up. This represents, before synergies, an increase of roughly €300 million, of which two-third comes from inflation. The rest of it being split between the costs needed to accompany volume growth and the cost of being regulated for another small portion.

You see that until merger, ALD was the most efficient player in the industry on the right side. LeasePlan was well-positioned, but had a cost-to-income clearly higher. The combined entity, once synergies are implemented, should be the best positioned player.

2025 C/I expected in November 2022 to 2026 C/I expected today

On slide 42, I want to come back to the change in guidance we have given last Monday from 47% to 52% in 2026. So we have revised this guidance. And let me walk you through the specifics of these changes.

Transaction-related impact, including synergies, account for a 1% improvement in cost-to-income. The positive impact of car prices increases and fleet growth on our margins represented 3% decrease of cost/income. Conversely, the improvement of revenues on the back of higher car prices comes with an inevitable increase in overheads, representing a 5% decrease in cost/income.

Finally, the main novelty compared to 2022 has been the increase in IT investment compared to what we had estimated during our due diligence. All in all, we reckon that this change comes as a surprise to you, but we remain again, and it is important to have it in mind, the industry standard in terms of operational efficiency at 52% cost income ratio in 2026.

Capital targets

On slide 43, we take a view of our capital targets. So our objective is to have a core equity tier 1 ratio of 12% going forward, which translates into a total capital ratio of about 16%. Our capital distribution policy will be 50% dividend payout ratio. It is important to have in mind that at the end of Q3 2023, we will most probably take into account the risk-weighted assets floor Tim mentioned earlier. This floor has been decided by ECB following the review of LeasePlan with their credit model, and this will lead to an increase of €4 billion of RWA, which is factored in the financial projections we have published.

This core equity tier 1 ratio and this target puts us comfortably above regulatory requirements.

This being said, I give the floor to Tim for the conclusion.

Key Takeaways

Tim Albertsen

Group CEO, ALD|LeasePlan

A compelling investment case

Thank you, Patrick. So a few key takeaways, and I guess it is time to wrap up this presentation. I sincerely hope that we have touched upon all the areas and questions that you had in mind when you arrived here this afternoon. I also hope that we have demonstrated that even if some of our objectives for 2026 are not as good as previously expected, our cost-to-income is best-in-class, while our return on tangible equity will be positioned at the high end of the financial sector.

Key takeaways

So rest assured that our management team is fully committed to deliver. Our integration is well on track, and we will secure the synergies that we have promised. I hope that we have been able to convince you that we have a superior financial profile.

And last but not least, that our strong leadership gives us a significant leverage to shape the industry going forward with all the benefit that comes with that.

Thank you for your time. We will now have a coffee. And after we meet for the Q&A session. The break is supposed to be 20 minutes, so I suggest we meet back here at 3.45. Thank you.

Q&A

Sanjay Bhagwani (Citi): So, a few questions. First one is on the target for earnings asset growth. I understand you are guiding for 6% earnings asset growth for the next four years. Can you please provide some split between it? How much is it basically, let us say, the funded fleet? And what are you assuming for the average value of the vehicle going up, given the mix and everything is benefiting? I am just trying to assess, it seems to be very conservative, given the underlying market for your key segment is growing somewhere around 6-7% per annum. So maybe if you can provide some colour on this 6% number, what is driving this?

Tim Albertsen: Right. I can start giving maybe a bit more global view on how we see the market, and Patrick can give you some numbers on what is volume and what is price.

So I think what we try to come across with is that there is obviously a very strong market growth in the next five to ten years anticipated. 50% of that market growth is coming from consumers, the consumer market, which we definitely think is interesting. But in the next couple of years, we do not necessarily believe that that it is where we will have a real bold attack.

First of all, the market is a bit below what you expect right now because of the inflation and increase in car prices. And secondly, we have done quite a substantial piece of work over the last six months to understand the margin structure of these segments. And the margin is not necessarily supporting, let us say, the returns we expect for the next years.

And last but not least, it is also true that it is a business that is new to us, and we do not necessarily have the operational, let us say, leverage to target that very bold approach at this point. We will develop those capabilities over the next couple of years. And if you take that growth out of the market, you will see that we are growing in our core segments, being corporates and SMEs, typically pretty much at the market rate.

So I think that is important to state that we are making sure that we have a profitable growth in the coming years. I think with the size and the scale that we have created by the two groups, we do not necessarily see that growth is very important for us the next couple of years. Not saying that it is not like that going forward.

But the next couple of years, it is about integration, making sure that we deliver the integration plans and the synergies and then make sure that we keep, of course, our very strong footprint in our core segments where we know the profitability is good. So that is how I think you should be looking at how we anticipate to operate in the markets on the sales side and commercial side going forward.

Do you want to give a few words on that?

