# ANALYST & INVESTOR PRESENTATION

Final results for the 12 months ended 28 February 2017

**10 May 2017**

Record profitability, excellent cash conversion and robust balance sheet to drive future growth

Vertu Motors plc

# **Record** profitability: **Excellent cash conversion: Robust balance sheet**

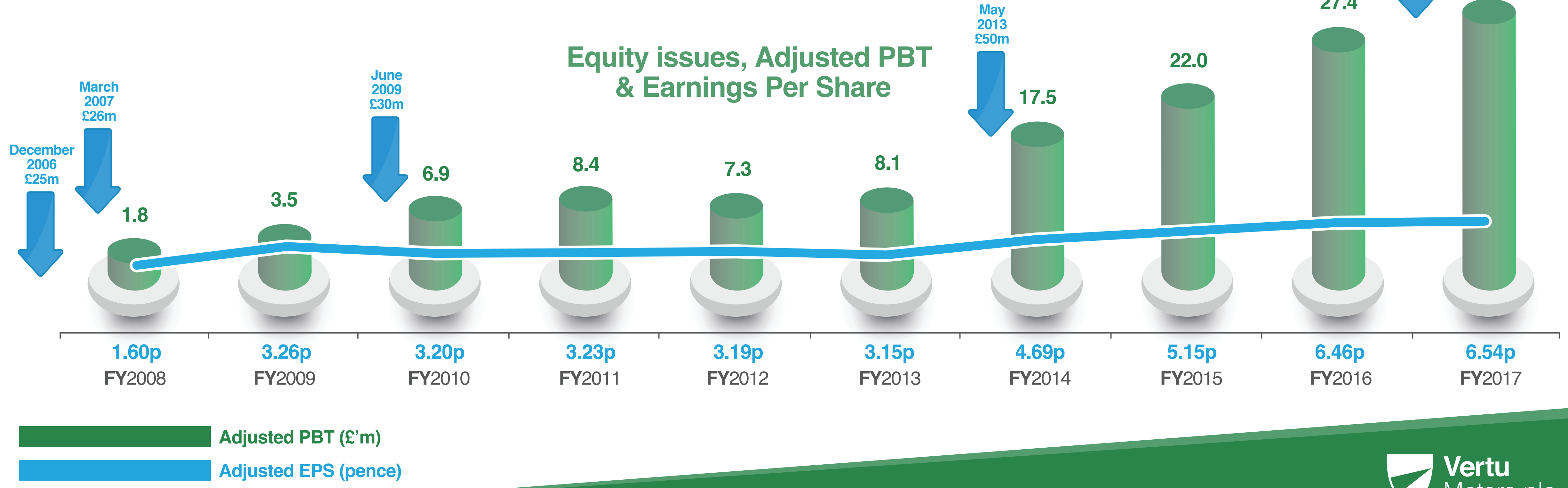
- **Revenues up** 16.5% to £2,822.6m (2016: £2,423.3m)
- **Gross Margins** increased to 11.1% (2016: 10.9%)
- **Adjusted profit** before tax up 15.0% to £31.5m (2016: £27.4m)
- **Cash generated** from operations of £58.1m (2016: £65.8m) representing cash conversion of operating profits of 181%
- **Dividend** per share increased to 1.4p (2016: 1.3p)
- **Net Cash** of £21.0m (2016: £23.1m)
- **Net tangible assets** per share 39.5p (2016: 38.3p) - net tangible assets of £156.1m
- **Bank facilities** refinanced for 5 years: £40m committed acquisition facility plus the potential to add a further £30m

# **Encouraging** outlook

- Strong trading in March and April 2017
- Like-for-like profitability increased with strengthening margins and the positive impact of cost reductions flexed for lower vehicle volumes and cost control initiatives
- Strong growth in aftersales and used vehicle profitability
- Like-for-like new car volumes continue to soften with improved profitability due to enhanced margins from pricing disciplines
- Acquisitions made in the 2017 financial year contributing to profit growth: fully integrated
- Board confident about the Group's prospects for the current year

# **Group strategy** and objectives

- Deliver long-term value for owners focused on growing cash-flows
- Build a sustainable scaled franchised dealership business around a diversified portfolio
- Apply an established business model with a stable, experienced management team
- Establish a robust competitive position with excellent customer experience levels
- Generate resilient, consistent and increasing cash-flows

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# **Disciplined** growth of the portfolio

## Regular Assessment

- Six monthly review of all Manufacturers operating in the UK
- Includes market shares, products, investment requirements, dealer survey results, financial performance
- All classified: Add; Hold; Reduce; Avoid
- Action plans prepared for Add and Reduce to amend Portfolio in following periods

## Add: Valuation method and criteria

- Three year business plans prepared for opportunities
  - Granular detail
  - EBITDA and profit contribution
- Financial ratios
  - EV/EBITDA: Freehold multiple; Leasehold multiple
  - Return on capital; EPS impact
- FY 2017 additions
  - **Mercedes Benz:** Reading, Slough, Ascot
  - **Toyota:** Chesterfield
  - **Jaguar:** Leeds
  - **Land Rover:** Chesterfield
  - **Nissan:** Chesterfield
  - **Skoda:** Chesterfield, Derby
  - **Hyundai:** Bristol
  - **Honda:** Morpeth

