Vertu Motors plc

INTERIM RESULTS

For the six months ended 31 August 2022

CHAIRMAN'S STATEMENT

The Group continued to execute well during the period ended 31 August 2022, delivering an Adjusted[1] profit before tax of £28.2m. This is the second highest in the Group's history. There were significant highlights in the Period:

- Enhancements to the Group's technological capabilities continue to be piloted and rolled out. Transparent, unified part exchange valuation capability is in place online and offline. Customer experience in service is being enhanced by the rollout of digital self-service check-in capability.
- Successful growth exhibited via the continued roll-out of multi-franchise dealerships. Further progress in growth shown in developing the new West of Scotland Toyota business, and the acquisition of Wiper Blades Limited, an online retailer.
- Strong people focus, with the delivery of enhanced benefits to colleagues, enrichment of training opportunities and improved engagement through colleague forums. The Group has continued to record excellent scores in quarterly colleague satisfaction surveys.
- Enhanced brand awareness through media presence and the commercial partnerships of the Group's three trading brands: Bristol Street Motors, Vertu Motors and Macklin Motors.

I am very proud to see how every colleague has contributed to the success of the Group and I would like to thank them for this. The Board continues to function well and undertook a review of the Group's strategy and execution against it during September. I believe that progress in this regard has been strong and the next twelve months should see this progress continue.

The Group's excellent financial position, continued investment in its colleagues and systems and its established track record of execution gives me confidence that we will continue to deliver on our strategic objectives. The Group has the scale and firepower to take advantage of the considerable sector changes working in partnership with the Group's Manufacturer partners through accretive consolidation of this fragmented market.

Andy Goss, Chairman

[1] Adjusted to remove share-based payments charge and amortisation of intangible assets

CHIEF EXECUTIVE'S REVIEW

Update on Strategy Execution and Associated Risks

The Group's key long-term strategic objectives were summarised in the Annual Report issued in May 2022. The core goal is: To deliver growing, sustainable cashflows from operational excellence in the franchise automotive retail sector. The strategic objectives of the Group are set out below:

- To grow as a major scaled franchised dealership group and to develop our portfolio of Manufacturer partners, whilst being mindful of industry development trends, to maximise long-run returns.
- To be at the forefront of digitalisation in the sector, delivering a cohesive 'bricks and clicks' strategy:
    - Optimise our omnichannel retail offering through leveraging the 'Click2Drive' technology and utilising this important sub-brand to promote its usage.
    - Digitalise aftersales processes to improve customer service.
    - Reduce the cost base of the Group by delivering efficiency through the use of technology.
    - Utilise data driven decision making to generate enhanced returns.
- To develop and motivate the Group's colleagues to ensure operational excellence is delivered constantly across the business.
- To develop ancillary businesses to add revenue and returns that complement the core business.

An update on progress in executing this strategy over the Period is set out below:

1. Developing the Scale of the Group

The Group has an excellent financial, operational and technological platform allowing it to capitalise on sector opportunities:

- *Financial capacity*

  The Group's balance sheet strength is underpinned by a significant freehold and long leasehold property portfolio with a net book value of £243.8m and a net cash position at the end of the Period of £17.8m. There is significant opportunity to leverage the strong balance sheet to provide firepower for acquisitive growth. The Board has a conservative attitude to debt funding, targeting a long-term debt to EBITDA ratio of sub 1.5 times and has a preference to match the term of debt to the nature of secured assets. For example, this may include the use of longer-term mortgage type debt, with security over freehold property assets provided. The Group's capital allocation disciplines include a rigorous assessment of potential acquisitions to ensure appropriate return hurdle rates are met. High sector earnings over the last 18 months will be disregarded by the Group, particularly in a cost inflationary environment, when assessing acquisition opportunities to ensure appropriate deployment of capital. The Group will continue to apply this very disciplined approach to accretive, acquisitive growth ensuring only the right opportunities are executed to drive long-term success and shareholder value.

Update on Strategy Execution and Associated Risks (continued)

1. Developing the Scale of the Group (continued)

- *Management capacity*

  The Group has a stable and experienced senior management team, with an established track record of execution and performance delivery. The senior management team was augmented in the Period with the appointment of a Chief Technology Officer (CTO). Bruce Clark was promoted into this newly created role, which has a place on the Group's CEO Committee, in April 2022. This appointment marked a further step change in the Group's focus on technology strategy and the management bandwidth to deliver the Group's strategic technology plans. Further recruitment was undertaken to backfill Bruce's previous role, appoint a new Head of Data and augment management and capability in digital marketing.

  The senior management team has very much an "owner" mentality and sets the "tone from the top" to ensure that the Group's culture is appropriate and consistent across all its operations. This ensures the delivery of the Group's Mission Statement ("To deliver an outstanding customer motoring experience through honesty and trust") through application of the Group's Values ("Professionalism, Passion, Recognition, Integrity, Respect, Opportunity and Commitment").

- *Operational systems platform*

  The Group's in-house developed systems provide uniform processes and control, as well as live management information and data to allow speedy and appropriate decision making. These systems continue to be developed and improved. Acquired businesses are quickly migrated onto this scalable technology and process platform to ensure control is quickly established, performance improvement opportunities are highlighted, and synergies maximised. The scale of the Group allows ongoing investment in systems development to augment the Group's customer offering and to drive efficiencies in process automation.

- *Brand strength*

  The Group operates three major customer facing brands in the UK: Bristol Street Motors, Macklin Motors and Vertu Motors. Bristol Street Motors remains one of the top three sector brands. Each of the Group's brands are supported by extensive TV campaigns, sports sponsorships, partnerships and digital marketing initiatives.

- *Execution of growth strategy in the Period*

  The Group has the brand strength and financial, operational, and management capabilities to continue to add additional franchised outlets to the business. We are ambitious to do so. The Group also continues to evaluate and execute multi-franchising actions in its locations to maximise the long-term profitability of each location.

  The Period saw the Group execute on this strategy for growth as set out below:

  - On 1 April 2022 the Group opened Macklin Motors Toyota in Darnley, South Glasgow. This dealership represents the first of a number of dealerships to be opened, following the Group being awarded the Toyota franchise in the West of Scotland territory. The second dealership, located in the Group's former Ford premises in Hamilton, will open in October 2022 following the completion of a showroom refurbishment to Toyota standards.

Update on Strategy Execution and Associated Risks (continued)

1. Developing the Scale of the Group (continued)

- *Execution of growth strategy in the Period (continued)*

    - On 1 May 2022, the Group opened a further Bristol Street Motor Nation used car outlet in newly acquired leasehold premises at Stockton, Teesside. This is a large used car operation in a prime location in the town.

    - Work is being finalised on the introduction of sales outlets for Vauxhall and Citroen alongside the Group's Peugeot operation in Harlow. The outlets will open later this month and follow the move of the aftersales operation off site to a new larger dedicated aftersales operation.

    - The LEVC franchise commenced covering Scotland and the North East of England as part of the Group's Taxi Centre operation.

Pruning activities were undertaken in the Period. The Group's single Jeep sales outlet in Beaconsfield ceased operation and the Ford outlet in Hamilton closed to allow for the redevelopment of the site for the Toyota franchise alongside Mazda. In addition, the Group closed its accident repair centre in Chesterfield in the Period in order to facilitate further multi-franchising opportunities.

On 1 July 2022, the Group also executed on its strategy to add complementary ancillary businesses with the purchase of Wiper Blades Limited for a net cash consideration of £2.3m. This business complements the Group's existing Sittingbourne based AceParts online parts sales operation, which sells to consumers via Marketplaces, and augments the Powerbulbs business purchased in March 2021, adding another parts ecommerce website, with good reach and rankings, to the Group's online parts business.

2. Digitalisation Developments

- *Omnichannel retail sales developments*

The Group was the first UK retailer in 2017 to offer full online retailing of used cars in the UK and continues to be at the forefront of developments to provide customers with innovative ways to purchase and interact online. The Group's online retailing proposition is branded 'Click2Drive' supported by the Group's sponsorship of 'W-Series' racing, under the Bristol Street Motors brand umbrella. In October 2021 the Group launched the concierge service to increase conversion of sales online. The concierge acts as a personal shopper for customers online, co-ordinating all interaction with the customer, including liaison with the Group's 160 sales outlets. Over 850 vehicles have now been delivered to Group customers using this service, since its launch in late October 2021.

Further development of the Group's sales process has been undertaken to further align the online and dealership customer sales journey and improve efficiency. The Group's used car inventory analytics and pricing system, already in place across the dealership network for inventory management, has now been linked to the Group's sales system to provide part exchange valuations to customers whether online or in the showroom. This results in a transparent and unified part exchange valuation to customers irrespective of customer journey and provides great consistency of valuation. The early signs are that this innovation is augmenting used car margins, increasing part exchange rates and providing an enhanced omnichannel experience.

