# Analyst & Investor Presentation

Final results for the 12 months ended 28 February 2018

9 May 2018

**Strong balance sheet to drive growth and take advantage of tougher trading environment**

Vertu Motors plc

# Overview

- **Adjusted profit before tax of £28.6m (2017: £31.5m) reflective of a tougher trading environment**
- **Aftersales and used cars represent 72.3% of gross profit (2017: 71.5%)**
- **Exceptional property profits of £3.5m: evidence of value in freehold and long leasehold portfolio**
- **Strong balance sheet to fund future growth with net cash of £19.3m (2017: £21.0m) and unutilised bank facilities of £30m, with the potential to add a further £30m**
- **Tangible net assets of £174.3m (2017: £156.1m) with tangible net assets per share up 14.9% at 45.4p (2017: 39.5p)**
- **Focus on capital allocation: £11.1m returned to shareholders through dividends and share buy-backs. Full year dividend up 7.1%**
- **Encouraging March and April trading: FY2019 result anticipated to be in line with market expectations**

# Disciplined management with capital allocation focus

## Capital Allocation

- Dividends
- Share Buyback Programme
- Capex
- Property portfolio management
- Balance of equity/debt

## 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

## Add: Valuation method and criteria

- Three year business plans prepared for opportunities
  - Granular detail
  - EBITDA and profit contribution
  - Turnaround potential quantified
- Financial ratios
  - EV/EBITDA: Freehold multiple; Leasehold multiple
  - Return on capital; EPS impact

## Reduce: Pruning to improve the portfolio

- Constant review of performance
- Bottom ten performing dealerships identified: monthly report to Board on actions
- “Fix, Re-franchise, Sell, Close”
- 5 outlets exited in the year
- £2.8m cash recycled

# Income statement

| | FY2017 | FY2018 | % Change |
|---|---|---|---|
| Revenue | £2,822.6m | £2,796.1m | (0.9%) |
| Gross profit | £313.5m | £308.9m | (1.5%) |
| **Gross margin** | **11.1%** | **11.0%** | **(0.1%)** |
| EBITDA | £41.4m | £43.2m | +4.3% |
| Operating profit | £32.1m | £32.3m | +0.6% |
| **Operating expenses as % of revenue** | **10.0%** | **10.0%** | **-** |
| **Operating profit margin** | **1.1%** | **1.2%** | **+0.1%** |
| Net finance costs | (£2.3m) | (£1.9m) | +17.4% |
| **Profit before tax** | **£29.8m** | **£30.4m** | **+2.0%** |
| Exceptional property profit | - | £3.5m | - |
| **Adjusted* profit before tax** | **£31.5m** | **£28.6m** | **(9.2%)** |
| Effective tax rate | 19.5% | 18.9% | +0.6% |
| Earnings per share | 6.14p | 6.31p | +2.8% |
| Adjusted* earnings per share | 6.54p | 5.79p | (11.5%) |
| **Dividend per share** | **1.40p** | **1.50p** | **+7.1%** |

*Adjusted for exceptional items, amortisation of intangible assets and share based payments

- **Stable gross and operating margins**
- **Operating expenses as % of revenue flat despite cost pressures**
- **Lower finance costs due to reduction in new vehicle stocking charges**
- **Exceptional profits relating to property and business disposals**
- **Effective tax rate declining in line with underlying rates**
- **7.1% rise in dividend per share**

# Revenue and margin analysis Total Group

| | FY2017 | | | | | FY2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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[(1)]** | 227.0 | 8.0% | 123.4 | 39.4% | 44.6% | 228.2 | 8.2% | 124.7 | 40.4% | 44.5% |
| **Used vehicles** | 1,037.5 | 36.8% | 100.7 | 32.1% | 9.7% | 1,068.9 | 38.2% | 98.7 | 31.9% | 9.2% |
| | **1,264.5** | **44.8%** | **224.1** | **71.5%** | **17.1%** | **1,297.1** | **46.4%** | **223.4** | **72.3%** | **16.6%** |
| New retail and motability | 909.4 | 32.2% | 68.3 | 21.8% | 7.5% | 836.5 | 29.9% | 64.1 | 20.8% | 7.7% |
| Fleet & commercial | 648.7 | 23.0% | 21.1 | 6.7% | 3.3% | 662.5 | 23.7% | 21.4 | 6.9% | 3.2% |
| **Overall Group** | **2,822.6** | **100.0%** | **313.5** | **100.0%** | **11.1%** | **2,796.1** | **100.0%** | **308.9** | **100.0%** | **11.0%** |