## Reduce: Pruning to improve the portfolio

- Constant review of performance
- Bottom ten performing dealerships identified annually: monthly report to plc Board on actions
- Improve, refranchise, dispose or close
- FY 2017
  - Removed or recycled ten sales outlets
  - Closed two accident repair centres to add more productive capacity for other activities: two further planned closures

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# **Highly experienced,** stable senior management team

**Robert Forrester**
Chief Executive
**10 Years**

**David Crane**
Chief Operations Officer
**10 Years** [1]

**Michael Sherwin**
Chief Financial Officer
**7 Years**

**Liz Cope**
Chief Marketing Officer
**1 Year**

**Steve Ferry**
Group Sales Director
**10 Years**

**Nicola Loose**
Group Counsel
**2 Years** [2]

## **Group Operations** Directors

**Ian Harrison**
Ford
**9 Years**

**Colin Kent**
Vauxhall
Citroen
**10 Years**

**Mike Rich**
Volkswagen Brands
Volvo
Mercedes-Benz
**7 Years**

**Chris Taylor**
Honda
**10 Years** [3]

**Jatinder Aujla**
Jaguar
Land Rover
**4 Years** [4]

**Tim Tozer**
Hyundai
Mazda
Peugeot
**1 Year**

**Years relate to time with Vertu Motors**
[1] Operationally responsible for Nissan Renault
[2] Joined from former legal advisors
[3] Joined with Grantham Motor Company acquisition
[4] Joined with Farnell acquisition

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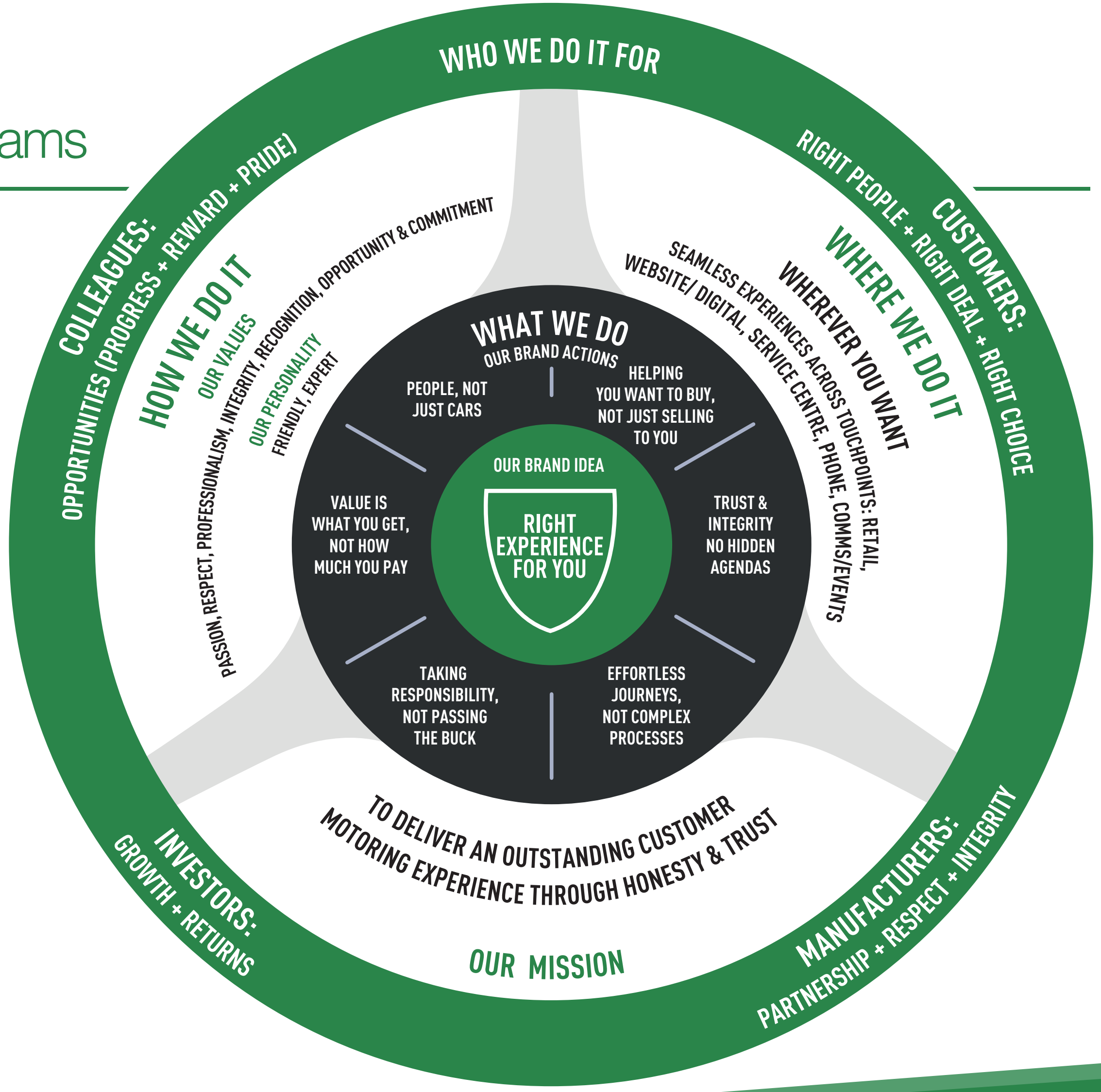
# **Brand** model - Strong customer experience improves quality of income streams