Patrick Sommelet: I mean, it is fair to say that also the 6% is a target in three years. And it might not be even in each year. We are still in an environment now where the price of cars is very strong and increasing. And if we look at 2023 alone, we have very strong asset growth with a slow fleet growth between 2% and 3%.

So the 6% should be between 2% and 3% fleet growth and then taking in inflation in the price, and we see that we are starting the budget 2024, and we see that the countries, they have also – they see a very strong price increase related to the price of cars in the market, but also to the penetration of EVs. So just to say that it might not be 6% in each of the years, but on average, it should be 6%.

Sanjay Bhagwani: That is very helpful. A follow-up on the returns of these earnings assets. So I understand at this point, you make somewhere around 6-6.5% leasing contracts and services margins on the earnings assets. How do you feel about the trajectory of this? Can this go up, let us say, significantly given first thing probably you may start getting the discounts again from next year? So although your earnings assets are growing at 6%, but what you make on them probably increases quite a lot.

Then again, I think on the EV solutions or the services margins going up, ALD Move, ALD Flex and many other data and everything, if we just add up; so how should we think of these returns on these assets, which is currently, let us say, 6-6.5% going more to into 2026?

Tim Albertsen: Yes. So I think, Sanjay, it is true that we have been trending around 6% of margin. If you look at the last couple of years, we have not been there. We are more around the 5.7-5.8%. So I think what we look at is to restore the marking, making sure actually that we get to the 6% or a bit above the 6%. And definitely, we want to make sure that we are growing our margins in line with the earning assets.

Sanjay Bhagwani: And just one last question is on the LeasePlan. So far this year, I think you have not accounted for any reduction depreciation on the LeasePlan or even on the used car sales results. So maybe I think you already mentioned that the fair value exercise is going on already. Can you please provide a bit of colour that what are your initial findings? Is there anything that can be negative surprises into that? And where can we expect, let us say, the UCS results and the residual values of the used car to be treated same in the P&L as for the ALD?

And for the period where it is not treated, can we expect like a one-off write-up or something like that or a goodwill reduction? That will be my last question.

Tim Albertsen: So I will pass the question on to Patrick. But just to make sure, I think we need to limit to two questions per people. So now we did your third one, that is fine though, and we will answer.

Patrick Sommelet:. So we are conducting currently the PPA exercise. There are no major surprises. The price of the car is probably higher on the value of the fleet without discounting, but the discount rate has increased. So it is a matter of where these two elements will land for the final valuation of the lease contract. We have been prudent in our UCS estimate for LeasePlan. So it is balancing. It is between the PPA exercise and the asset and the future of UCS profit.

For the time being, we are not anticipating a major impact on the assets, and we have been relatively prudent in our UCS profit expectations. And we will see whenever we have clarity on the final results of these, we will come back to the market.

Kiri Vijayarajah (HSBC): I would like to come back to your opening remarks, Tim, and the very opening remarks, where you identified two things that had changed from the deal announcement and the deal closing. So the ballooning IT costs at LeasePlan and the action taken by the ECB. I am really just trying to get my head around how permanent or semi-permanent those are. And why it is taking until 2026 to unwind one year's essentially overinvestment or overspend whatever is driving that?

And also, how to think about the imposition of those IRB floors by the ECB? I know it is always tricky to try and second guess what the ECB decides. But just your thoughts on the action taken by the ECB, and how permanent or otherwise you guys think that will be?

Tim Albertsen: Right. I think on the IT spend, so of course, it is not a situation where we cannot do anything. Of course, we have already put actions in place to make sure that, first of all, we control that cost now and much stricter than what has been obviously the case before closing.

I think what is maybe interesting is maybe John gives a bit of colour on what system it is, and obviously, all the attributes that we anticipate with it and actually some of the actions we can take to, of course, limit, and let us say, the cost going forward.

John Saffrett: Yes. So LeasePlan began that investment in 2019, and the ambition was to develop a platform, which was a global, fully digitised leasing company. That was the ambition. And they built some very strong foundations to support that, which are quite unique in the industry. You have a global codified product catalogue. And by codified, I mean, they have looked at every product and service they sell, and they have codified it so it can then be developed and turned into something digital.

They have looked at every business process they operate, and they have standardised and harmonise that in a codified form, where they have said maintenance authorisation should be executed like this at the most efficient level. So they have applied Six Sigma techniques to this as well. And they have codified and developed that asset.

So what you have is the foundations of a global, fully digital lease co that could operate at comparable digital cost levels to digital banks, level on digital leasing companies. The challenge is then in the actual deployment of that. As we know from our experience on the ALD side and we have had extensive experience of deploying systems down the line as well.

So we do not want to just dismiss the asset without taking a proper look at it. What we have looked at since closing is, and I have had the chance to actually see the system because we are in a pilot phase in a couple of countries to form an assessment on how close we think it is, okay, to being deployed. And what we could do with that asset post this integration period as well because we cannot deploy that asset globally in every country in the middle of an integration because then the integration will take 15 years and we will never finish anything. But what we can do and it is being used in a couple of the countries as the foundation for the integration in those countries.