- **Aftersales & Used vehicle % gross profit mix increased to 72.3% (2017: 71.5%)**
- **New vehicle retail margin growth: Decline in used vehicle margin**

[(1)] *Margin in aftersales expressed on internal and external revenue*

# Aftersales Recurring high margin income

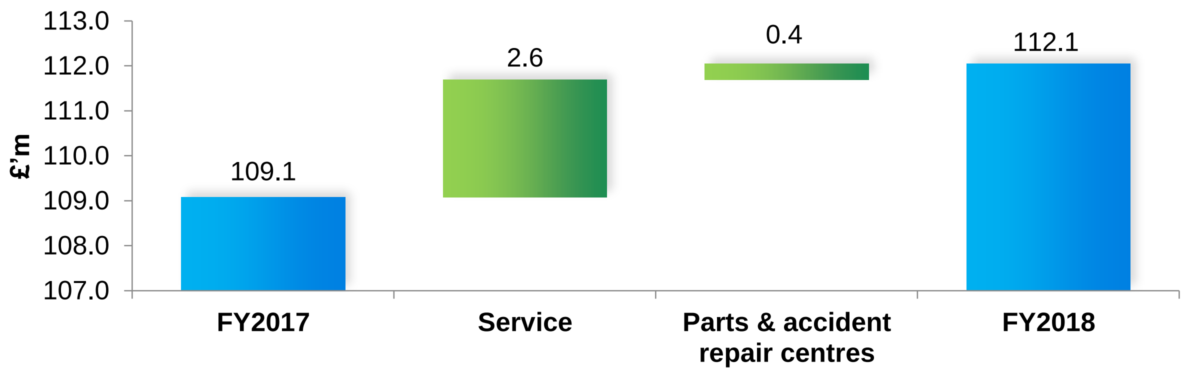
| Core Group | Service | Parts & accident repair | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Revenue[1]** | 102,762 | 145,861 | **248,623** |
| **Revenue[1] change** | 4,568 | 2,034 | **6,602** |
| **L4L revenue[1] change** | **4.7%** | **1.4%** | **2.7%** |
| **Gross margin[2] 2018** | 76.4% | 23.0% | **45.1%** |
| **Gross margin[2] 2017** | 77.3% | 23.1% | **45.1%** |

- **Continued like-for-like revenue and gross profit growth across all aftersales streams**
- **Service margins slightly reduced due to higher technicians' pay levels and increased warranty sales (less efficient channel)**
- **Success in recruiting technicians means available resource levels notably higher**

## Service revenue mix – Core Group

| | FY2017 £'m | FY2018 £'m | Increase |
|---|---|---|---|
| **Retail** | 44.8 | 46.2 | 3.1% |
| **Internal** | 21.1 | 22.0 | 4.3% |
| **Warranty** | 11.6 | 12.6 | 8.6% |
| **Other** | 20.7 | 22.0 | 6.3% |
| **Total** | **98.2** | **102.8** | **4.7%** |