- The customer has to be at the centre of our business
- The Brand model sets out how we do things:
  - Vision and Mission Statement
  - Core Values
  - All stakeholders considered
  - Brand touchpoints to guide how we go about our business and reflect customer-centric trends in the development of the business

  e.g. **"Effortless journeys, not complex processes"**

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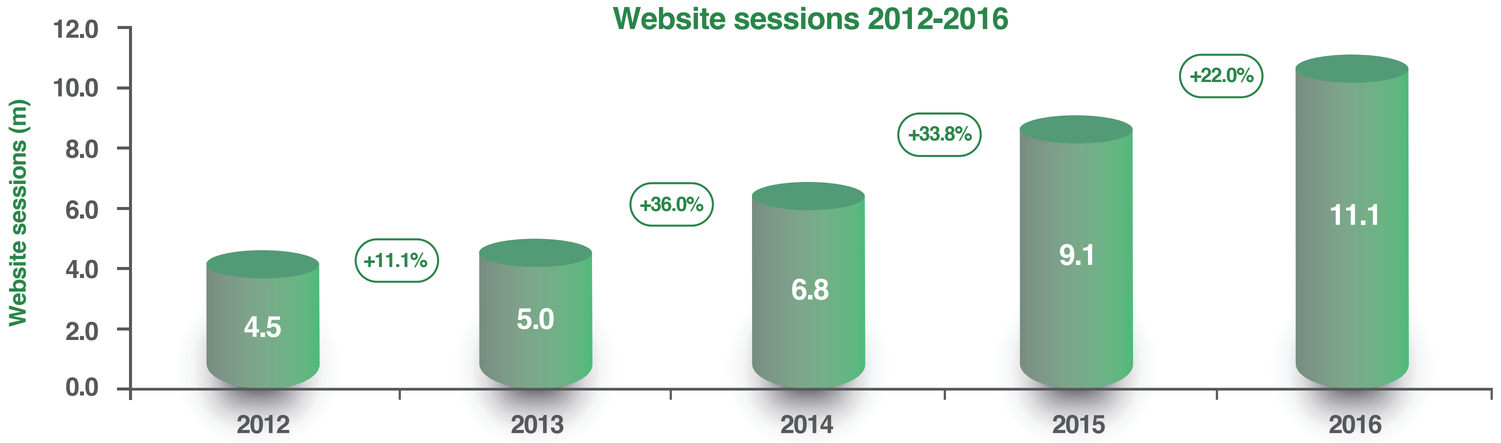
# **Marketing:** Increasing our reach to Customers

**The appointment of the Chief Marketing Officer in April 2016 has given us further impetus to drive a number of first stage marketing initiatives and to seek to become sector-leading in the marketing arena:**

- **Development of the "What's Yours Called?" marketing campaign, on all platforms, generating new levels of customer and colleague engagement**
- **Social media activities and monitoring of reputation across the web brought in-house**
- **Consolidation of media purchasing through a single agency (WPP) to drive efficiencies**
- **Full end to end online retailing of used vehicles launched May 2017**





# **Group Culture** to deliver customer experience and retention

## Colleagues

- **Our Mission Statement is "to deliver an outstanding customer motoring experience through honesty and trust"**
- **Having the right Values and Culture is key to building stable teams and lasting customer relationships**
- **It is our colleagues who deliver on customer needs and create long term value: great customer experiences drive loyalty, retention and margin**
- **Our annual colleague survey results show a high level of engagement:**

| | July 2014 | July 2015 | July 2016 |
|---|---|---|---|
| **Vertu is a great place to work** | 87.0% | 85.1% | 85.8% |
| I know the Group Vision | 96.4% | 96.8% | 96.5% |
| **I know what the Vertu Values are** | 96.8% | 97.2% | 98.2% |
| The Directors actively practice the Vertu Values | 91.3% | 90.2% | 90.5% |
| **Participation Rate** | 68.0% | 68.2% | 75.3% |

- **Engagement builds in new dealerships as they are integrated into the Group**

## Customer experience

- **Manufacturer Partners measure new vehicle and service department customer satisfaction and we measure used car customer experience:**

| | % of Departments over national average | Recommendation Rate |
|---|---|---|
| **New Car Sales** | 69.9% | |
| Service | 57.7% | |
| **Used Car Sales** | | 96.0% |

- **Management and colleagues at all levels are rewarded on success in these measures including Executive Directors**