And when we get to 2025, we will have a view about has it crystallised those benefits? Is it what we think it is? And if it is, we can then prepare an investment plan to go forward to then roll it out into some of the major countries and really drive the cost income number further 2026 and beyond.

And we are right in the middle of that analysis, I have to be honest, and that is why it is challenging for us when we talk about the IT cost because there is a lumpy IT asset on the balance sheet. There is a lot of OpEx there. We have taken immediate actions on the OpEx to mitigate some of that and manage it. Again, we are very good at that on the ALD side, and we have proved that over the previous years.

And now we need to just take a view on that asset and how we treat that asset going forward and whether we believe that asset is a valuable part of the digital architecture going forward as well.

First gut feel, I think it is. First gut feel, but do not quote me on that. Maybe not in its exact formSo maybe not in its entire form because they have looked at lots of different areas of the value chain. Our belief is that the value is only really in certain parts of the value chain. So we will take that part of it, but not that part of it. And there is obviously an overlap with some systems.

There is an overlap with some systems ALD has on the corporate side. So we do not need to take the whole thing, but there could be some gold in there, and we do not want to dismiss the opportunity in terms of what it could bring to us post 2026.

Tim Albertsen: And perhaps, maybe just to add on to that, I mean, the initial work done about the globalisation of services and, let us say, the products is obviously something that we can reuse with or without the system at the end of the day, which we need to do. We are implementing a much more globally coordinated governance, which is actually what is driving a lot of part of the synergies on the procurement side, for example, which is already in place.

And so whatever happens, there is definitely part of that programme that will have a very positive impact on us going forward.

Now as John said, a big portion of the investment is going into the balance sheet for the time being and will not be released before some of these modules are live. And hence, you obviously cannot really do anything to that particular part at this point, but as John said, on the OpEx, obviously, we have taken immediate actions.

John Saffrett: And Kiri, if I may add one thing. Sorry, Tim. It is very rare for an existing industrialised company to codify their entire product service and business process catalogue, okay, because normally, you do not get enough time because you are spending money and you do not show any benefit in terms of systems being deployed because those are the foundations of a digital company.

If you build a digital company from the ground up from day one, you start with that. But to convert your existing actions into that, normally, and I know I have been a CIO for a while, you do not get time because three months after you start the project, the CEO is banging on your door and saying, we have not deployed anything, and you start to deploy staff and make trade-offs.

So that asset, as Tim said, is an extremely valuable asset for ALD-LeasePlan, whatever happens in the future with the digital technology that has been built.

Tim Albertsen: And ECB, maybe I will leave that to Patrick.

Patrick Sommelet: Surely, it was not a good surprise for us. We got the final confirmation of this floor, I think during the summer. But it is there to stay for some time because it is then a dialogue with ECB to convince them that we can have better models, well documented with the right calculation.

Now if I look at the ALD-LeasePlan in total, we have published for the first time our RWA in June, at the end of June. If you look at those RWAs are actually higher than the earning assets. And I find it very weird that in a financial service company that you have RWA above earning assets. That means that shows the amount of optimisation, which is currently being done, and that is partly the effect of this floor, the ECB decision. But there are other areas to look at. It is only the beginning of the journey to be an optimised financial services company. So there might be something to do there, but in time I mean, under the ECB scrutiny.

Matt Clark (Mediobanca): So I guess one question is coming back to the horizon because as you have painted the IT overspend and the related asset, it is almost as if this might be a good thing rather than a bad thing. And yet we are facing a 2026 cost-to-income ratio with 4 percentage points of the slippage versus original target. It is because of this IT asset that might ultimately be a good thing. And your ROTE at 13-15% is very much lower than the historical range you delivered before we had the high used car sales result. So I guess my question is, is 2026 really the right horizon to be assessing your run rate profitability, and what can happen beyond 2026 when you work through this IT project amongst other things?

And then second question, I guess, is maybe to come back to capital and risk-weighted assets and so on. I mean, your CET1 ratio pro forma for the €4 billion would be slipping below the 12% level. Are you capital constrained here? Is that a reason for curtailing your risk-weighted asset growth? And how do you think about paying out a 50% dividend on windfall used car sales resulted in that context? Is that the right usage of that capital? Why have not you reverted to a dividend per share that you can then grow over time at a more moderate level, but gives a high degree of certainty to the market in the meantime?

Tim Albertsen: Maybe on the first one. So I mean, we are going through an integration process. And I think with what we have seen, we, of course, want to make sure that we have a plan that we believe in. It is probably true that it is prudent in many ways.