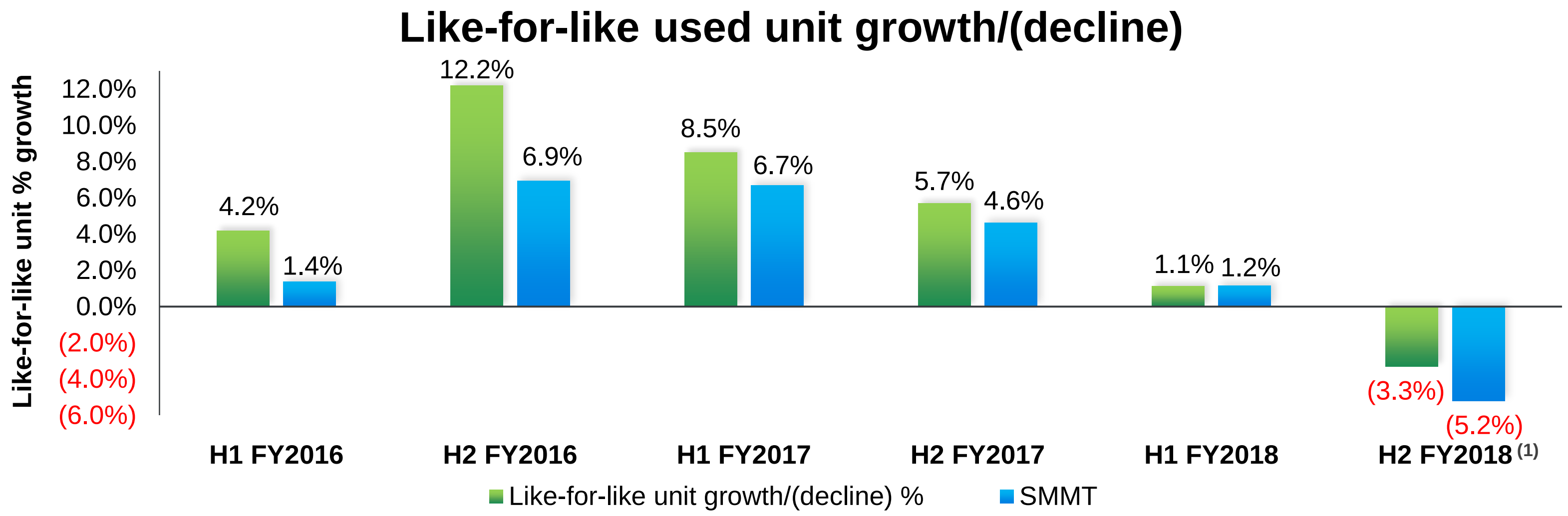
## Core Group aftersales gross profit movement




*(1) Includes internal and external revenue*
*(2) Margin in aftersales expressed on internal and external revenue*

# Revenue and margin analysis Used vehicles

| | H1 FY2015 | H2 FY2015 | H1 FY2016 | H2 FY2016 | H1 FY2017 | H2 FY2017 | H1 FY2018 | H2 FY2018 |
|---|---|---|---|---|---|---|---|---|
| Selling price per unit (£) | 11,404 | 11,579 | 11,943 | 11,772 | 12,524 | 12,905 | 13,146 | 13,658 |
| **Gross profit per unit (£)** | **1,187** | **1,194** | **1,176** | **1,153** | **1,246** | **1,222** | **1,197** | **1,278** |
| Margin (Group) | 10.4% | 10.3% | 9.8% | 9.8% | 9.9% | 9.5% | 9.1% | 9.4% |
| Margin (Core Group) | 10.6% | 10.6% | 10.3% | 10.4% | 10.2% | 9.8% | 9.5% | 9.6% |
| Like-for-like unit growth/(decline) | 11.6% | 6.8% | 4.2% | 12.2% | 8.5% | 5.7% | 1.1% | (2.2%) |




- **Continued growth in average selling prices following new car trend and reflecting premium mix**
- **Like-for-like sales revenues up 3.0%**
- **2.2% fall in like-for-like volumes in H2 reflecting wider market decline**
- **Recovery in Gross profit per unit and margin in H2**
- **New car supply constraints in volume sector reducing 'nearly new' volumes: remain high in premium sector**
- **Strong customer recommendation rates of 97%[2] : lead indicator for customer retention**

[1] *4 months Sep – Dec 2017*
[2] *Source – JudgeService*

# Revenue and margin analysis New retail vehicles

| | H1 FY2015 | H2 FY2015 | H1 FY2016 | H2 FY2016 | H1 FY2017 | H2 FY2017 | H1 FY2018 | H2 FY2018 |
|---|---|---|---|---|---|---|---|---|
| Selling price per unit [1] (£) | 13,342 | 13,639 | 14,213 | 14,738 | 15,515 | 15,913 | 16,571 | 16,490 |
| **Gross profit per unit [1] (£)** | **1,050** | **1,147** | **1,116** | **1,202** | **1,211** | **1,359** | **1,370** | **1,382** |
| Margin (Group) [1] | 7.3% | 7.7% | 7.3% | 7.6% | 7.2% | 7.8% | 7.6% | 7.7% |
| Margin (Core Group) [1] | 7.3% | 7.7% | 7.3% | 7.5% | 7.2% | 7.7% | 7.5% | 7.7% |
| Like-for-like unit (Retail) growth /(decline) | 11.8% | 0.9% | 1.2% | 7.3% | (4.2%) | (8.9%) | (14.7%) | (11.7%) |
| UK private registrations [2] growth/(decline) | 11.3% | 5.3% | 3.1% | 4.7% | (0.8%) | (1.3%) | (6.4%) | (9.0%) |