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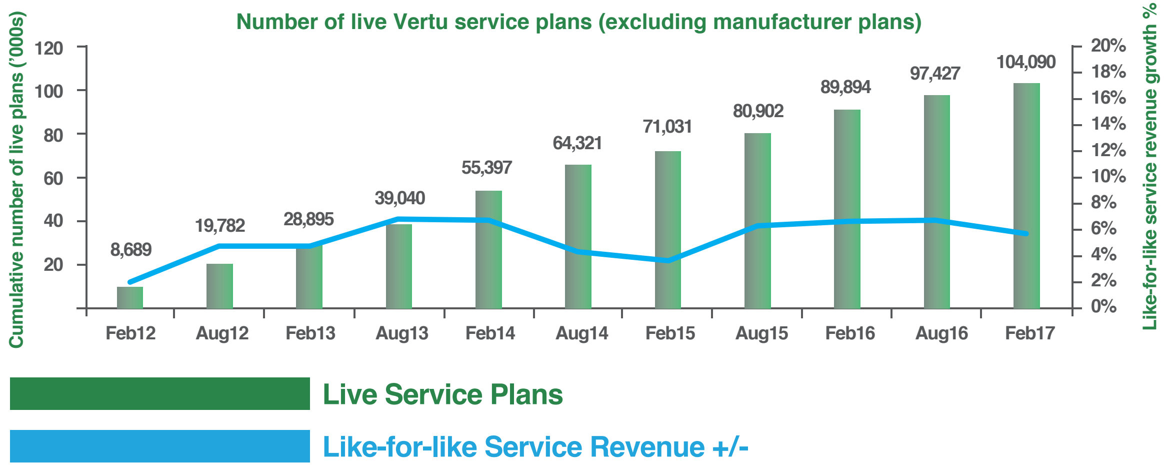
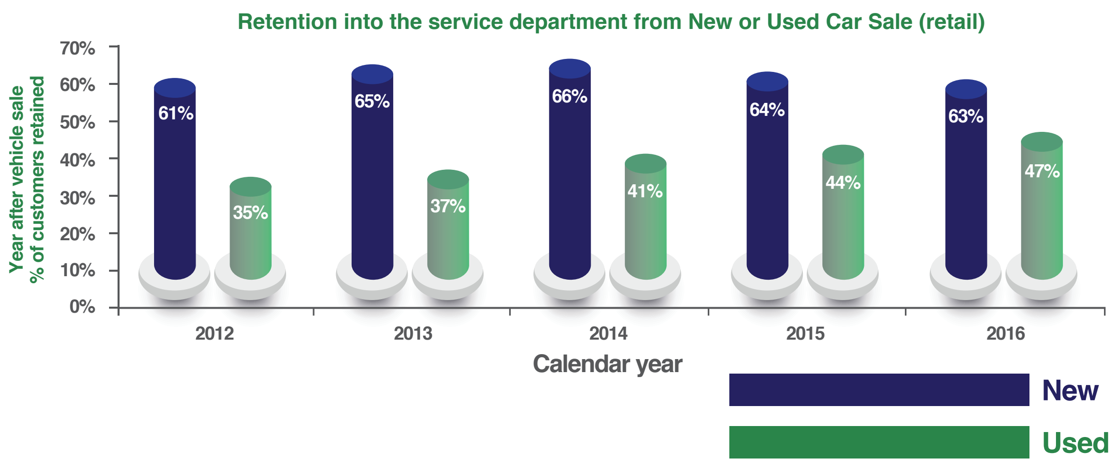
# **Group Culture** to deliver customer experience and retention

## Customer Retention

- **Customer experience is a significant driver of loyalty and retention**
- **The Group's Business Development Centre, based in Gateshead, manages customer contact to book service work (in addition to on-line booking facilities), sells service plans and makes follow-up calls after service and sales visits. This provides a consistency to Group customer contact**
- **Service plans provide customers with a discounted monthly payment plan to provide fixed price service and MOT work for up to three years**
- **The Group has consistently grown the number of service plan customers so providing resilience to its higher margin service revenues**

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# **Income** statement

| | FY2016 | FY2017 | % Change |
|---|---|---|---|
| **Revenue** | £2,423.3m | £2,822.6m | +16.5% |
| Gross Profit | £263.3m | £313.5m | +19.1% |
| Gross Margin | 10.9% | 11.1% | +0.2% |
| Adjusted[1] EBITDA | £35.4m | £42.1m | +18.9% |
| **Operating profit** | **£27.2m** | **£32.1m** | **+18.0%** |
| **Operating expenses as % of revenue** | 9.7% | 10.0% | +0.3% |
| Operating profit margin | 1.1% | 1.1% | - |
| **Net finance costs** | (£1.2m) | (£2.3m) | +91.7% |
| Profit before tax | **£26.0m** | **£29.8m** | **+14.6%** |
| Adjusted[2] profit before tax | **£27.4m** | **£31.5m** | **+15.0%** |
| Earnings per share | 6.06p | 6.14p | +1.3% |
| Adjusted[2] earnings per share | 6.46p | 6.54p | +1.2% |
| **Dividend per share** | 1.30p | 1.40p | +7.7% |

- **Enhanced gross margins**
- **Increased operating expenses as a % of revenues in H1: decline in H2**
- **Higher finance costs due to stocking charges in new cars**
- **15% increase in adjusted profit before tax**
- **7.7% increase in full year dividends**

[1] adjusted for amortisation of intangible assets, profit on sale of property and share based payments charge
[2] adjusted for amortisation of intangible assets and share based payments charge

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# Revenue and margin analysis - Total Group

| | FY2016 | | | | | FY2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Revenue £'m | Revenue Mix % | Gross Profit £'m | Gross Profit Mix % | Gross Margin % | Revenue £'m | Revenue Mix % | Gross Profit £'m | Gross Profit Mix % | Gross Margin % |
| **Aftersales** | 189.0 | 7.8 | 102.9 | 39.1 | 44.8* | 227.0 | 8.0 | 123.4 | 39.4 | 44.6* |
| **Used vehicles** | 850.2 | 35.1 | 83.5 | 31.7 | 9.8 | 1,037.5 | 36.8 | 100.7 | 32.1 | 9.7 |
| | **1,039.2** | **42.9** | **186.4** | **70.8** | **17.3*** | **1,264.5** | **44.8** | **224.1** | **71.5** | **17.1*** |
| New retail | 796.5 | 32.9 | 59.3 | 22.5 | 7.4 | 909.4 | 32.2 | 68.3 | 21.8 | 7.5 |
| Fleet & commercial | 587.6 | 24.2 | 17.6 | 6.7 | 3.0 | 648.7 | 23.0 | 21.1 | 6.7 | 3.3 |
| **Overall Group** | **2,423.3** | **100.0** | **263.3** | **100.0** | **10.9** | **2,822.6** | **100.0** | **313.5** | **100.0** | **11.1** |