Update on Strategy Execution and Associated Risks (continued)

2. *Digitalisation Developments (continued)*

- *Digitalisation of aftersales*

The Group's aftersales functions, which include vehicle service and mechanical repair, accident repair and parts supply, represent a significant and important proportion of overall profitability. As seen in the digitalisation of sales processes, there is also an increasingly important role for digital within aftersales operations.

The Group's customers have long been able to book their vehicle service appointment fully online, and over 40,000 service bookings were made online in the Period, a growth of 10% compared to H1 FY22. Customers in the Group's BMW dealerships are now also able to utilise self-service check in technology when attending a dealership for a vehicle repair or service. 'ATM' style machines in the dealership capture customer details and allow customers to select additional products, such as four-wheel alignment, air conditioning decontamination or even whether they wish to have their vehicle cleaned whilst with the Group. The technology also asks the customer to confirm where they have parked their vehicle on site before allowing them to safely deposit their vehicle keys. The technology is integrated into Group systems and can allow the further development of self-service check out and payment. Group experience to date shows this technology results in improved add-on sales, and enhanced customer experience and productivity levels. These systems will be rolled out across all Group aftersales operations in the coming months.

Accessory sales post vehicle delivery are also being enhanced in pilots within the Group using the interaction of targeted emails with full online retailing capability via Group shops within digital market places.

There remains significant opportunity for further digitalisation of the customer aftersales journey and the Group is working on several developments in this regard to ensure that customers are delighted and retained, efficiency is enhanced and costs reduced.

- *Digitalisation to improve efficiency and reduce cost*

The Group has always been very focused on the detailed management of its cost base and has been successful in the digitalisation of processes to drive efficiency and therefore reduce costs per transaction. We have continued to develop significant Robotic Process Automation (RPA) capacity, and our Robots are currently executing a major customer data cleanse. This aids efficiency by ensuring our outbound marketing activity is targeted only at customers who still own the vehicle. The Group now has so many Robots, operating to avoid manual data processing in various areas of our activity, that we have Robots who manage the Robots. The Group is also in the process of rolling out digital payment solutions for both vehicle and aftersales payments via open banking, again improving flexibility for customers while increasing payment security and reducing payment transaction costs.

3. Recruiting, Retaining and Developing Colleagues

It is a priority of the Group to develop and motivate the Group's colleagues to ensure the delivery of operational excellence. One of the most significant challenges in the business remains workforce recruitment and retention. The number of UK job vacancies remains at high levels and there is low unemployment. The Group saw high vacancy levels throughout the Period in line with the wider UK, with Group colleague turnover rising back to historic pre-pandemic levels.

Update on Strategy Execution and Associated Risks (continued)

3. Recruiting, Retaining and Developing Colleagues (continued)

A number of initiatives have been undertaken to ensure that the Group remains an employer of choice in the sector. The Group launched dealership colleague forums in FY22, a formalised way in which colleagues of all levels can provide their feedback on work matters. Forums have had access to the Non-executive director for colleague engagement, Pauline Best, and action has been taken on much of the feedback received. For example, enhanced pay and benefits, such as increased holiday entitlement for long serving colleagues, have been applied. Vacancy levels in the Group have significantly reduced in recent months to approximately 400 vacancies.

The Group has long been committed to extensive investment in the development of all colleagues to provide opportunity to those who are talented and driven to succeed. Current programmes include a degree apprentice scheme, technician and customer service apprentice schemes. Development programmes to facilitate progression to management roles have been scaled up reflecting the increased size of the Group and to increase overall management capability.

4. Priorities of Cost, Conversion and Customer Experience

Considering the inflationary cost pressures facing the Group, which have not been previously evident over the Group's 16-year history, three management priorities were established at the start of the current financial year: Cost, Conversion and Customer Experience.

a) Cost management

The right mindset and culture of cost management is vital. The Group relaunched its 'War on Waste' initiative to drive behavioural change, particularly around energy use, given escalating costs. A 5.3% reduction in the Group's electricity consumption was achieved in the Period when compared to the six-months ended 31 August 2021. These energy savings were largely delivered through improved housekeeping and behaviours. The Group is currently in the process of rolling out LED lighting across its dealership network which will be complete by the end of September 2023. As an example, LED lighting installed in the Group's central services building in Gateshead in April 2022 has delivered a 10% electricity usage reduction.

The Board have recently approved a £3m capital expenditure programme for the next 12 months to invest in solar power generation capability at 46 of the Group's freehold properties. This investment is intended to generate around 10% of the current Group's electricity requirement and has an expected payback of around 4.5 years. This will aid energy security for the Group and reduce overall expected costs compared to using the grid in the future.

Savings on gas usage were also delivered in the Period, aided by the warmer conditions experienced in the UK. The Group is nevertheless focused on maintaining strong disciplines in the use of gas as we enter the winter months.

The Group continues to focus on cost management and the identification of further areas of saving or efficiency of process. These efforts continue to be co-ordinated by the long-standing Bureaucracy, Efficiency and Productivity committee which meets bi-monthly and is chaired by the CEO.

Update on Strategy Execution and Associated Risks (continued)

4. Priorities of Cost, Conversion and Customer Experience (continued)

b) Maximisation of conversion of enquiries to revenues

The Group is seeking to increase the conversion of opportunities to revenues in both the sales and aftersales areas through a focus on process, measurement and use of technology. Maximising the return from the Group's significant marketing spend is a key priority. Examples of developments in this area include:

- Simplification of part-exchange valuation and automated first offers so that customers can be quickly provided with the cost to change their car without any need for management involvement.
- Roll out of "Reserve it Now" functionality allowing £99 vehicle deposits to be taken on-line, via concierge personal shoppers, or in the dealership. This functionality has been embraced by customers, with over 1,500 "Reserve it Now" deposits taken in August 2022 alone. Overall, conversion to a sale when such a deposit is taken was over 60%.
- Enhanced follow up of lost sales opportunities through digital and contact centre activity.
- The concierge function enhancing online sales conversion.
- Enhanced training capability in sales and service to ensure all colleagues have the right skills.
- Continuation of the industry's most extensive phone and physical visit mystery shopping programme to ensure processes and customer experiences are robust and training needs identified: Scores have significantly increased over the Period.
- Self-service check-in in service increasing add-on sale penetration.
- All inbound retail parts sales enquiries now routed to a central team of parts experts in Gateshead to make the sale, ensuring enhanced consistency of process and customer experience.

c) Customer experience to drive retention and further sales

Delivery of the Group's Mission 'to deliver an outstanding customer motoring experience through honesty and trust' remains vital to improving retention of customers into both the Group's service departments and for future vehicle sales. Great experiences boost retention, recommendation rates and profit per transaction. In addition, positive online reviews provide a fantastic and vital window into the Group's service delivery for prospective customers.

The Group is targeting a significant improvement in the retention of vehicle sales customers, through the execution of its digitalisation and customer focused developments. This includes the establishment of 'renewal hubs' for both new and used car sales. Colleagues in these hubs contact previous customers at the time they are likely to be in the market to change their vehicle to create consequent sales opportunities.

The Group has also developed a digital "Recommend a Friend" referral scheme to multiply the number of sales from the original customer sale by encouraging customer referrals. The new system is to be piloted in Macklin Motors in November.

Strategic Summary

Our experienced management team, strong brands, digital prowess and financial strength, ensure the Group is well positioned to take advantage of the opportunities arising and as a team, we remain ambitious to do so. We will continue to innovate and execute to ensure that the Group excels in meeting customer needs in order to overcome any demand and supply headwinds that may arise. We will ensure that capital is allocated to those activities, locations and franchises that are best placed to meet the competitive challenges arising and to provide the best growth opportunities and maximise long-term return on invested capital. We will leverage our proven strengths and execute on our business ideas such as cost saving initiatives, continued development of our colleagues, accelerating brand growth and pursuing new business opportunities. In essence, we have a long-standing plan and will execute it.

Current Trading and Outlook

The Board now anticipates that profits for the financial year ending 28 February 2023 will be higher than current market expectations.

September trading saw a continuation of market trends seen in the first half of the financial year. New car, fleet and commercial volumes were subject to significant supply constraints and uncertainty. Volume shortfalls were again offset in part by strong margins. Manufacturer bonus levels on a quarterly basis reduced, due to the volume trends. Overall new car, fleet and commercial profits were therefore down year on year.

Used car markets remain stable in terms of pricing, reflecting supply constraints. Demand was subdued in the month as consumer demand levels were impacted by energy concerns and the passing of the Queen. Margins remained strong.

Service demand remained strong and higher technician resource levels are helping to drive increased revenues. September was impacted by the loss of aftersales revenue when the business closed for the National Day of Mourning for the Queen's funeral.

Overall, profit levels in the month were, as anticipated, behind last year, but September profitability was the third highest recorded for this month in the Group's history.

A tight supply environment for new and used vehicles is anticipated to continue well into the next financial year. Margins are therefore expected to remain strong and used car pricing robust. Higher resource levels in the Group should help to underpin a strong aftersales contribution.