- **Rising sales prices due to premium mix and impact of currency pressures on Manufacturers**
- **Volume down due to supply side issues (especially in volume franchises) and potential confusion for customers around diesel cars**
- **Consistent gross margin percentages generated**

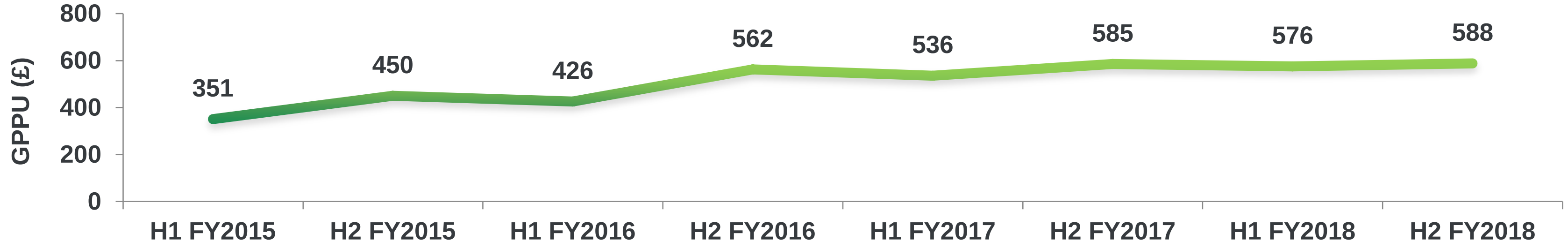
[1] *Includes Motability sales*
[2] *Source SMMT*

# Revenue and margin analysis Fleet & commercial vehicles

| | H1 FY2015 | H2 FY2015 | H1 FY2016 | H2 FY2016 | H1 FY2017 | H2 FY2017 | H1 FY2018 | H2 FY2018 |
|---|---|---|---|---|---|---|---|---|
| Selling price per unit (£) | 16,567 | 15,626 | 16,271 | 16,553 | 17,188 | 17,713 | 18,549 | 19,032 |
| **Gross profit per unit (£)** | **351** | **450** | **426** | **562** | **536** | **585** | **576** | **588** |
| Margin (Group) | 2.1% | 2.9% | 2.6% | 3.4% | 3.2% | 3.4% | 3.2% | 3.2% |
| Like-for-like unit growth/(decline) (Fleet) | 12.4% | 21.0% | (8.5%) | 1.3% | (10.6%) | 3.8% | (4.3%) | (5.4%) |
| UK car fleet registrations[(1)] growth/(decline) | 9.4% | 10.2% | 10.8% | 8.2% | 6.1% | 4.1% | (0.5%) | (11.3%) |
| Like-for-like unit growth/(decline) (Vans) | 28.6% | 6.3% | 24.2% | 20.1% | 11.6% | (7.9%) | (9.6%) | 1.9% |
| UK van commercial registrations[(1)] growth/(decline) | 18.9% | 18.0% | 16.4% | 10.1% | 3.9% | (1.6%) | (3.2%) | (4.0%) |