Obviously, as I say, there could be an upside if we take the right decisions and get the cost under control in a very efficient way on the IT side. That would typically be an upside that is not in the plan today. But again, I think it is too early for us to give any indications on that. It is also true that if eventually we cannot bring this system live in the three countries that we have anticipated, obviously, we will have to put another system in place, and there will be a cost associated to that. So it is not like necessarily that would be 100%, let us say, gain on that particular part.

I think on capital, there is no doubt that if we would have excess capital, and again, there could be different areas to look at that, as you said, could be that used car markets are much more bullish also in 2025 and 2026 than we anticipate at this point. I mean, of course, we will review that. Again, we have a target of 12% CET1, and if there is room, obviously, we would anticipate that we could review our policies and either in terms of a better dividend payout or even a buyback programme as such.

But again, it is too early to say. I think when we look at 2023, we are just around the 12%.

Matt Clark: My question was more from the other angle, actually, that rather than do you have excess capital to return. If you are going to see your CET1 ratio slip when this €4 billion risk-weighted asset comes on, is it the right thing to be doing to still pay out 50% of earnings? Should you not be deploying the capital into your business rather than giving a windfall in a peak year?

Tim Albertsen: So maybe, Patrick, you can add in. But overall, I think, of course, we have the €4 billion in our projection today. And we are well positioned in terms of our capital ratio.

Patrick Sommelet: Yes, that is the current projection. We currently have a projection, which is around 12% and it depends also on the end of the year, and 2023 is still ongoing. So we do not have excess capital currently. Well, that the truth is also that in the next year, we will be building excess capital because it is still a very profitable company.

And then we have to see also the impact of Basel IV implementation. Basel IV implementation, it is slightly too early to tell, but it might have a positive impact on some of the RWA constituency, which, for the time being are very high. So at the end of the day, even in the short-term, we are not capital rich. The capital position should increase over time and open a new decision to be taken.

Julien Onillon (Stifel): I have two questions. One on the market and one which is not around the market and new business that really understand. So coming back to your market. You mentioned very clearly that the 7.7% growth is not your market completely because it is due to consumer. And that the market growth is probably would be more around 6%, which is your long-term growth target stable volumes. However, if you take the current plan, you have a growth and you just mentioned it about 2.5%, maybe 2-3% of volumes growth over the plan, which means that if you want to get a 6% growth, you will need a 10% growth of the market or your market and your growth, which looks like from 2026 to 2030, well, we do not know what will happen at by this times. But 10% growth in volumes from leasing, it seems very, very, very optimistic. So it is coming from the market assumption, but maybe also your own assumption in the way. So that is my first question, how effectively you match those numbers?

My second question, it is more about the corporate governance in a way. A year ago, Société Générale was owning 80% of the company. Now I would like to ask you this question. Now that Société Générale owns only 51% of your company. Are you a division of Société Générale? Or are you an independent company with a reference shareholder, which provides you a lot of liquidity? It is a very different aspect. If you are a division of Société Générale, we can understand that your share price went down when there were the crisis in the US of the bank collapsing in California. Here we can understand that Société Générale is making a strategic plan early this week, and then that you come after that because it is Société Générale, let us say, and you are just a division.

You can understand also in a way and that your share price is maybe massively undervalued because in a way, you are not considered like an independent company. So my question, but otherwise, if you are not, if you are effectively Société Générale, if a shareholder, a reference shareholders, and is just a provider of liquidity. What guarantee do you have that Société Générale will not interfere in your business, not interfere on new communications? That is very important because at the end of the day, we are seeing that on Monday, when Société Générale went down 10%, you went down 14%. So you see directly the influence of Société Générale on your share price performance and indirectly, obviously, for the minority shareholders and for the shareholders, it is a strong, let us say, negative.

Tim Albertsen: Well, maybe I will start with the last one first, and then Berno can actually give you a bit of input on the market I think. So well, first of all, ALD-LeasePlan are designing our own strategy. There is no interference from SocGen on that particular part. We design how we want to conduct our business.

We have a lot of support from SocGen and, in particular, becoming a regulated entity. We have benefited a lot from all the expertise on the SocGen side to do that. As you said, SocGen is a very important funding provider of this business, and they are guaranteeing up to 15 billion.

So I think being a division of SocGen, I would not necessarily say that. Of course, we are quite integrated in Société Générale. And I think we have a lot of benefit from doing that or being there. And I would say, if you look at ALD-LeasePlan or ALD over the last years, obviously, SocGen has been a very, very strong shareholder for this business.

In most of the crisis, as we talked about in the initial part of the presentation, obviously, a lot of our competitors went out of the market when there was no liquidity or when actually the market went really sour, SocGen pushed ALD constantly and have given us, I would say, the position we have today. So I think there is a very strong understanding of the rationale of ALD-LeasePlan inside Société Générale.

And of course, we have to make sure that we are aligned to a very large extent, you have a structure, where there are two listed companies. But I mean any kind of interaction between SocGen and ALD-LeasePlan is arm's length. It is checked at Supervisory Board level. We have independent Board of Directors, who are ensuring that there is the arm's length relationship.