Future consumer confidence levels will be key in determining retail vehicle demand and recent Government action around tax cuts and support for energy prices give the prospect of supporting consumer demand in the months ahead. The Board remains cautious in this regard.

A number of the Group's Manufacturer partners are actively involved in consulting on the introduction of agency models for the sale of new retail cars. These models change the nature of the profit and loss account for these sales and reduce working capital requirements. Mercedes-Benz will be the first major Manufacturer to make this transition on 1 January 2023. The Board does not currently anticipate a material change to overall profitability from these changes.

Current Trading and Outlook (continued)

Cost control remains a major focus for management. Government support for business energy costs in the next six months and a reduction in employer's national insurance also provide some relief from the inflationary pressures facing the Group and their impact on costs.

The Board believes that the Group is very well positioned to deliver on its stated strategy and to take advantage of the increasing opportunities in the UK sector. A good pipeline of acquisitions is apparent.

Robert Forrester, CEO

CHIEF FINANCIAL OFFICER'S REVIEW

The Group's income statement for the Period is summarised below:

	H1 FY23 £'000	H1 FY22 £'000	H1 FY23 Var to H1 FY22 %
Revenue	**1,999,712**	**1,924,134**	**3.9**
Gross Profit	**223,721**	**223,121**	**0.3**
Operating expenses excluding Government support	(192,417)	(173,261)	(11.1)
Government support[3]	-	5,611	-
Operating expenses reported	(192,417)	(167,650)	(14.8)
Adjusted Operating Profit	**31,304**	**55,471**	**(43.6)**
Net Finance Charges	(3,087)	(3,638)	15.1
Adjusted Profit Before Tax	**28,217**	**51,833**	**(45.6)**
Non-Underlying items[4]	(1,278)	(731)	(74.8)
Profit Before Tax	**26,939**	**51,102**	**(47.3)**
Taxation	(5,416)	(13,597)	
Profit After Tax	**21,523**	**37,505**	

[3] includes receipts under the Coronavirus Job Retention Scheme and business rates relief
[4] Non-underlying items represent share-based payment charge and amortisation of intangible assets

The Group delivered an adjusted profit before tax of £28.2m in the Period, which was reduced, as anticipated, from the record result delivered in H1 FY22 of £51.8m. Revenue grew to £2.0bn, a growth of 3.9% aided by new and used average vehicle sales prices. Despite these price rises, gross margin of 11.2% was delivered which remains strong by historic standards, reflecting supply constraints and strong pricing disciplines.

Revenue and Gross Profit by Department

An analysis of total revenue and gross profit by department is set out below:

	H1 FY23 £'000	H1 FY22 £'000	H1 FY23 Var to H1 FY22 %
Revenue			
New	557,640	530,766	5.1
Fleet & Commercial	428,715	445,189	(3.7)
Used	854,466	804,792	6.2
Aftersales	158,891	143,387	10.8
Total Group Revenue	**1,999,712**	**1,924,134**	**3.9**
Gross Profit			
New	47,435	38,853	22.1
Fleet & Commercial	20,146	18,757	7.4
Used	67,113	82,361	(18.5)
Aftersales	89,027	83,150	7.1
Total Gross Profit	**223,721**	**223,121**	**0.3**
Gross Margin			
New	8.5%	7.3%	1.2
Fleet & Commercial	4.7%	4.2%	0.5
Used	7.9%	10.2%	(2.3)
Aftersales[5]	45.4%	47.5%	(2.1)
Total Gross Margin	**11.2%**	**11.6%**	**(0.4)**

[5] Aftersales margin expressed on internal and external revenues

Revenue and Gross Profit by Department (continued)

The total volumes of vehicles sold by the Group and like-for-like trends against market data are set out below:

	H1 FY23 Total Units	H1 FY22 Total Units	Like-for-like Change (H1 FY23 % Var to H1 FY22)
Used retail vehicles	**43,022**	**49,697**	**(15.2%)**
New retail cars	17,673	18,086	(7.0%)
Motability cars	4,711	4,865	(7.5%)
Direct fleet cars	9,205	8,713	(5.5%)
Agency fleet cars	2,317	2,982	(31.9%)
Total fleet cars	11,522	11,695	(12.2%)
Commercial vehicles	8,707	9,915	(14.8%)
Total New vehicles	**42,613**	**44,561**	**(10.2%)**
Total Vehicles	**85,635**	**94,258**	**(12.8%)**

	Variance[6]	UK Market (SMMT)
New Retail Car	(4.2%)	(2.8%)
Motability Car	11.8%	(19.3%)
Fleet Car	15.8%	(28.0%)
Commercial	10.7%	(25.5%)

[6] Represents the variance of like-for-like Group volumes to the UK trends reported by SMMT

Used retail vehicles

The used vehicle market in the UK experienced unprecedented market dynamics throughout 2021, as tightness in used vehicle supply coincided with a period of strong customer demand for used vehicles. These trends resulted in extraordinary increases in the price of used vehicles in the UK, with three-year-old vehicles increasing by one-fifth of their value from May to August 2021. In 2022, supply of used vehicles has remained constrained due to muted new car registrations resulting in lower part exchange levels and defleeting by fleets. Demand has stabilised as the 'pent-up' boost post lockdowns eased. This balance in supply and demand has resulted in stability of used vehicle pricing in the UK, despite values remaining comparatively high. Average three-year-old vehicle values dropped just 2.1% between May and August 2022, with a higher decline of 5-8% historically expected over this same period. Group gross profits per unit remain in excess of historic norms, although there has been some decline from the extraordinary levels experienced last year. The Group's like-for-like used vehicle volumes were 15.2% lower in the Period reflecting the prevailing supply and demand dynamics in the market compared to the exceptional conditions of last year.

The Group monitors the pricing and supply environment and has continued to develop its used vehicle pricing and analytical tools to optimise gross profit generation and control inventory. The Group appointed an experienced Head of Used Car Buying in August 2022 to facilitate additional central procurement of inventory, augmenting the existing direct from consumer and dealership purchasing activity. Ensuring a good supply of used vehicle inventory will be vital in the next few years. Overall, despite supply constraints, the Group increased the number of used retail vehicles in inventory at 31 August 2022 compared to 28 February by 4%, whilst the overall value of used retail inventory was £5m lower as pricing eased from the highs of 2021 and the Group targeted older, lower priced vehicles.

Used retail vehicles (continued)

As a result of the trends noted above, Group gross profit from the sale of used vehicles totalled £67.1m for the Period (H1 FY22: £82.4m). The following like-for-like variances arose:

- £15.8m reduction in gross profit generated from used vehicle sales
- 15.2% less used retail units sold
- Gross profit per unit of £1,579 (H1 FY22: £1,665)
- Average selling price of £19,958 per unit, a 23.2% increase from H1 FY22 levels
- Gross margin of 7.9% (H1 FY22: 10.3%) reflecting higher sales prices

New retail cars and Motability sales

UK retail registrations continue to be impacted by reduced supply, driven by well documented component shortages (including semi-conductors) and general global supply chain disruption. In the light of these ongoing supply constraints, in July 2022 the SMMT reduced its full-year outlook by 7% to 1.60 million units, from the previous forecast published in April 2022 of 1.72 million. Registrations at this level represent a significant reduction compared to average UK new vehicle registration volumes pre-pandemic. Against this backdrop, the Group's like-for-like new retail vehicle volumes declined by 7.0% in the Period when compared to the six months ended 31 August 2021. SMMT private registrations declined by 2.8%. A number of the Group's volume franchises saw significant curtailment of supply compared to the market in general which impacts the Group's retail market share. New retail order bank levels in this channel are at a record high reflective of continued success of the Group's sales teams in taking orders.

UK Motability registrations were also impacted by supply constraints and were lower by 19.3% in the Period, compared to the six months ended 31 August 2021. Motability is a lower margin channel and has seen more supply restrictions than the retail channel in general. The Group represents the largest Motability fleet in the UK, accounting for approximately 5% of scheme customers. The Group consistently performs at a high level in terms of Motability customer service, and in Q2 2022 received 25% of all geographically awarded Motability dealer awards for that period. The Group's Motability volumes in the Period were significantly ahead of the market, declining by 7.5% on a like-for-like basis, representing a UK market share of 5.6% (H1 FY22: 4.7%). This outperformance reflected several of the Group's franchises providing good supply into the channel relative to the overall market and taking significant market share as customers on the scheme sought to change their vehicle.