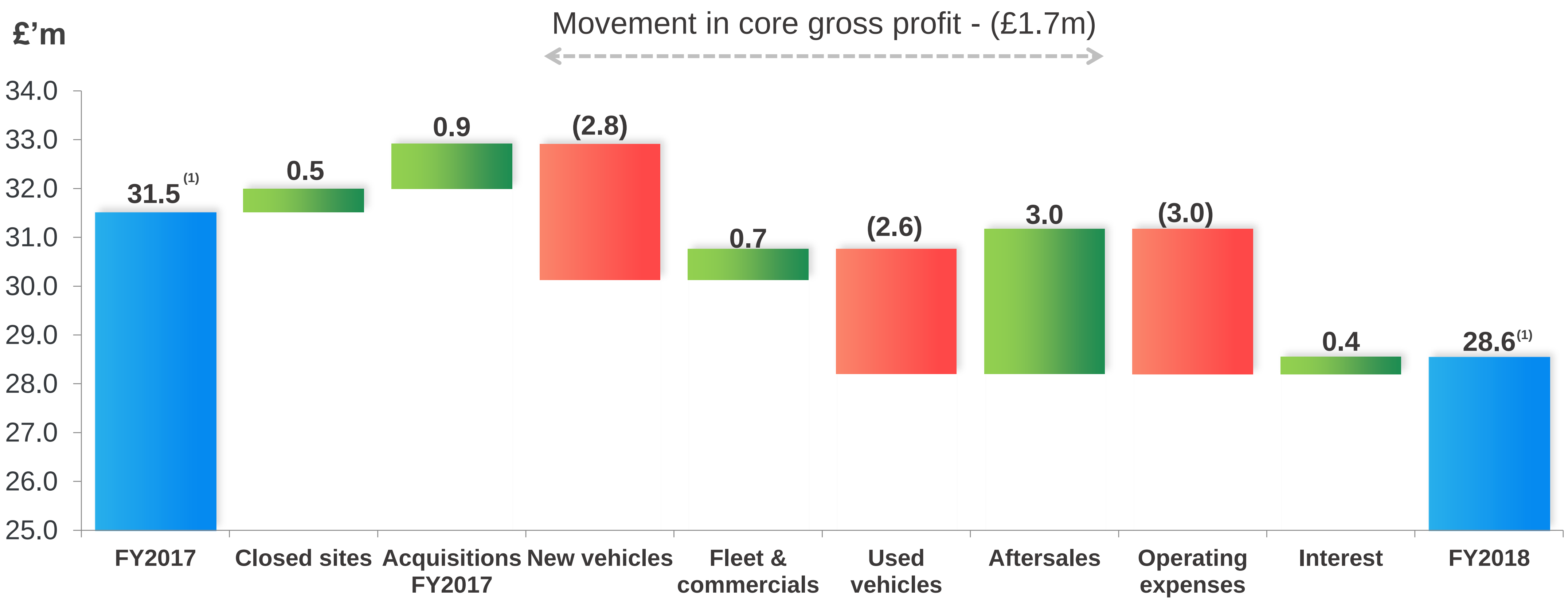
- **Currency related sales price increases evident**
- **Mix shift in portfolio to higher margin premium sales and reduction in volume of lower margin activity e.g. car fleet sales to rental companies**
- **Several volume manufacturers pulling back fleet volumes to increase their operating margins**
- **Considerable market share growth in both car and vans sales in H2**

## Gross profit per unit – Margin stability




[(1)] *Source SMMT*

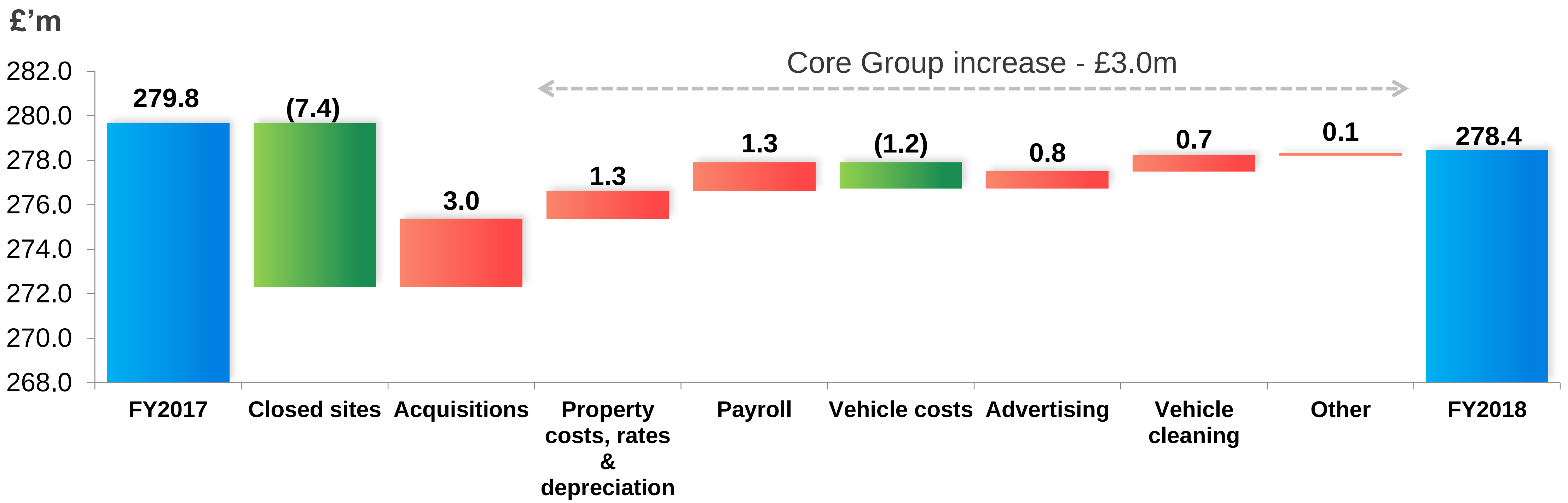
# Profit bridge 12 months ended 28 February 2018