And also today, we have only seen that typically SocGen is a positive factor in trying to push ALD-LeasePlan forward. If you think about the market and the growth and that is a bit different and perhaps alluding to the fact that SocGen is today on a different trajectory in terms of growing their net earning assets or their earning assets, obviously, the two only businesses that has been allowed to grow is ALD and Bourso Bank.

And of course, first of all, because it makes a lot of sense for Société Générale to grow these two businesses and in particular, ALD-LeasePlan. So I would say see it as a big strength at the end of the day. And we have a lot of, let's say, support in particular areas, where the new group, the new co has obviously a need for support.

Julien Onillon: But did you had to ask Société Générale for this growth? Because LeasePlan standalone did not have any bank. They were able to grow to find funding, to find the bonds to grow. They did not know, because they did not have the bank behind them, who are the main shareholders, that were able to grow it.

Tim Albertsen: True.

Julien Onillon: If you want to lend us money, lend us money. That you are right. But me I will find other source of funding.

Tim Albertsen: Yes, true, but LeasePlan actually went to the Dutch National Bank in 2011 to be bailed out. So I think in a normal market, we can fund this business obviously. But I think if you look at the funding plan that Patrick showed you, it is quite ambitious to issue €4 million to €5 million funding our bonds. I mean, it is more than the two companies ever did together in the past.

So I think if we look at the restrictions on the business today, it is more around the funding capacity of this business rather than anything else. And without the €15 billion that is guaranteed by SocGen, we would not be able to find the funding for growing this business to be very honest.

So Berno, do you want to talk a bit about the market?

Berno Kleinherenbrink: Yes, I am happy to talk about the market. So thank you, Julien, for the question. Maybe to nuance the numbers a little bit. The numbers that we have shown from CVA are actually up until 2030. So that is a relatively long period in time, and they were made a couple of months ago. What we, in particular, see is that the effect of more expensive cars, so increasing prices on cars as well as higher interest rates, have had quite some impact on the consumer segment.

The consumer segment is hardly growing at the moment. And we believe that in a lot of cases, consumers are simply waiting with their decisions on what to do. So they are not moving at the moment. So that being said, if you want to grow in that particular segment, that you have to be very, very aggressive on your pricing on an already, let us say, perceived high price to get to that volume. So we want to be more cautious because we are less experienced in that segment. And we see that effect in the market.

Our expectation is that once interest rates normalise and also once the OEMs are getting a bit more eager for volume, that we will see a more balanced pricing that is feasible there so that we can better participate in that part. We do have, and over the next months, approximately 6% growth in the consumer segment, so that is not low. But nevertheless, we want to be cautious not to shoot ourselves in the foot and be too aggressive.

We see a bit the same in the SME segment. Also short-term growth is a bit lower than the number that we have shown there up until 2030. Small and medium enterprises, they behave a little bit like consumers in the sense that they are also careful. Once they see prices going up, they look in particular at the lease instalment, less at the total cost of ownership, let us say, over a fleet. So the effect is there.

And then in the corporate segment, currently, we are growing with the market, and we know that because in a lot of cases, we have so-called single vendor relationships, if you add that all up, then we have a very good reflection of what is happening in the market. And our growth today is in line with the end market.

Going forward, we have a big integration programme. So that means that there will be, of course, an impact on, let us say, the propensity for us to grow. And at the same time, we have also noticed that the last percent growth is typically something that really erodes your margins. And we really want to be careful about that last percent growth, plus we have also gotten insight into our portfolios that, in some cases, there might be more interested in balancing a bit of the growth of and really benefit with improving the margins.

Does that mean that we will be losing market share? If the market grows this year at 6%, which I don't believe it does, but if it grows 6% and next year too, we will be losing some market share. But we believe that it is better to position ourselves with better margins at this particular point in time, healthy growth also for the longer term.

Julien Onillon: If I understand you, effectively, you still believe that the growth of the market in the current three to six years depending interest rate, obviously, and so on, we remain probably clearly below those 7.7% and that you will not recover to get the CAGR of 7.7% after 2026. And maybe if it is go back to 7% will be nice. But it will not move to 14% to compensate the more growth.

Tim Albertsen: Yes. Our average is not going to be that. No.

Julien Onillon: No, it is not a number by the way. So consulting firm, but anyway.

Berno Kleinherenbrink: Yes. Because then if we do that, then, of course, we would be hunting for that last percentage growth, and that would, of course, be quite detrimental to the margins. So we are just going to be careful. If the market is more forgiving in terms of margins, then we will just simply accelerate our growth. That is feasible. But we are going to be very careful and really select where the growth is reasonable.