** Margin in aftersales expressed on internal and external turnover*

# **Volumes** and margins

| Service Revenue | Total Revenue Growth % | Like-for-like Revenue Growth % | Core Group Gross Margins % FY2016 | FY2017 |
|---|---|---|---|---|
| - Retail | 22.8 | 5.8 | | |
| - Warranty | 31.9 | 10.0 | | |
| - Internal | 16.5 | 4.4 | | |
| Service Gross Margins | | | **76.8** | **77.7** |
| | **Total Volume Growth %** | **Like-for-like Volume Growth %** | | |
| Used Retail | 13.9 | 7.1 | 10.1 | 10.6 |
| New Retail | 4.4 | (6.4) | 7.4* | 7.4* |
| Motability | (0.3) | (4.8) | - | - |
| Commercial Vehicles | 2.7 | 1.6 | 2.7 | 3.1 |
| Fleet Cars | 0.0 | (4.2) | 2.9 | 2.7 |

** includes Motability gross margins*

- **Service saw like-for-like revenue growth in all channels and improving margins**

- **Used retail sales saw continued strong volume and margin increases**
- **Over five years of like-for-like used car sales volume growth**

- **New car retail like-for-like volumes declined 6.4% compared to SMMT registration fall of 1%. Pre-registration volumes included in retail SMMT figures**
- **New car retail margin % stable with rising profit per unit as sales prices rose (currency impact)**
- **Motability UK registrations fell 1.1% with 4.8% Group like-for-like decline reflecting franchise mix as manufacturers reacted differently to increased currency pressures**

- **Commercial vehicle sales saw strong growth in like-for-like van volumes in H1 as a result of runout of Euro5 engines: decline in H2**
- **Significant strengthening of margin in Commercial channel**
- **Fleet car volumes declined in H1 and increased in H2**
- **Fleet and commercial combined gross profit per unit has risen 46.3% in the last four years as van and premium mix has become an increasing feature**

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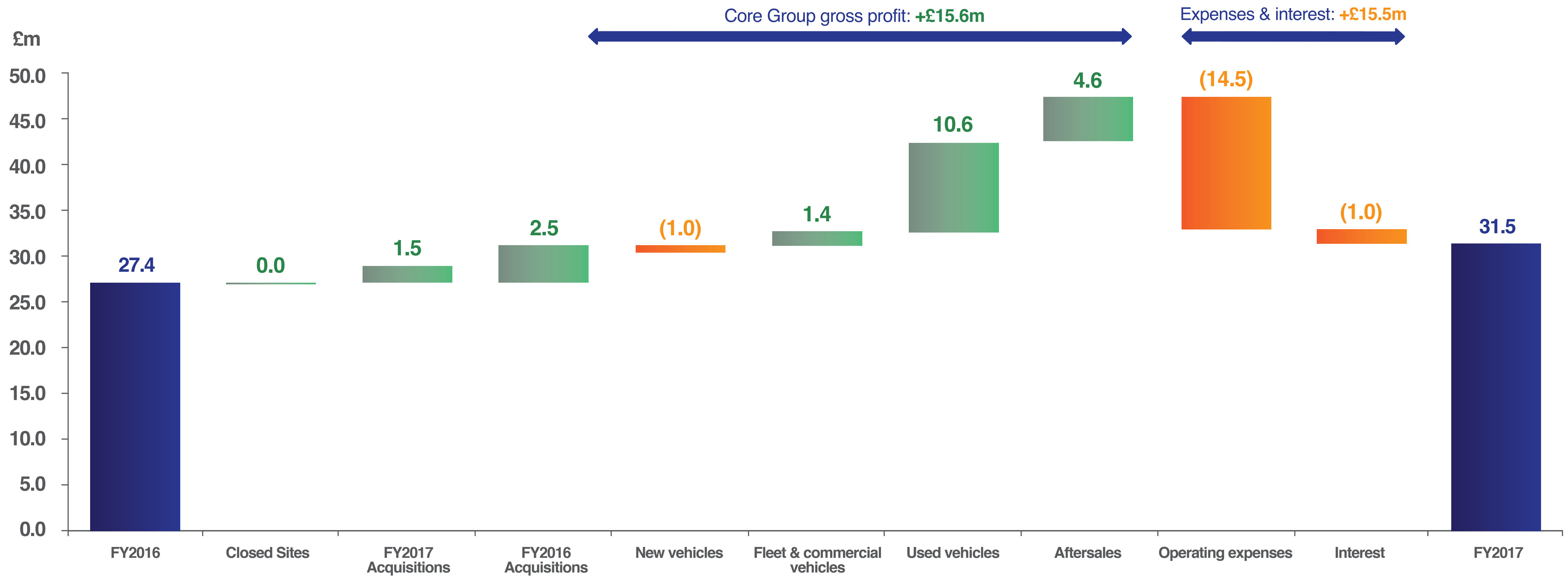
# **Profit Bridge -** 12 months ended 28 February 2017