[(1)] *Adjusted profit before tax*

# Operating expenses Self help mitigating headwinds; vital in low margin environment

## Adjusted operating expenses movement – March to February 2018 – Core Group



# Movement in net cash Positive move in second half

| | FY2017 £'m | FY2018 £'m |
|---|---|---|
| **Adjusted EBITDA** | **42.1** | **40.7** |
| Working capital movement | 16.0 | (13.3) |
| Capital expenditure [(1)] | (30.0) | (24.6) |
| Disposals | 1.8 | 15.8 |
| Interest | (2.5) | (1.9) |
| Tax | (5.7) | (6.1) |
| **Free cash flow** | **21.7** | **10.6** |
| Acquisitions | (51.0) | (1.2) |
| Dividends | (5.4) | (5.7) |
| Proceeds from issuance of shares | 33.6 | - |
| (Purchase)/sale of treasury shares | (1.0) | 0.1 |
| Repurchase of own shares | - | (5.5) |
| **Movement in net cash** | **(2.1)** | **(1.7)** |

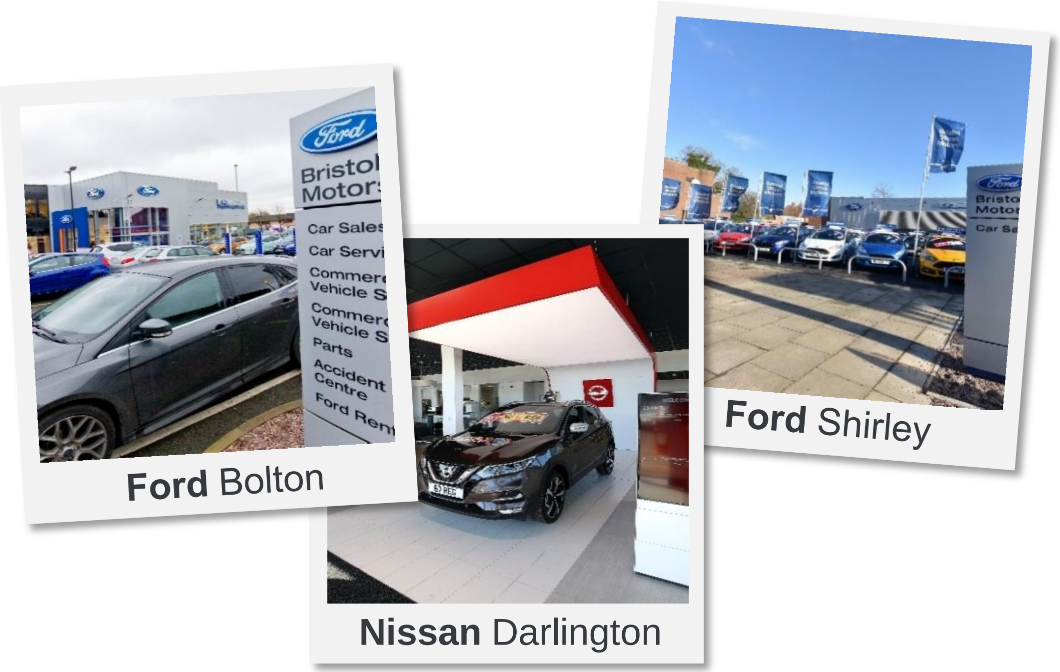
| | H1 FY2018 £'m | H2 FY2018 £'m | Total |
|---|---|---|---|
| **Vehicle deposits** | **(3.1)** | **1.8** | **(1.3)** |
| VAT | (16.8) | 7.0 | **(9.8)** |
| Used vehicle stock | (6.7) | (1.8) | **(8.5)** |
| Warranty & service plan | 2.2 | 1.9 | **4.1** |
| Other | - | 2.2 | **2.2** |
| | **(24.4)** | **11.1** | **(13.3)** |