The Group saw significantly improved gross profit retention on new vehicle sales, through the application of effective pricing disciplines. Consumers continue to accept long lead times, with order bank levels remaining very high. The Group is not experiencing significant cancellation levels. Compared to the six months ended 31 August 2021, the following trends were apparent on a like-for-like basis for the New Retail and Motability sales channel:

- A £7.7m increase in gross profit generated, despite a 7.0% reduction in the number of new retail units delivered
- Gross profit per unit of £2,124, a rise of 25.7% from £1,690
- An average selling price of £24,294 per unit, a 13.2% increase
- Gross margin rose to 8.5% from 7.3%
- Order bank of 13,000 new retail units and 6,500 Motability units at the end of the Period

Fleet & Commercial vehicle sales

The UK car fleet market remains perhaps the hardest hit by the restrictions in the supply of new vehicles, as Manufacturers divert limited capacity to higher margin, retail channels. Registration volumes in the UK car fleet market have declined 28.0% in the Period compared to the six months ended 31 August 2021. Like-for-like, the Group delivered 10,190 fleet cars in the Period, representing a decline of 12.2% compared to H1 FY22, which was significantly ahead of the market trends. The Group continues to invest in its fleet sales capacity in order to take market share. Margins strengthened again with the Group adopting strong pricing disciplines.

The Group saw a 14.8% fall in the like-for-like volume of new commercial vehicles sold which represented an increase in market share, with the market back 25.5% over the Period compared to the six months to 31 August 2021. The market fall reflected supply constraints and a moderating of demand after the demand frenzy created by lockdowns on the courier and online delivery market for vans.

When compared to the six-month period ended 31 August 2021, the following fleet and commercial trends were seen on a like-for-like basis:

- A £1.0m increase in gross profit, despite the significant reduction in the number of units sold
- Record gross profit per unit of £999, a rise of 15.1% from £868
- Gross margin rising to 4.7% from 4.2%
- Strong forward order bank of over 24,000 units as at the end of August 2022

Aftersales

The Group's aftersales operations are a vital contributor to Group profitability, generating almost 40% of total gross profit. Due to the exceptional conditions in the petrol forecourt market in the Period, the results for the Group's forecourt have been split out. Overall, compared to the six-month period ended 31 August 2021 the following like-for-like trends in aftersales performance were witnessed:

	Service £'000	Parts £'000	Accident & Smart Repair £'000	Forecourt £'000	Total £'000
Revenue[7]	80,457	93,264	9,866	6,747	190,334
Revenue[7] change	3,692	7,411	2,298	3,253	16,654
Revenue[7] change (%)	4.8%	8.6%	30.4%	93.1%	9.6%
Gross profit change	1,190	2,001	1,116	113	4,420
Gross margin[8] H1 FY23 (%)	74.8%	22.5%	53.2%	5.9%	45.6%
Gross margin[8] H1 FY22 (%)	76.8%	22.1%	54.7%	8.1%	47.4%
Margin change (%)	(2.0%)	0.4%	(1.5%)	(2.2%)	(1.8%)

[7] includes internal and external revenues
[8] Aftersales margin expressed on internal and external revenues

- *Service*
  Performance in the Group's service departments in 2021 was impacted by higher-than-average levels of technician vacancies and by covid related absences. To address colleague recruitment and retention, a Group wide salary review was undertaken and implemented for technicians in November 2021. The impact of this review is apparent in the 2% reduction in gross margin as expected with technician salary costs included in aftersales department cost of sales. The Group has successfully increased the number of technicians recruited in the Period.

Aftersales (continued)

- *Service (continued)*

  The Group executed well on its retention and aftersales processes, improving sales of additional work and products. The Group's customer retention strategies focus on ensuring vehicle sales customers return to the Group for their service, whether they have purchased a new or used vehicle. Service plans, through which customers pay monthly or upfront for their annual service are a vital part of retention, with approx. 170,000 of the Group's customers currently holding live service plans either with the Group or its Manufacturer partners (28 February 2022: 160,000). These initiatives meant that the Group delivered a 2.5% growth in like-for-like retail labour hours sold in the Period. Overall, despite the increase in retail labour hours sold, total service labour hours declined because of a reduction in warranty work undertaken by the Group on behalf of its Manufacturer partners. The significant decline in the 0–3-year vehicle parc due to supply constraints and the impact of lockdowns in recent years is the major reason for this fall in warranty hours sold. Overall, the vehicle parc is anticipated to increase in the UK between now and 2030 which will aid aftersales demand and help offset any negative impact of electrification.

  Like-for-like service revenues grew compared to H1 FY22 despite the reduction in hours sold as an improvement in revenue generated per labour hour was achieved and the Group was successful in growing sales of add-on products such as tyres in the Period. Of the 4.8% increase in like-for-like service revenues, approximately two thirds arose due to an increase in the labour rates charged to sales departments for internal work undertaken in the service departments. This increase was implemented recognising higher technician costs.

  Like-for-like gross margin percentages on vehicle servicing fell to 74.8% (H1 FY22: 76.8%) reflecting the rise applied to technician salaries despite the rise in internal labour rates. Another factor in the declining margin is that a significant number of technicians have been recruited who are new to the franchise operated and their efficiency is lower as they are trained and build their franchise knowledge. There is also increased dislocation in parts supply to the dealerships from Manufacturers which results in reduced efficiency as the Group awaits parts to complete repairs.

- *Parts*

  Parts revenues in the Core Group grew £7.4m (8.6%) compared to H1 FY22, as the Group gained market share and the accident repair market returned to more normalised levels of demand. The centralisation of inbound parts retail phone enquiries with orders taken in Gateshead has contributed to increased parts retail sales. Overall gross margins in parts rose from 22.1% to 22.5%.

- *Accident and Smart Repair*

  The Group continues to grow its Smart Repair operations, increasing the size of the fleet to 120 cosmetic and alloy wheel repair vans, up from 75, to serve both the Group's dealerships and external customers across the UK. The expansion of these operations has been vital as the Group has targeted the increased purchase of older used vehicles for resale, and this has led to a significant increase in demand for smart repair and alloy wheel refurbishment services from the Group's dealer network.

Aftersales (continued)

- *Accident and Smart Repair (continued)*

  The Group's accident repair centres are now operated in a new standalone division, concentrating solely on the management of this channel. An increase in accident repair revenues in the Period arose from customer journeys reverting to more normal levels and an increase in the number of vehicles being repaired rather than written off as replacement vehicles were increasingly difficult and more expensive for insurance companies to source. Operational excellence levels have improved as the Group's dedicated management have executed uniformity of systems and measurement.

  The Group's accident and smart repair operative salaries were reviewed as part of the Group wide review of salary levels undertaken at the end of 2021. The result of this review has reduced gross margins in this channel as anticipated.

- *Forecourt*

  The Group operates a single petrol forecourt in Widnes, Cheshire which has historically been reported within Accident and Smart Repair. Revenues doubled by £3.3m in the Period as the Group sought to be competitive and to take increased market share versus supermarket competitors. Margins reduced accordingly and litres of fuel sold increased by 86% in the Period.

Acquisitions, Disposals and Closures

Acquisitions and new operations opened since 1 March 2021 are not included in the Core Group for reporting purposes. These operations made a loss before taxation of £689k (H1 FY22: Loss of £134k). The Group commenced start-up operations in Glasgow with Toyota and Stockton Motor Nation. Start-up losses arose as anticipated. Disposals and closures in the Period represented a loss of £87k relating to the closure of an accident repair centre in Chesterfield.

Operating Expenses

A summary of Core Group operating expenses is set out below:

	H1 FY23 £'m	H1 FY22 £'m	H1 FY23 Var to H1 FY22 £'m
Salary costs	108.4	99.8	8.6
Vehicle and valeting costs	18.5	17.5	1.0
Marketing costs	18.5	17.7	0.8
Property costs and rates	19.6	19.6	-
Energy costs	2.1	2.1	-
Other	19.7	14.8	4.9
Core Group operating expenses before Government support	**186.8**	**171.5**	**15.3**
Non-Core operating expenses	5.6	1.8	3.8
	192.4	**173.3**	**19.1**
Government support (CVJRS receipts and rates relief)	-	(5.6)	5.6
Group Net Underlying Operating Expenses	**192.4**	**167.7**	**24.7**

Reported underlying operating expenses of £192.4m, up £19.1m, (excluding the impact of government support (predominantly rates relief) in the prior period), compared to H1 FY22. Dealerships acquired in the period since 1 March 2021 contributed £3.8m of this increase with underlying Core Group expenses up by £15.3m when compared to H1 FY22. These cost rises were planned.

Operating Expenses (continued)

The most significant increase in cost arose within salary cost. This saw an increase of £8.6m, representing approximately 60% of the rise in Core Group expenses. This increase is analysed below:

	H1 FY23 £'m
Impact of new national minimum wage and NIC rate increase	2.0
Additional headcount	2.0
Pay awards	4.8
Commissions and bonuses	(0.8)
Investment in increased apprentice headcount	0.6
	8.6

£2.0m of this salary cost increase relates to both the application of the new national minimum wage rates on 1 April 2022 to applicable colleagues and the increase in company NIC rate (which is set to reverse in November). The investment in headcount added costs of £2.0m and reflected key Group strategies around centralisation of lead management, enhanced customer follow-up and further investment in software development teams, digital marketing expertise and cyber security.