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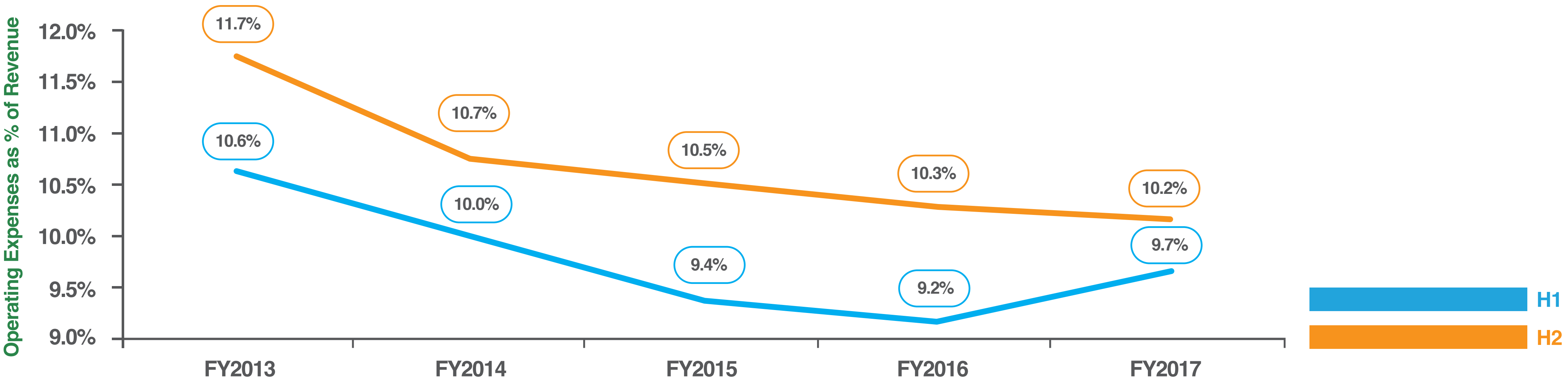
# **Managing** operating expenses




- Costs as a % of revenue grew in H1 after a long period of reduction due to:
  - Number of customer facing colleagues increased as activity grew particularly in aftersales
  - Increased investment in used car marketing to take market share
  - Property costs such as higher business rates and increased depreciation following capital expenditure on properties
- Stabilisation of cost rises in H2 with a decline in costs as a % of revenue
- To combat the impact of cost headwinds, committee formed 18 months ago chaired by CEO to drive productivity and efficiency: Two year cash pay back on initiatives sought
- Examples of initiatives in progress:
  - Use of BCA technology to bring used car photography in-house using existing resource
  - Streamlining payment processes to reduce bank charges
  - Energy monitoring and usage reduction
  - Increasingly centralised marketing campaigns and appointment of one single media buying agency to achieve efficiencies in spend

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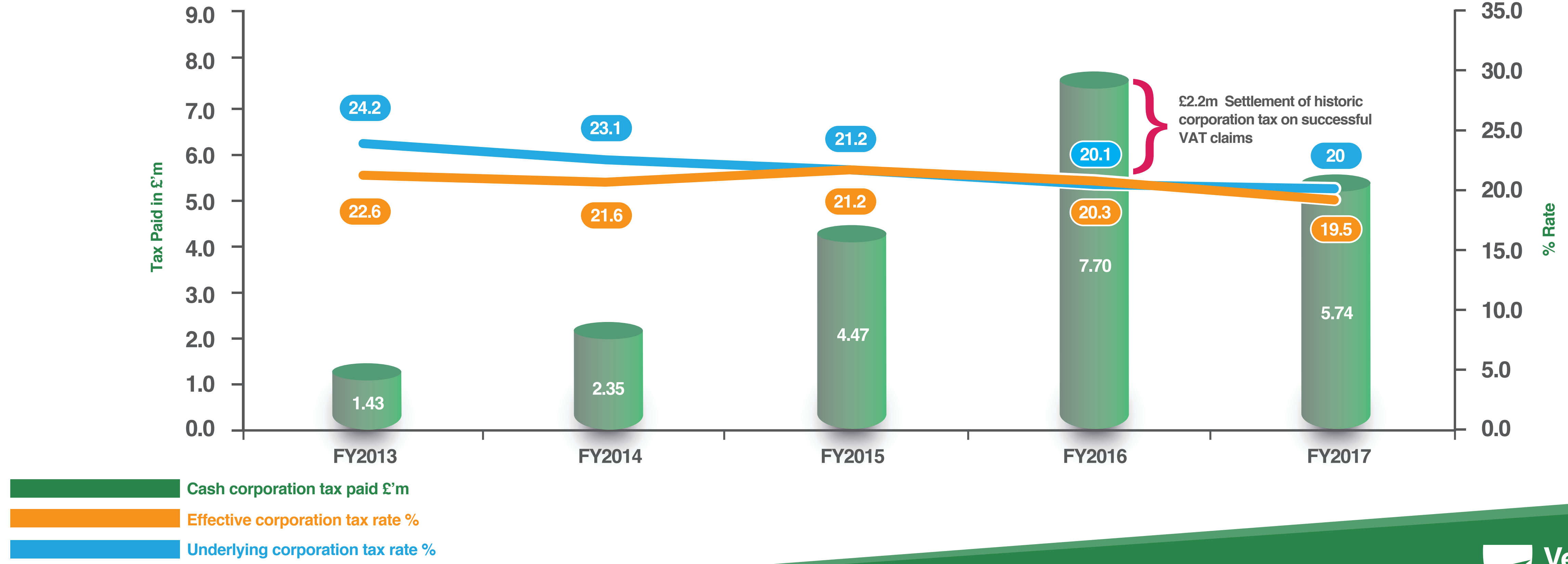
# **Managing** tax payments