- **H1 cash outflows increased used vehicle stock and VAT flows**
- **H2 working capital inflows with partial VAT reversal**
- **Management of capital expenditure**

[(1)] *Includes intangible additions*

# Investing to support future cash growth Significant reduction in capex FY2020

| | Actual | | Estimate | |
|---|---|---|---|---|
| | FY2017 £'m | FY2018 £'m | FY2019 £'m | FY2020 £'m |
| Purchase of property | 5.3 | 4.3 | 1.6 | - |
| New dealership build | 10.4 | 4.3 | 4.6 | 2.5 |
| Existing dealership capacity increases | 5.9 | 8.2 | 13.1 | 4.4 |
| Manufacturer led refurbishment projects | 2.4 | 3.0 | 9.9 | 4.6 |
| IT and other ongoing capital expenditure | 4.8 | 4.9 | 4.8 | 4.0 |
| Movement on capital creditor | 0.7 | (0.6) | - | - |
| **Cash outflow from capital expenditure** | **29.5** | **24.1** | **34.0** | **15.5** |
| Proceeds from property sales | (1.0) | (14.3) | (4.6) | - |
| **Net cashflow from capital investment** | **28.5** | **9.8** | **29.4** | **15.5** |



Ford Bolton

Nissan Darlington

Ford Shirley

- **Significant period of investment in dealership capacity and standards including Jaguar Land Rover and Mercedes-Benz**
- **Some deferral of projects from FY2018 into FY2019**
- **Most major projects expected to be completed by February 2019 after which investment levels will decline, improving free cashflow**

# Robust balance sheet provides flexibility to drive growth

| | 28 February 2017 £'m | 28 February 2018 £'m |
|---|---|---|
| Intangible assets | 96.2 | 95.7 |
| Retirement benefit asset | 1.9 | 6.6 |
| Tangible assets | 197.5 | 198.0 |
| Property assets held for sale | - | 2.4 |
| **Non-current assets** | **295.6** | **302.7** |
| Current assets | 559.0 | 624.7 |
| Cash and cash equivalents | 39.8 | 41.7 |
| **Total assets** | **894.4** | **969.1** |
| Current liabilities | (615.8) | (666.7) |
| Non-current liabilities | (13.4) | (15.6) |
| Borrowings | (18.8) | (22.4) |
| **Net assets** | **246.4** | **264.4** |
| Net assets per share (pence) | 62.3 | 68.9 |
| **Tangible net assets per share (pence)** | **39.5** | **45.4** |

Pension fund remains in surplus

£183.8m of freehold and long leasehold property provides strong property backing

| **Utilisation** | **2017 £'m** | **2018 £'m** |
|---|---|---|
| Revolving credit facility | 10.1 | 9.6 |
| Used vehicle funding | 8.7 | 12.8 |
| Borrowings | 18.8 | 22.4 |
| Cash | 39.8 | 41.7 |
| Net Cash | 21.0 | 19.3 |

- **Ungeared balance sheet with net cash after offsetting used vehicle funding which Group treats as debt**
- **5 year £40m committed facility in place with potential to add a further £30m**

# IFRS 16 Accounting for leases – effective for FY2020 year end – pro-forma example

- **Major impact on balance sheet, income statement, and cash flow statement**
- **Higher property, plant and equipment as leased assets are capitalised**
- **Higher borrowings (mostly non-current) as lease liabilities are capitalised**
- **Lower operating costs in early years:**
  - **lease costs removed for capitalised assets**
  - **depreciation increased for capitalised assets**
- **Higher interest costs: lease borrowings attract interest (at cost of capital) with interest front end loaded**
- **EBITDA significantly increased**
- **Medium term profit and EPS improvement**