Mourad Lahmidi (Exane BNP Paribas): Actually, I want to come back on the cost overruns in terms of IT at LeasePlan. So thanks for showing this bridge between the 47% cost-to-income to the 52% and the 4% impact. Is the 4% what you see today and you pencil that in 2026? Or is it what you expect the impact will be in 2026?

I guess my question is, what is the phasing of those cost overruns over the next three years?

Tim Albertsen: Patrick?

Patrick Sommelet: So there is a large part of this overrun, which is already in the accounts at the end of 2022, but not all of it. So difficult to be more specific. This is the situation in the business plan of the IT expenses of LeasePlan as they stand, already well spent at the end of 2022, more to come by the end of 2026.

Now as John specified, they have created a large IT asset on which we have to look at to assess whether or not we want to confirm this level of investment or to do something. So this is the examination of that will be ongoing in the next couple of months.

Mourad Lahmidi: Okay. And another one on pricing. So you will get a lot of savings in terms of procurement, in terms of car purchasing. How much are you going to reinvest in pricing, so again, shares against competitors?

Tim Albertsen: So I think it is always a good question when you actually get savings that it does not end up in the pockets of the customers. And to be honest, both on the LeasePlan side and on the ALD side, we have actually experienced that in the past. So we said from the very day one that the savings that we find here, obviously, through the integration, has to become ours, basically. So there is today controls in place to make sure that this, let us say – these savings does not end up in a lower margin and to the customers.

I think where we can see, the way our discounts and our bonuses work is that the discounts we get typically on our cars would go to our customers, and that makes us competitive. So if we get 10% or 15% discount on a car, that is what we put into the contract for the customer. The way we actually get our benefits is through bonus programmes. That is not part of the pricing, but actually a kickback, which means that we can control, obviously, that it is not been given into the pricing of the customers.

And we have been very specific in the way that we have outlined the way we are going to take the procurement synergies, it has to come through kickbacks and bonuses. That way, we can ensure that it goes in our pocket and not the customers.

And you have probably noticed that in the last couple of years, the manufacturer was in a particular great situation. They did not have to give discounts. They did not have to give bonuses. At the end of the day, we actually still got our bonuses, but we lost our discount for the customer. So the customers have actually taken the burden of that to a very large extent. And obviously, we believe now that we are in a much better position, first of all, our size and scale, but also the fact that the manufacturers are in a situation where they have more cars than they can sell.

So obviously, we are going to expect that the customers will also benefit, but not because of our bonuses, but because the manufacturers will have to actually subsidise their products more than they have done in the last couple of days. But yes.

Nicolas Walewski (Alken) : Just a quick question on the ECB. I am sure their appetite has grown with looking at your business model and regulating your activity to what is the share of the industry because I do not have this number with me, that is regulated by the ECB. And what is the share that is unregulated, like you were some time ago? And how do you think this is going to evolve and its impact? I am sure Arval will be able to manage this. But especially lots of smaller players. How do you think this is going to happen with them? How many years could it take? And what about the consolidation of all these guys?

Tim Albertsen: Yes. That is a good question, Nicolas, I would say. Well, it is quite clear that this industry is becoming big. And obviously, we discussed about the private lease, this is going into a completely different era than it was in the past. And as I said, we are becoming mainstream more than niche and that is on the radar of the ECB. And we have seen that from the first day we actually started interacting with them.

And it is quite clear they want to regulate this business going forward. So we believe that if we do not do it now, well, did not have a choice, we do it now, but we would have been forced at the end of the day within probably the next two to three years. We have seen that Volkswagen have taken all the operating lease activities this year and put them back on to the bank. They took them out of the bank probably five, six years ago, but they brought them back in and probably pushed a lot by the ECB.

So it is coming for, I think, at least all the bigger players in this industry. And I think for us, it is good to have it behind us and actually do it while we do the integration and where we reset the organisation anyway. And of course, well, Arval is not regulated today and then they are even prudentially deconsolidated from BNP. So we will see what happens there, but we do believe that the ECB wants to have a fair level playing field for all the players.

Patrick Sommelet: Maybe to adding that, in the Draft CRR text from ECB, operating leases are treated as financial services. It is a draft text, but if it is confirmed at the end of the day, unless players get an exemption, that operating lease would be treated as a financial services to ECB.

Robert van den Barselaar (Kempen): On the IT cost, I was wondering you basically have 400 basis points of cost-to-income ratio that you pencil in for 2026. Of course, you are still evaluating the whole IT spend. But I suppose that you will stop the programme tomorrow, how much impact would that have on the cost-to-income ratio? I mean you basically say we do not get the full 400 basis points back, but is it basically if you stop it tomorrow, will it be minus 100 basis points? I am just trying to get a feel for the sensitivities there. And well, maybe there are some positives that you have in that ratio?

Tim Albertsen: Yes. I think we cannot be really specific on that because it is too early actually. But obviously, the 400 bps we have there is anticipating that we do nothing, and we actually keep on investing in the programme. So as John said, we have already taken the first initiatives. And we do anticipate that there is, of course, ways to bring down that cost without damaging the programme. But to give you an exact number, whether it is 200 bps or 100 bps, that is not really possible at this point.