Pay awards outside of the national minimum wage increases were granted to colleagues following the Group-wide review in late 2021. This led to an increase in the Period of £4.8m. Bonuses and commissions reduced by £0.8m in the Period reflecting lower sales volumes and the impact of new sales roles with higher basic pay but lower commission payable. Finally, £0.6m was invested in additional apprentices, under the Group's apprenticeship programmes. The Group has recruited over 100 customer service apprentices into the aftersales functions to create a pipeline of future talent for the service advisor role.

Vehicle and valet costs rose due to the impact of National Minimum Wage rises in valeting and increases in demonstration fleets following their exceptional decline during the pandemic period.

Energy costs in the Core Group were stable year on year despite the increases seen in the wider wholesale markets. The Group benefited from below market rate electricity costs under a fixed contract which covered the majority of the Group's dealerships until the end of September 2022. Any new build dealerships or acquisitions post the contract being entered into back in September 2020 have been subject to higher variable rates. The Group remains focused on reduced energy usage and successfully reduced electricity usage on a like-for-like basis by 5% in the Period. An energy purchasing strategy has been developed, which includes the sourcing of off-grid energy solutions within the next 12 months to manage the Group's exposure to energy market price volatility risks. In addition, the Board has approved a £3m investment in solar panels at 46 freehold dealerships which should generate 10% of the Group's electricity load and the project is set to complete by the end of September 2023 (subject to sourcing constraints).

The Group saw a £4.9m increase in other costs. This includes the investment in core systems and infrastructure including improved telephony systems and enhanced data security environments. Other cost increases arose in areas such as travel and training as the Group reverted to more normal behaviour patterns. Whilst many of the Group's training courses are still delivered 'virtually', physical training at Manufacturer locations, such as technical training for vehicle technicians, has now returned to pre-pandemic levels hence increasing costs.

Net Finance Charges

Net finance charges fell year on year as analysed below:

	H1 FY23 £'000	H1 FY22 £'000	H1 FY23 Var to H1 FY22 £'000
New vehicle Manufacturer stocking interest	913	1,058	(145)
Interest on bank borrowings	802	848	(46)
Used vehicle stock funding interest	206	36	170
Interest on lease liabilities	1,645	1,762	(117)
Interest on bank deposits	(356)	(4)	(352)
Net finance income relating to defined benefit pension scheme	(123)	(62)	(61)
Net Finance Charges	**3,087**	**3,638**	**(551)**

Interest income on bank deposits rose during the Period as a result of the rise in interest rates generating higher levels of income on the Group's significant cash reserves. Interest on bank borrowings reduced despite the movement in interest rates due to the impact of hedging and reductions in bank borrowings.

Interest on used vehicle stocking loans increased in the Period as a result of the Group increasing the utilisation of such facilities. There remained £137.6m of unencumbered used car stock at 31 August 2022.

Pension Costs

The accounting surplus on the Group's closed defined benefit pension scheme has decreased to £5.1m at 31 August 2022 (28 February 2022: £9.1m). A net actuarial loss of £3.0m was recognised in the Statement of Comprehensive Income in the Period.

Tax Payments

In the September 2022 Mini Budget, it was announced that the increase in the rate of corporation tax in the UK to 25% would now not occur and the rate will be held at 19%. As this change had not been substantively enacted at 31 August 2022, the Group's deferred tax balances continue to be measured at the full 25% rate. On enactment of the retention of the 19% rate, the Group's deferred tax obligations are anticipated to reduce by £3.4m.

The Group's underlying effective rate of tax for the Period was 19.8% (H1 FY22: 20.9%). The Group continues to be classified as "low risk" by HMRC and takes a pro-active approach to minimising tax liabilities whilst ensuring it pays the appropriate level of tax to the UK Government.

Dividend

An interim dividend of 0.70p per share (H1 FY22: 0.65p) in respect of FY23 will be paid on 20 January 2023. The ex-dividend date will be 15 December 2022 and the associated record date 16 December 2022.

Cash Flows

Free cash flow of £23.2m (H1 FY22: £63.6m) was generated in the Period with a broadly neutral movement in working capital overall generating cash of £0.9m. This free cash flow included cash outflows in respect of interest and taxation, principal elements of lease repayments and sustaining capital expenditure, each comprising £7.8m cash outflow in the period.

Cash Flows (continued)

The Group spent £2.3m, net of cash acquired, on the acquisition of Wiper Blades Limited on 1 July 2022 and a further £7.5m acquiring the freehold and long leasehold interests in the property from which the Group's Nissan, Renault, Skoda, Peugeot and Motor Nation businesses operate in Derby.

During the Period, the Group completed its latest Share Buyback Programme purchasing 10,477,450 shares for cancellation in the Period, representing 2.9% of total issued share capital, for a total of £5.9m. The Board believes that this is an appropriate use of capital and will continue a programme of Buybacks as a relevant element of returns to shareholders, alongside dividend payments. The Board has agreed a further £3m buyback programme being announced today. A further £2m was spent acquiring shares in the Group's Employee Benefit Trust ("EBT") to be used for the satisfaction of colleague share incentive programmes. £3.6m was spent on dividends paid as a result of the final dividend in respect of the year ended 28 February 2022.

Karen Anderson, CFO

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 31 August 2022

		Six months ended 31 August 2022			Six months ended 31 August 2021			Year ended 28 February 2022		
	Note	Underlying items £'000	Non-underlying items (note 4) £'000	Total £'000	Underlying items £'000	Non-underlying items (note 4) £'000	Total £'000	Underlying items £'000	Non-underlying items (note 4) £'000	Total £'000
Revenue		1,999,712	-	1,999,712	1,924,134	-	1,924,134	3,615,052	-	3,615,052
Cost of sales		(1,775,991)	-	(1,775,991)	(1,701,013)	-	(1,701,013)	(3,179,632)	-	(3,179,632)
Gross profit		**223,721**	**-**	**223,721**	**223,121**	**-**	**223,121**	**435,420**	**-**	**435,420**
Operating expenses		(192,417)	(1,278)	(193,695)	(167,650)	(731)	(168,381)	(347,753)	(1,934)	(349,687)
Operating profit		**31,304**	**(1,278)**	**30,026**	**55,471**	**(731)**	**54,740**	**87,667**	**(1,934)**	**85,733**
Finance income	5	479	-	479	66	-	66	163	-	163
Finance costs	5	(3,566)	-	(3,566)	(3,704)	-	(3,704)	(7,126)	-	(7,126)
Profit before tax		**28,217**	**(1,278)**	**26,939**	**51,833**	**(731)**	**51,102**	**80,704**	**(1,934)**	**78,770**
Taxation	6	(5,598)	182	(5,416)	(10,837)	(2,760)	(13,597)	(16,062)	(2,708)	(18,770)
Profit for the period attributed to equity holders		**22,619**	**(1,096)**	**21,523**	**40,996**	**(3,491)**	**37,505**	**64,642**	**(4,642)**	**60,000**
Basic earnings per share (p)	7			**6.19**			**10.36**			**16.64**
Diluted earnings per share (p)	7			**5.85**			**9.95**			**15.96**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 31 August 2022

	Note	Six months ended 31 August 2022 £'000	Six months ended 31 August 2021 £'000	Year ended 28 February 2022 £'000
Profit for the period		**21,523**	**37,505**	**60,000**
Other comprehensive (expense) / income				
Items that will not be reclassified to profit or loss:				
Actuarial (loss) / gain on retirement benefit obligations	10	(4,048)	1,639	2,801
Deferred tax relating to actuarial loss / (gain) on retirement benefit obligations		1,012	(410)	(700)
Items that may be reclassified subsequently to profit or loss:				
Cash flow hedges		185	149	503
Deferred tax relating to cash flow hedges		(35)	(28)	(96)
Other comprehensive (expense) / income for the period, net of tax		**(2,886)**	**1,350**	**2,508**
Total comprehensive income for the period attributable to equity holders		**18,637**	**38,855**	**62,508**