- Tax represents significant cash cost to Group: Business rates, employers NIC and corporation tax cost £31.0m
- Group classified as “low risk” by HMRC
- FY2017 Effective Tax rate is below underlying rate



# Cash flow

| | FY2016 £'m | FY2017 £'m |
|---|---|---|
| **Adjusted EBITDA** | **35.4** | **42.1** |
| Working capital movement | 30.5 | 16.0 |
| Capital expenditure (net of disposals) | (19.7) | (29.0) |
| Interest | (1.4) | (2.4) |
| Tax | (7.7) | (5.7) |
| **Free cash flow** | **37.1** | **21.0** |
| Acquisitions (net of disposals) | (22.4) | (49.1) |
| Dividends | (3.9) | (5.4) |
| **Net cash flow** | **10.8** | **(33.5)** |

| | FY2016 £'m | FY2017 £'m |
|---|---|---|
| Vehicle deposits | - | 4 |
| VAT | 14 | 3 |
| Inventory | 5 | 2 |
| Accruals | 2 | 3 |
| Warranty & service plan | 2 | 3 |
| Receivables | 1 | 1 |
| Accelerated finance supplier receipts | 6 | - |
| | **30** | **16** |

# **Managing** working capital

- **Significant, yet predictable, seasonal fluctuations in working capital arise around plate change months and quarter ends as a result of inventory movements and manufacturer incentive receivables**
- **Manufacturer new vehicle supply levels and financing changes can impact working capital patterns, including cash VAT flows**
- **Working capital comprises:**

| | FY2016 £'m | FY2017 £'m |
|---|---|---|
| Trade and other receivables | 63.4 | 52.5 |
| Trade and other payables | (631.1) | (610.3) |
| Deferred income | (6.1) | (7.6) |
| Inventories: | | |
| New Vehicles | | |
| - Interest bearing consignment | 21.6 | 34.1 |
| - Stock invoiced not yet paid held by Manufacturers | 360.2 | 305.7 |
| - Other | 39.9 | 45.5 |
| Used Vehicles | 63.9 | 74.0 |
| Demonstrator and Courtesy Vehicles | 30.1 | 32.1 |
| Parts and Sundry | 14.6 | 15.0 |
| | **(43.5)** | **(59.0)** |

- **Used vehicle stocking loans of £8.7m (2016: £6.8m) are treated as debt (not as working capital) and represent only 11.7% of year end used vehicle inventories**
- **Excellent history of cash conversion:**

| £'m | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 |
|---|---|---|---|---|---|
| Operating Profit | 5.1 | 16.2 | 21.7 | 27.2 | 32.1 |
| Cash generated from operations | 13.0 | 47.4 | 26.1 | 65.8 | 58.1 |
| Cash conversion % | 255% | 293% | 120% | 242% | 181% |

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# **Investing** to support future cash growth

- **Significant period of investment in dealership capacity and standards led by Jaguar Land Rover**
- **Phase expected to be completed by December 2018 after which investment levels will decline, improving free cashflow**