But obviously, we have kept a prudent approach to this, again, because we do not still know exactly how we are going to approach it.

Robert van den Barselaar: Okay. That is clear. And the second question that is on the consultancy cost. So €70 million of consultancy cost at LeasePlan that was on 2022. I was wondering, what does that relate to? And also how fast will the €70 million run out of your cost base? And how does that impact your cost-to-income ratio in 2026?

Patrick Sommelet: So if I understand well the reference, there is also consultancy costs in my understanding, were relating mostly to two things: ECB models, which were still being worked on and also IT development because a large part of the IT spend was outsourced to external consultants. So some of it will go as we have had the floor, but we still have to work on the RWA optimisation. So it might require additional costs. So that is why, yes, it is something that did exist. That is partly part of the IT investment and that we are still looking at.

Tim Albertsen: So I think what we can say is that as part of the synergies, we have counted in as well that LeasePlan is regulated today by the ECB. We are regulated but we have been working on that and getting prepared for that. And you could say today, we have two costs of being regulated to some extent. And obviously, over time, the ECB is unpredictable, but we do anticipate, as part of the synergies, of course, to get to one cost of being regulated.

And I think it is also true to say that LeasePlan was normally regulated by the local regulator, the DNB. And in 2021, they were taken to the ECB. And obviously, the requirements from the ECB have been very different to the requirements from the local regulator. And that has, of course, increased, let us say, the intensity of remediation and other things on the LeasePlan side that eventually we anticipated is part of one cost as well on being regulated. But that is in the synergies already.

Geoffroy Michalet (ODDO BHF): There is something I cannot really reconcile is the aspect of pricing power of your industry and value proposition. I mean is it only based on price, given your size, synergies versus your peers? I understand the burden of ECB, but I would have expected you to be able to offset part of it, just thanks to pricing power that some of your competitors cannot have at some point?

Tim Albertsen: Well, I think we are in a very competitive industry. Obviously, we have assets today that nobody else has and has a value. Can we mention the name of the new customer we do?

Berno Kleinherenbrink: Not yet.

Tim Albertsen: Not yet. Okay. Well, we just signed up a very big global account, which, of course, looks at the price, but also the way we can actually support them. And you saw Bayer with the testimonial, basically saying that we are doing much more for them than just actually delivering the cars, which is really, really important. So you are right. But I mean, there is a price in the market. There is obviously other quite significant players who also have a very strong reputation and a very strong service offering. But we do believe that, obviously, with the scale we have today and we do have a certain pricing power in the market.

Having said that, being a market leader also means that we should be leading also on the price. We should not be the one actually pushing down the price in the market. And there is actually no reason to do that. And again, in terms of our service offering, it is second to none. And obviously, that should give us a lot of leverage on more than just the price. I do not know if it answers your question.

Matt Clark: I guess this is a question for Patrick, about the 13-15% ROTE target range. And what are the variables that are driving that range? So what has to happen for you to be at the low end? What has to happen for you to be at the high end of that?

Patrick Sommelet: Well, I think it is a question of we see profitability and so the underlying profitability has been hampered since the initiation of the deal by the increase in cost income and also the regulatory funding costs related to higher RWA.

And then there is equity. And today, we forecast RWA the way we did with some assumption for Basel IV implementation. And depending on the confirmation of the assumption, the work we have to do with ECB, we might actually have a lower RWA which would lead to potentially lower equity and higher return on equity. This is depending really on the coming years and the implementation of Basel IV. But those are really the main parameters we are looking at very closely.

Matthew Clark: Just because you do not have a range for cost/income, right, I guess, but that would explain that the uncertainty is more about capital base environment.

Patrick Sommelet: Yes.

Julien Onillon: Just traditional questions. First just for clarifications. For 2026, your target is 52% in terms of cost to income, clearly. But is the assumption there is numerators and the denominators, which is important. Are you assuming effectively a €500 per car of leasing margins, which is the average before the price are rising? Or are you assuming something different in terms of average price due to, for instance, a better secondary car market, for instance? That is the question because, obviously, there is a cost, but there is also, obviously, the income and can be a bit different if you have €700 per car of leasing revenue or gross revenue on leasing or €500, which is different. So first questions.

Second question is more about the current environment, which is, as we mentioned, difficult with interest rates increasing, with the recessions, monetary recession with a slowdown in the economy. How are your competitors, the car manufacturers, which are leasing, what their behaviour currently in terms of market? Are they aggressive knowing that they have a potential major challenge in front of them with the, let us say, Chinese potential, let us say, manufacturer coming in the market, and that maybe they are better to keep a very good market because they are in reality the main competitors in terms of size. And therefore, not to be too aggressive on the leasing in order to keep a profitability in this business.