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 31 August 2022

	Note	31 August 2022 £'000	31 August 2021 £'000	28 February 2022 £'000
Non-current assets				
Goodwill and other indefinite life assets	12	105,077	99,444	103,470
Other intangible assets		2,397	2,019	1,797
Retirement benefit asset	10	5,073	7,906	9,055
Property, plant and equipment		261,712	246,920	254,133
Right of use assets		74,608	81,254	78,278
		448,867	**437,543**	**446,733**
Current assets				
Inventories		496,739	392,491	475,027
Trade and other receivables		72,117	43,038	51,839
Derivative financial instruments		190	-	-
Cash and cash equivalents		85,860	113,504	83,793
		654,906	**549,033**	**610,659**
Property assets held for sale		-	995	-
Total current assets		**654,906**	**550,028**	**610,659**
Total assets		**1,103,773**	**987,571**	**1,057,392**
Current liabilities				
Trade and other payables		(569,717)	(482,109)	(529,086)
Current tax liabilities		(3,039)	(6,563)	(3,734)
Derivative financial liabilities		-	-	(13)
Contract liabilities		(12,526)	(12,639)	(11,752)
Borrowings		(12,954)	(638)	(12,283)
Lease liabilities		(14,415)	(13,920)	(14,132)
Total current liabilities		**(612,651)**	**(515,869)**	**(571,000)**
Non-current liabilities				
Borrowings		(55,063)	(55,544)	(55,343)
Lease liabilities		(70,691)	(77,461)	(74,698)
Derivative financial instruments		-	(348)	-
Deferred income tax liabilities		(13,448)	(13,063)	(13,023)
Contract liabilities		(11,897)	(10,159)	(11,447)
Total non-current liabilities		**(151,099)**	**(156,575)**	**(154,511)**
Total liabilities		**(763,750)**	**(672,444)**	**(725,511)**
Net assets		**340,023**	**315,127**	**331,881**
Capital and reserves attributable to equity holders of the Group				
Ordinary share capital		34,894	36,859	35,942
Share premium		124,939	124,939	124,939
Other reserve		10,645	10,645	10,645
Hedging reserve		154	(282)	4
Treasury share reserve		(3,134)	(2,584)	(1,586)
Capital redemption reserve		4,833	2,868	3,785
Retained earnings		167,692	142,682	158,152
Total equity		**340,023**	**315,127**	**331,881**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 31 August 2022

	Note	Six months ended 31 August 2022 £'000	Six months ended 31 August 2021 £'000	Year ended 28 February 2022 £'000
Cash flows from operating activities				
Operating profit		30,026	54,740	85,733
Loss/(profit) on sale of property, plant and equipment		6	(64)	(9)
Profit on lease modification		(2)	(157)	(269)
Amortisation of intangible assets		214	202	407
Depreciation of property, plant and equipment		6,900	6,493	14,365
Depreciation of right of use assets		7,775	7,946	16,658
Impairment charges		-	-	131
Movement in working capital	11	904	15,842	(27,973)
Share based payments charge		857	455	1,061
Cash inflow from operations		**46,680**	**85,457**	**90,104**
Tax received		-	128	135
Tax paid		(4,801)	(5,289)	(14,479)
Finance income received		356	4	39
Finance costs paid		(3,394)	(3,443)	(6,798)
Net cash inflow from operating activities		**38,841**	**76,857**	**69,001**
Cash flows from investing activities				
Acquisition of businesses, net of cash, overdrafts and borrowings acquired		(2,626)	(1,567)	(9,508)
Acquisition of freehold and long leasehold land and buildings		(7,468)	-	-
Purchases of intangible assets		(1)	(20)	(44)
Purchases of other property, plant and equipment		(7,835)	(5,907)	(16,571)
Proceeds from disposal of property, plant and equipment		-	464	1,605
Net cash outflow from investing activities		**(17,930)**	**(7,030)**	**(24,518)**
Cash flows from financing activities				
Proceeds from borrowings	8	671	-	5,699
Repayment of borrowings	8	(319)	(16,267)	(10,638)
Principal elements of lease repayments		(7,827)	(7,798)	(15,786)
Sale of treasury shares		304	18	951
Purchase of treasury shares		(2,000)	-	-
Cash settled share options		(169)	-	(403)
Repurchase of own shares		(5,898)	(104)	(6,014)
Dividends paid to equity holders		(3,606)	-	(2,327)
Net cash outflow from financing activities		**(18,844)**	**(24,151)**	**(28,518)**
Net increase in cash and cash equivalents	8	**2,067**	**45,676**	**15,965**
Cash and cash equivalents at beginning of period		83,793	67,828	67,828
Cash and cash equivalents at end of period		**85,860**	**113,504**	**83,793**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31 August 2022

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2022	**35,942**	**124,939**	**10,645**	**4**	**(1,586)**	**3,785**	**158,152**	**331,881**
Profit for the period	-	-	-	-	-	-	21,523	21,523
Actuarial losses on retirement benefit obligations	-	-	-	-	-	-	(4,048)	(4,048)
Tax on items taken directly to equity	-	-	-	(35)	-	-	1,012	977
Fair value gains	-	-	-	185	-	-	-	185
Total comprehensive income for the period	**-**	**-**	**-**	**150**	**-**	**-**	**18,487**	**18,637**
Sale of treasury shares	-	-	-	-	452	-	(131)	321
Purchase of treasury shares	-	-	-	-	(2,000)	-	-	(2,000)
Cancellation of repurchased shares	(1,048)	-	-	-	-	1,048	-	**-**
Repurchase of own shares	-	-	-	-	-	-	(5,898)	(5,898)
Dividends paid	-	-	-	-	-	-	(3,606)	(3,606)
Share based payments charge	-	-	-	-	-	-	688	688
As at 31 August 2022	**34,894**	**124,939**	**10,645**	**154**	**(3,134)**	**4,833**	**167,692**	**340,023**

The repurchase of own shares in the period was made pursuant to the share buyback programmes announced on 2 March and 7 June 2022.

10,477,450 ordinary shares to the value of £5,898,000 had been repurchased in the six months ended 31 August 2022. These shares were cancelled immediately and accordingly, the nominal value of these shares has been transferred to the capital redemption reserve.

The 'Other reserve' is a merger reserve, arising from shares issued as consideration to the former shareholders of acquired companies.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (CONTINUED)

For the six months ended 31 August 2021

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2021	**36,917**	**124,939**	**10,645**	**(403)**	**(2,791)**	**2,810**	**103,823**	**275,940**
Profit for the period	-	-	-	-	-	-	37,505	37,505
Actuarial losses on retirement benefit obligations	-	-	-	-	-	-	1,639	1,639
Tax on items taken directly to equity	-	-	-	(28)	-	-	(410)	(438)
Fair value losses	-	-	-	149	-	-	-	149
Total comprehensive income for the period	**-**	**-**	**-**	**121**	**-**	**-**	**38,734**	**38,855**
Sale of treasury shares	-	-	-	-	27	-	(9)	18
Issuance of treasury shares	-	-	-	-	180	-	(15)	165
Cancellation of repurchased shares	(58)	-	-	-	-	58	-	-
Repurchase of own shares	-	-	-	-	-	-	(306)	(306)
Share based payments charge	-	-	-	-	-	-	455	455
As at 31 August 2021	**36,859**	**124,939**	**10,645**	**(282)**	**(2,584)**	**2,868**	**142,682**	**315,127**

For the year ended 28 February 2022

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2021	**36,917**	**124,939**	**10,645**	**(403)**	**(2,791)**	**2,810**	**103,823**	**275,940**
Profit for the year	-	-	-	-	-	-	60,000	60,000
Actuarial losses on retirement benefit obligations	-	-	-	-	-	-	2,801	2,801
Tax on items taken directly to equity	-	-	-	(96)	-	-	(700)	(796)
Fair value gains	-	-	-	503	-	-	-	503
Total comprehensive income for the year	**-**	**-**	**-**	**407**	**-**	**-**	**62,101**	**62,508**
Sale of treasury shares	-	-	-	-	1,025	-	(74)	951
Issuance of treasury shares	-	-	-	-	180	-	(15)	165
Repurchase of own shares	-	-	-	-	-	-	(6,014)	(6,014)
Cancellation of repurchased shares	(975)	-	-	-	-	975	-	-
Dividends paid	-	-	-	-	-	-	(2,327)	(2,327)
Share based payments charge	-	-	-	-	-	-	658	658
As at 28 February 2022	**35,942**	**124,939**	**10,645**	**4**	**(1,586)**	**3,785**	**158,152**	**331,881**

NOTES

For the six months ended 31 August 2022

1. Basis of preparation

Vertu Motors plc is a Public Limited Company which is quoted on the AiM Market and is incorporated and domiciled in the United Kingdom. The address of the registered office is Vertu House, Fifth Avenue Business Park, Team Valley, Gateshead, Tyne and Wear, NE11 0XA. The registered number of the Company is 05984855.

The financial information for the period ended 31 August 2022 and similarly the period ended 31 August 2021 has neither been audited nor reviewed by the auditors. The financial information for the year ended 28 February 2022 has been based on information contained in the audited financial statements for that year.

The information for the year ended 28 February 2022 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The Auditors' Report on those accounts was not qualified under section 498 of the Companies Act 2006.

2. Accounting policies

In line with International Accounting Standard 34 and the Disclosure and Transparency Rules of the Financial Conduct Authority, these condensed interim financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 28 February 2022.

NOTES (CONTINUED)

3. Segmental information

The Group adopts IFRS 8 "Operating Segments", which determines and presents operating segments based on information provided to the Group's Chief Operating Decision Maker ("CODM"), Robert Forrester, Chief Executive Officer. The CODM receives information about the Group overall and therefore there is one operating segment.

The CODM assesses the performance of the operating segment based on a measure of both revenue and gross margin. However, to increase transparency, the Group has included below an additional voluntary disclosure analysing revenue and gross margin within the reportable segment.