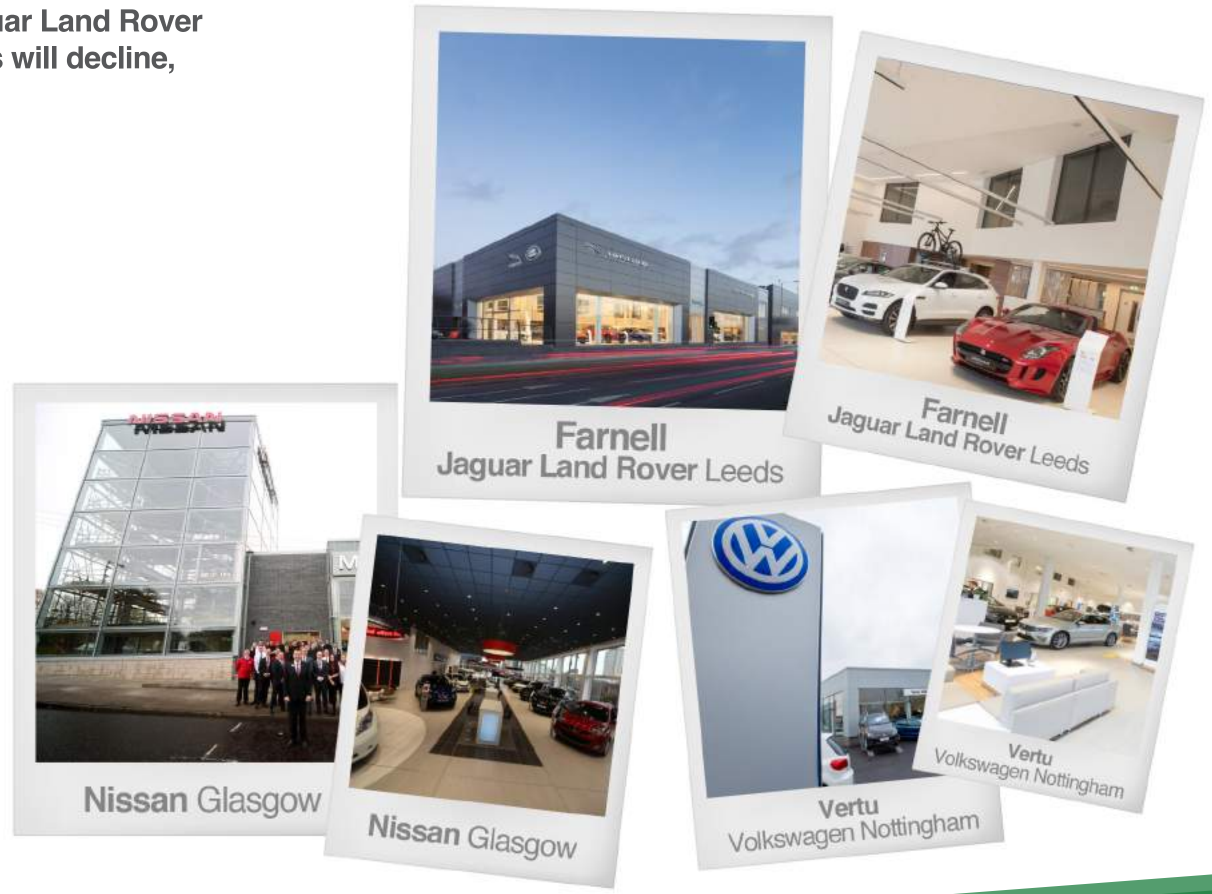
| | FY2017 £'m | FY2018 £'m | FY2019 £'m |
|---|---|---|---|
| Purchase of property | 2.2 | 2.2 | - |
| New dealership build | 10.4 | 6.5 | 4.0 |
| Existing dealership capacity increases | 5.9 | 18.9 | 10.3 |
| Manufacturer led refurbishment projects | 2.4 | 5.2 | 1.7 |
| IT and other ongoing capital expenditure | 4.8 | 4.7 | 4.8 |
| **TOTAL** | **25.7** | **37.5** | **20.8** |

- **FY2017 major completed investments include:**

  Leeds Jaguar Land Rover
  Glasgow Nissan Central
  Hereford Audi
  Gloucester Ford
  Nottingham Volkswagen North

- **FY2018 anticipated investments include:**

  Reading Mercedes-Benz
  Nelson Land Rover
  Bradford Jaguar Land Rover
  Guiseley Land Rover
  Shirley Ford (Birmingham)
  Bolton Ford

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# **Robust** balance sheet provides flexibility to drive growth

- **Ungeared balance sheet**
- **New 5 year £40m committed facility in place with potential to add a further £30m**
- **Future acquisitions will utilise this facility**

| | 29th February 2016 £'m | 28th February 2017 £'m |
|---|---|---|
| Intangible assets | 71.1 | 96.1 |
| Retirement benefit asset | 6.1 | 1.9 |
| Tangible assets | 150.4 | 197.5 |
| **Non-current assets** | **227.6** | **295.5** |
| Current assets | 594.3 | 559.0 |
| Cash and cash equivalents | 43.9 | 39.8 |
| **Total assets** | **865.8** | **894.3** |
| Current liabilities | (634.9) | (615.7) |
| Non-current liabilities | (12.2) | (13.4) |
| Borrowings | (20.8) | (18.8) |
| **Net assets** | **197.9** | **246.4** |
| Net assets per share (pence) | 58.0 | 62.3 |
| Tangible net assets per share (pence) | 38.3 | 39.5 |
| Net tangible assets (£'m) | 130.6 | 156.1 |

- **Pension fund remains in surplus: schemes merged**

- **£182.0m of freehold and long leasehold property provides strong property backing**

| | FY2016 £'m | FY2017 £'m |
|---|---|---|
| Revolving credit facility | (14.0) | (10.1) |
| Used vehicle funding | (6.8) | (8.7) |
| | (20.8) | (18.8) |
| Less Cash | 43.9 | 39.8 |
| Net Cash | 23.1 | 21.0 |

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# **Shareholder** returns

- **Board focus to improve long-term returns**
- **Free cashflow* to shareholders' invested equity****

| | |
|---|---|
| 10 years to February 2017 | 12.1% |
| 9 years to February 2016 | 12.7% |
| 12 months to February 2017 | 9.6% |

- **Returns are above the weighted average cost of capital of 8.0%**
- **Short-term returns diluted by current levels of capital investment (excluding acquisitions)**
- **Adjusted EPS grew to 6.54p (2016: 6.46p): impacted by March 2016 placing**
- **Dividends were increased to 1.4p per share (2016: 1.3p) resulting in a cover of 4.7 times (2016: 4.9)**
- **Dividend has grown 280% since the maiden dividend payment in 2011 of 0.5p per share**

**Operating cashflow less interest, capital expenditure and tax, but before acquisitions and dividends*

***Cash invested by shareholders, plus net operating profit after tax, less distributions*

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# Summary

- Stable, experienced management team focused on business fundamentals
- Record profitability
- Excellent cash conversion
- Strong, long term dividend growth
- Robust balance sheet
- Debt capacity for growth
- Strong trading in March and April 2017: Board confident about Group's prospects for the current year
- Remain focused on delivering enhanced portfolio performance together with further acquisition growth