So it is very interesting. I would like to have your view on that. And maybe currently and what you view about the next, let us say, five years, when maybe the Chinese imports of EVs might be much more bigger than it is today.

Tim Albertsen: Let me start with your second question and then Patrick, you can give a few inputs on the revenues. So I mean when we look and it is true we will see the manufacturers entering our space, but they will be entering the segment, which is typically on the consumer side and on the SME side. So not necessarily our core markets.

I would say, if you look at the market today, ALD-LeasePlan, together probably with Arval, owns the access to that to the big corporate markets. The manufacturers will never get there. Whatever they say and try, they will never, I think, at least the next 10 years catch up with what we do there today. So if they want to sell cars to that segment, they have to come to us. So that is it.

Now where we will see them being much more aggressive is, of course, specifically on the consumers. And that is where we have said for the time being, obviously, we are not necessarily taking a very bold approach to that. The fact is that the car manufacturers will subsidise their captives and they typically start with a €3,000, €4,000 better position than us.

Now the way we can address that, if we really want to go, is through the bulk buying that I think John talked about where we buy preconfigured cars, and we get discounts that have actually allow us to compete in that market with the manufacturers. So I think, again, it is a very different market.

First of all, as we said, the margins for the time being is not exactly where they should be to support our returns. And they are not necessarily buying all the services we want them to do.

The Chinese car manufacturers are coming in very quickly, you are right. It is a great opportunity for us. First of all, they actually want somebody to help them enter the market to partnerships like we do. We signed up BYD and we have signed up quite a few of the Chinese manufacturers. So we help them enter the market. And at the same time, it is a very good leverage on, let us say, the European manufacturers to make sure we get the right discounts.

So we see them in two different ways. One, as a partnership opportunity. And secondly, a way for us to get the right conditions on not just the Chinese cars, but also the European cars.

Patrick Sommelet: So on the margin, what we have factored is a very prudent and slow expansion of margin on the back of our focus on the most profitable client and segments. And it is true as well that the margins have been lower in these recent years than they were before. So we also have this strategy to privilege profitability of our growth, pure growth to restore margin.

And it is true also that with the market share that we have growing, growth is still good but we do not need to grow market share. We need to focus on looking for profitability.

Tim Albertsen: I think we have time for one more question.

Delphine Lee (JP Morgan): My first one is just a clarification on the RWAs and the Basel IV impact. Do I understand this correctly that there could be some positives coming out of Basel IV? Is that a net positive? And so the €4 billion is all the regulatory headwinds are we going to see? Or is there more to clarify that?

And then my second question is, sorry, just to come back to the return on tangible equity target of 13-15%. I guess, you are trying to be conservative in your plan, which is positive. But just trying to understand how we came from the stand-alone having prior even before 2021 and 2022 with very low levels of used car sales up back in, I do not know, 2018 or 2019 with high teens in terms of return on tangible equity even more than 20% to 13% to 15%.

If you could just help us bridge the gap? Because your earnings assets are growing and cost-to-income ratio is improving. So just if we take a step back, what are the big building blocks of that lower return on tangible equity?

Tim Albertsen: Thank you, Delphine. I think it is two questions for Patrick.

Patrick Sommelet: Hello, Delphine, on RWA, so it is too early to talk about good news, but we need to work about the Basel IV impact on our RWA. It is a newly regulated company. So we have to work on that. And truly, today, we have a very high ratio RWA to earning assets. So it might be optimised.

The €4 billion on the floor, yes, I think it is all. We do not anticipate additions. And I think it is already large amount. And for the profitability target versus 2019, I think it compares in a period where top line margins were much higher actually. And the company was not regulated. So it is mostly, I would say, those two impacts that are playing against the level we are targeting now.

Tim Albertsen: Okay. I think that concludes.

Beatrice Lan-Shun: Well, we do not have more questions on the phone, but we have one question in the chat box. It is the last one, I guess. So it says: you target 50% of EVs in new registrations in 2026 knowing that you were at 28% in 2022. Is it a joint KPI for all EVs, meaning, battery electric vehicles plus PHEV? And if so, can you share the current battery electric vehicle share and the target for 2026? Has battery electric vehicles a greater contributions to your sustainability goals than PHEV?

Tim Albertsen: Yes. So yes, we can share that. I think the 50% in 2026 is a bit of 40% full BEVs and 10% plug-in hybrids. And I think actually, what we have seen in the first part of this year is that we are now delivering more BEVs than plug-in hybrids already. So we think that that is the right target.

And we do believe that we will be around 80% by 2030, and they will be full BEVs. So just to complement the question.

Beatrice Lan-Shun: So we do not have any more questions in the chat box.

Tim Albertsen: All right. Thank you very much for your time and for all your questions. And we hope we have been able to answer most of them in a good way. Thanks a lot.

[END OF TRANSCRIPT]