Six months ended 31 August 2022	**Revenue £'m**	**Revenue Mix %**	**Gross Profit £'m**	**Gross Profit Mix %**	**Gross Margin %**
Aftersales[9]	158.9	8.0	89.0	39.8	45.4
Used cars	854.5	42.7	67.1	30.0	7.9
New car retail and Motability	557.6	27.9	47.4	21.2	8.5
New fleet & commercial	428.7	21.4	20.2	9.0	4.7
Total	**1,999.7**	**100.0**	**223.7**	**100.0**	**11.2**

Six months ended 31 August 2021	**Revenue £'m**	**Revenue Mix %**	**Gross Profit £'m**	**Gross Profit Mix %**	**Gross Margin %**
Aftersales[9]	143.4	7.5	83.1	37.3	47.5
Used cars	804.8	41.8	82.4	36.9	10.2
New car retail and Motability	530.7	27.6	38.8	17.4	7.3
New fleet & commercial	445.2	23.1	18.8	8.4	4.2
Total	**1,924.1**	**100.0**	**223.1**	**100.0**	**11.6**

Year ended 28 February 2022	**Revenue £'m**	**Revenue Mix %**	**Gross Profit £'m**	**Gross Profit Mix %**	**Gross Margin %**
Aftersales[9]	288.8	8.0	164.9	37.9	47.1
Used cars	1,584.4	43.8	154.4	35.5	9.7
New car retail and Motability	969.9	26.8	80.6	18.5	8.3
New fleet & commercial	772.0	21.4	35.5	8.1	4.6
Total	**3,615.1**	**100.0**	**435.4**	**100.0**	**12.0**

[9] Aftersales margin expressed on internal and external turnover

4. Non-underlying items

	Six months ended 31 August 2022 £'000	**Six months ended 31 August 2021 £'000**	**Year ended 28 February 2022 £'000**
Impairment charges	-	-	(131)
Share based payment charge	(1,064)	(529)	(1,396)
Amortisation	(214)	(202)	(407)
Non-underlying loss before tax	**(1,278)**	**(731)**	**(1,934)**
Non-underlying taxation charge	182	(2,760)	(2,708)
Non-underlying loss after tax	**(1,096)**	**(3,491)**	**(4,642)**

5. Finance income and costs

	Six months ended 31 August 2022 £'000	Six months ended 31 August 2021 £'000	Year ended 28 February 2022 £'000
Interest on short-term bank deposits	356	4	39
Net finance income relating to Group pension scheme	123	62	124
Finance income	**479**	**66**	**163**
Bank loans and overdrafts	(802)	(848)	(1,701)
Vehicle stocking interest	(1,119)	(1,094)	(1,844)
Lease liability interest	(1,645)	(1,762)	(3,581)
Finance costs	**(3,566)**	**(3,704)**	**(7,126)**

6. Taxation

In the September 2022 Mini Budget, it was announced that the increase in the rate of corporation tax in the UK to 25% would now not occur and the rate will be held at 19%. As this change had not been substantively enacted at 31 August 2022, the Group's deferred tax balances continue to be measured at the full 25% rate. On enactment of the retention of the 19% rate, the Group's deferred tax obligations are anticipated to reduce by £3.4m.

The Group's underlying effective rate of tax for the Period was 19.8% (H1 FY22: 20.9%). The Group continues to be classified as "low risk" by HMRC and takes a pro-active approach to minimising tax liabilities whilst ensuring it pays the appropriate level of tax to the UK Government.

7. Earnings per share

Basic and diluted earnings per share are calculated by dividing the earnings attributable to equity shareholders by the weighted average number of ordinary shares during the period or the diluted weighted average number of ordinary shares in issue in the period.

The Group only has one category of potentially dilutive ordinary shares, which are share options. A calculation has been undertaken to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the Group's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

NOTES (CONTINUED)

7. Earnings per share (continued)

Adjusted earnings per share is calculated by dividing the adjusted earnings attributable to equity shareholders by the weighted average number of ordinary shares in issue during the period.

	Six months ended 31 August 2022 £'000	Six months ended 31 August 2021 £'000	Year ended 28 February 2022 £'000
Profit attributable to equity shareholders	21,523	37,505	60,000
Non-underlying items (note 4)	1,096	3,491	4,642
Adjusted earnings attributable to equity shareholders	**22,619**	**40,996**	**64,642**
Weighted average number of shares in issue ('000s)	347,939	362,165	360,651
Potentially dilutive shares ('000s)	20,072	14,890	15,222
Diluted weighted average number of shares in issue ('000s)	**368,011**	**377,055**	**375,873**
Basic earnings per share	**6.19p**	**10.36p**	**16.64p**
Diluted earnings per share	**5.85p**	**9.95p**	**15.96p**
Underlying earnings per share	**6.50p**	**11.32p**	**17.92p**
Diluted underlying earnings per share	**6.15p**	**10.87p**	**17.20p**

At 31 August 2022, there were 348,945,522 shares in issue (including 6,922,122 held by the Group's employee benefit trust).

8. Reconciliation of net cash flow to movement in net cash

	31 August 2022 £'000	31 August 2021 £'000	28 February 2022 £'000
Net increase in cash and cash equivalents	2,067	45,676	15,965
Cash inflow from proceeds of borrowings	(671)	-	(5,699)
Cash outflow from repayment of borrowings	319	16,267	10,638
Cash movement in net cash	**1,715**	**61,943**	**20,904**
Capitalisation of loan arrangement fees	-	-	-
Amortisation of loan arrangement fees	(39)	(90)	(206)
Non-cash movement in net cash	**(39)**	**(90)**	**(206)**
Movement in net cash (excluding lease liabilities)	**1,676**	**61,853**	**20,698**
Opening net cash/(debt) (excluding lease liabilities)	**16,167**	**(4,531)**	**(4,531)**
Closing net cash (excluding lease liabilities)	**17,843**	**57,322**	**16,167**
Opening lease liabilities	(88,830)	(91,101)	(91,101)
Capitalisation of new leases	(4,196)	(8,245)	(14,132)
Disposal of lease liabilities	93	167	617
Interest element of lease repayments	(1,645)	(1,762)	(3,581)
Cash outflow from lease repayments	9,472	9,560	19,367
Closing lease liabilities	**(85,106)**	**(91,381)**	**(88,830)**
Closing net debt (including lease liabilities)	**(67,263)**	**(34,059)**	**(72,663)**

9. Acquisitions

On 1 July 2022, the Group acquired the entire issued share capital of Wiper Blades Limited, an online retailer. Total consideration of £3,445,000 was settled from the Group's cash resources.

10. Retirement benefit asset

The Group operates a trust based defined benefit pension scheme, "Bristol Street Pension Scheme", which has three defined benefit sections which were closed to new entrants and future accrual on 31 May 2003, with another section closed to new entrants in July 2003 and future accrual in October 2013. The Group has applied IAS 19 (revised) to the scheme.

During the six month period ended 31 August 2022, there have been changes in the financial and demographic assumptions underlying the calculation of the liabilities. In particular, the discount rate has increased due to the rise in corporate bond yields. The effect of these changes in assumptions was a decrease in liabilities of £8,228,000. The hedging strategy in place within the scheme investment portfolio meant that the Period also saw a decline in the market value of scheme assets of £12,210,000, offsetting the decrease in liabilities. In total, an actuarial loss of £4,048,000 was recognised in the Consolidated Statement of Comprehensive Income.

11. Cash flow from movement in working capital

The following table reconciles the movement in balance sheet headings to the movement in working capital as presented in the Consolidated Cash Flow Statement.

For the six months ended 31 August 2022

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(569,717)	
Contract liabilities			(24,423)	
At 31 August 2022	496,739	72,117	(594,140)	
At 28 February 2022	475,027	51,839	(552,285)	
Balance sheet movement	**(21,712)**	**(20,278)**	**41,855**	
Acquisitions	123	16	156	
Movement excluding business combinations	**(21,589)**	**(20,262)**	**42,011**	**160**
Pension related balances				57
Decrease in capital creditor				823
Increase in interest accrual				(136)
Movement in working capital				**904**

11. Cash flow from movement in working capital (continued)

For the six months ended 31 August 2021

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(482,109)	
Contract liabilities			(22,798)	
At 31 August 2021	392,491	43,038	(504,907)	
At 28 February 2021	597,391	59,375	(710,515)	
Balance sheet movement	**204,900**	**16,337**	**(205,608)**	
Acquisitions	686	347	(8)	
Movement excluding business combinations	**205,586**	**16,684**	**(205,616)**	**16,654**
Pension related balances				41
Increase in capital creditor				(643)
Increase in interest accrual				(172)
Increase in share buyback accrual				(202)
Bonus accrual settled in shares				164
Movement in working capital				**15,842**

For the year ended 28 February 2022

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(529,086)	
Contract liabilities			(23,199)	
At 28 February 2022	475,027	51,839	(552,285)	
At 28 February 2021	597,391	59,375	(710,515)	
Balance sheet movement	**122,364**	**7,536**	**(158,230)**	
Acquisitions	5,175	1,469	(6,181)	
Movement excluding business combinations	**127,539**	**9,005**	**(164,411)**	**(27,867)**
Pension related balances				116
Increase in capital creditor				(286)
Increase in interest accrual				(100)
Bonus accrual settled in shares				164
Movement in working capital				**(27,973)**

12. Goodwill and other indefinite life assets

	31 August 2022 £'000	31 August 2021 £'000	28 February 2022 £'000
Goodwill	76,182	71,862	74,575
Other indefinite life assets – Franchise relationships	28,895	27,582	28,895
At end of period	**105,077**	**99,444**	**103,470**

13. Risks and uncertainties

There are certain risk factors which could result in the actual results of the Group differing materially from expected results. These factors include: failure to deliver on the strategic goal of the Group to acquire and consolidate UK motor retail businesses, failure to meet competitive challenges to our business model or sector, advances in vehicle technology providing customers with mobility solutions which bypass the dealer network, inability to maintain current high quality relationships with Manufacturer partners, economic conditions impacting trading, market driven fluctuations in used vehicle values, litigation and regulatory risk, failure to comply with health and safety policy, failure to attract, develop and retain talent, failure of Group information and telecommunication systems, malicious cyber-attack, availability of credit and vehicle financing, use of estimates and currency risk.

All of the above principal risks are consistent with those detailed in the Annual Report for the year ended 28 February 2022.

The Board continually review the risk factors which could impact on the Group achieving its expected results and confirm that the above principal factors will remain relevant for the final six months of the financial year ending 28 February 2023.

ALTERNATIVE PERFORMANCE MEASURES

Set out below are the definitions and sources of various alternative performance measures which are referred to throughout the Interim Financial Report. All financial information provided is in respect of the Vertu Motors plc Group.

Definitions

Like-for-like	Dealerships that have comparable trading periods in two consecutive financial years, only the comparable period is measured as "Like-for-like".
H1 FY23	The six month period ended 31 August 2022
H1 FY22	The six month period ended 31 August 2021
Adjusted	Adjusted for amortisation of intangible assets and share based payment charges as these are unconnected with the ordinary business of the Group.
Aftersales gross margin	Aftersales gross margin compares the gross profit earned from aftersales activities to total aftersales revenues, including internal revenue relating to service and vehicle preparation work performed on the Group's own vehicles. This is to properly reflect the real activity of the Group's aftersales departments.

Alternative Performance Measures

Adjusted Profit Before Tax (PBT)	**Six months ended 31 August 2022 £'000**	**Six months ended 31 August 2021 £'000**
Profit before tax	26,939	51,102
Amortisation	214	202
Share based payment charge	1,064	529
Adjusted PBT	**28,217**	**51,833**

Tangible net assets per share	**31 August 2022 £'000**	**28 February 2022 £'000**
Net assets	340,023	331,881
Less:		
Goodwill and other indefinite life assets	(105,077)	(103,470)
Other intangible assets	(2,397)	(1,797)
Add:		
Deferred tax on above adjustments	11,100	10,856
Tangible net assets	**243,649**	**237,470**
Tangible net assets per share (p)	**71.2p**	**66.8p**

At 31 August 2022, there were 348,945,522 shares in issue (28 February 2022: 359,422,972), of which 6,922,122 were held by the Group's employee benefit trust (28 February 2022: 4,141,272). Rights to dividends on shares held in the Group's employee benefit trust have been waived and therefore such shares are not included in the tangible net asset per share calculation.

ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

Free Cash Flow

	Six months ended 31 August 2022 £'000	Six months ended 31 August 2021 £'000
Net cash inflow from operating activities	38,841	76,857
Purchase of other property, plant and equipment	(7,835)	(5,907)
Purchase of intangible assets	(1)	(20)
Proceeds from disposal of property, plant and equipment	-	464
Principal elements of lease repayments	(7,827)	(7,798)
Free cash flow	**23,178**	**63,596**

Like-for-like reconciliations:

Revenue by department

	H1 FY23 Group revenue £'m	Acquisitions revenue £'m	Disposals revenue £'m	H1 FY23 Like-for-like revenue £'m
New car retail and Motability	557.6	(12.3)	-	545.3
New fleet and commercial	428.7	(5.6)	-	423.1
Used cars	854.5	(21.9)	-	832.6
Aftersales	158.9	(4.8)	-	154.1
Total revenue	**1,999.7**	**(44.6)**	**-**	**1,955.1**

	H1 FY22 Group revenue £'m	Acquisitions revenue £'m	Disposals revenue £'m	H1 FY22 Like-for-like revenue £'m
New car retail and Motability	530.7	(0.4)	(2.5)	527.8
New fleet and commercial	445.2	(0.2)	-	445.0
Used cars	804.8	(0.9)	(9.2)	794.7
Aftersales	143.4	(0.2)	(0.9)	142.3
Total revenue	**1,924.1**	**(1.7)**	**(12.6)**	**1,909.8**

Aftersales revenue by department

	H1 FY23 Group revenue £'m	Acquisitions revenue £'m	Disposals revenue £'m	H1 FY23 Like-for-like revenue £'m
Parts	96.7	(3.4)	-	93.3
Accident repair	10.2	(0.2)	(0.1)	9.9
Parts and accident repair	106.9	(3.6)	(0.1)	103.2
Forecourt	6.7	-	-	6.7
Service	82.3	(1.9)	-	80.4
Total revenue [10]	**195.9**	**(5.5)**	**(0.1)**	**190.3**

[10] Inclusive of both internal and external revenue

ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

Like-for-like reconciliations (continued):

Aftersales revenue by department (continued)

	H1 FY22 Group revenue £'m	Acquisitions revenue £'m	Disposals revenue £'m	H1 FY22 Like-for-like revenue £'m
Parts	86.3	(0.2)	(0.3)	85.8
Accident repair	8.0	-	(0.4)	7.6
Parts and accident repair	94.3	(0.2)	(0.7)	93.4
Forecourt	3.5	-	-	3.5
Service	77.2	(0.1)	(0.3)	76.8
Total revenue [10]	**175.0**	**(0.3)**	**(1.0)**	**173.7**

[10] Inclusive of both internal and external revenue

Gross profit by department

	H1 FY23 Group gross profit £'m	Acquisitions gross profit £'m	Disposals gross profit £'m	H1 FY23 Like-for-like gross profit £'m
New car retail and Motability	47.4	(1.1)	-	46.3
New fleet and commercial	20.2	(0.4)	-	19.8
Used cars	67.1	(1.2)	-	65.9
Aftersales	89.0	(2.2)	-	86.8
Total gross profit	**223.7**	**(4.9)**	**-**	**218.8**

	H1 FY22 Group gross profit £'m	Acquisitions gross profit £'m	Disposals gross profit £'m	H1 FY22 Like-for-like gross profit £'m
New car retail and Motability	38.8	-	(0.2)	38.6
New fleet and commercial	18.8	-	-	18.8
Used cars	82.4	(0.1)	(0.6)	81.7
Aftersales	83.1	(0.1)	(0.6)	82.4
Total gross profit	**223.1**	**(0.2)**	**(1.4)**	**221.5**

ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

Like-for-like reconciliations (continued):

Aftersales gross profit by department

	H1 FY23 Group gross profit £'m	Acquisitions gross profit £'m	Disposals gross profit £'m	H1 FY23 Like-for-like gross profit £'m
Parts	21.7	(0.7)	-	21.0
Accident repair	5.4	(0.2)	-	5.2
Parts and accident repair	27.1	(0.9)	-	26.2
Forecourt	0.4	-	-	0.4
Service	61.5	(1.3)	-	60.2
Total gross profit	**89.0**	**(2.2)**	**-**	**86.8**

	H1 FY22 Group gross profit £'m	Acquisitions gross profit £'m	Disposals gross profit £'m	H1 FY22 Like-for-like gross profit £'m
Parts	19.0	-	-	19.0
Accident repair	4.5	-	(0.4)	4.1
Parts and accident repair	23.5	-	(0.4)	23.1
Forecourt	0.3	-	-	0.3
Service	59.3	(0.1)	(0.2)	59.0
Total gross profit	**83.1**	**(0.1)**	**(0.6)**	**82.4**

Number of units sold by department

	H1 FY23 Total Group	Acquisitions	Disposals	H1 FY23 Core Group
New car retail	17,673	(661)	-	17,012
New car Motability	4,711	(66)	-	4,645
New fleet	11,522	(339)	-	11,183
New commercial	8,707	(267)	-	8,440
Used cars	43,022	(1,307)	-	41,715
Total units	**85,635**	**(2,640)**	**-**	**82,995**

	H1 FY22 Total Group	Acquisitions	Disposals	H1 FY22 Core Group
New car retail	18,086	(46)	(84)	17,956
New car Motability	4,865	-	(35)	4,830
New fleet	11,695	-	(33)	11,662
New commercial	9,915	(11)	-	9,904
Used cars	49,697	(71)	(552)	49,074
Total units	**94,258**	**(128)**	**(704)**	**93,426**

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