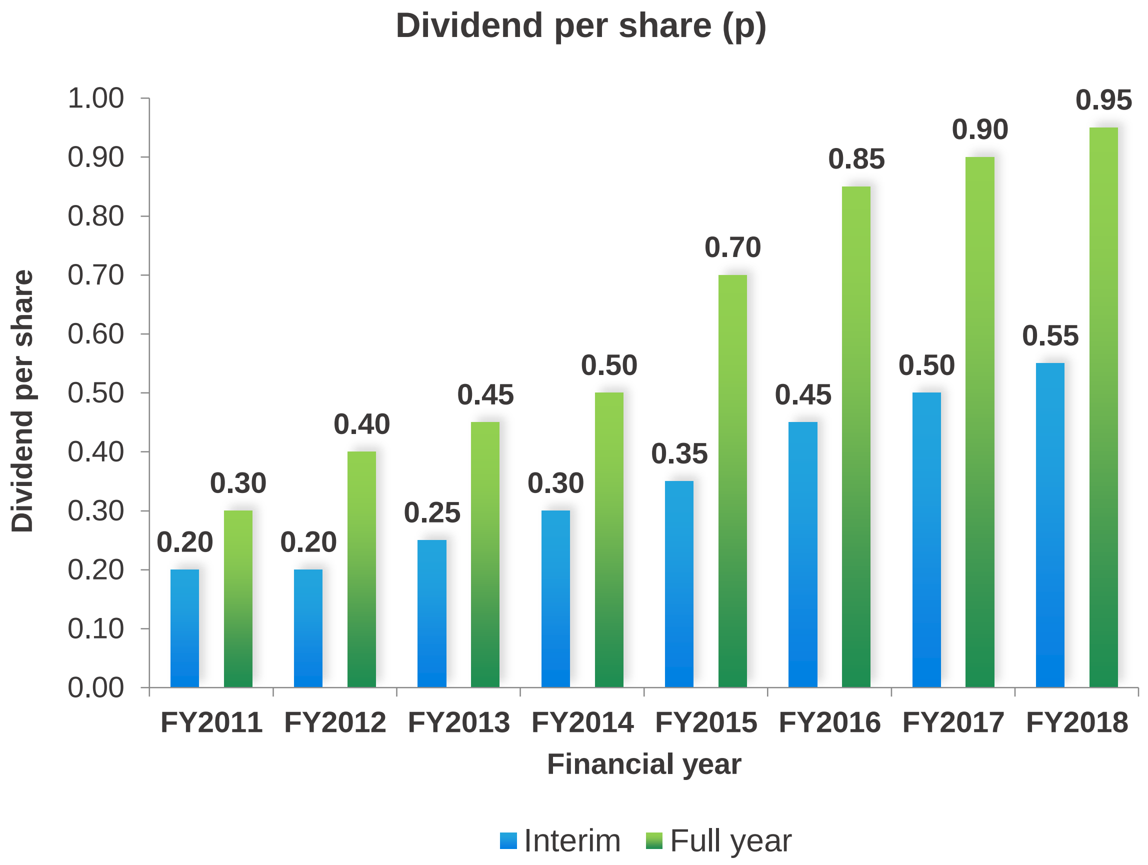
**Indicative unaudited pro-forma example**

| | Current FY2018 £m | Pro-forma* FY2018 £m | Variance £m |
|---|---|---|---|
| Adjusted EBITDA | 40.7 | 56.1 | 15.4 |
| Lease costs | 15.4 | - | 15.4 |
| Depreciation | 9.7 | 16.6 | 6.9 |
| Interest | 1.9 | 6.9 | 5.0 |
| Adjusted profit before tax | 28.6 | 32.1 | 3.5 |
| | | | |
| Tangible assets | 200.4 | 252.0 | 51.6 |
| Debt | 22.4 | 85.1 | 62.7 |
| Reserves adjustment – revaluation of net assets | - | 11.1 | 11.1 |

**Assumptions:** All leases as at 28 February 2018 capitalised @ cost of capital of 8%. Average lease expired period 9.4 years, unexpired period extended to 10.2 years. Original asset value £99.2m. Transition method: assumed to be modified retrospective which assumes that standard applied from the inception of the leases for valuing the right of use asset.

# Shareholder returns 8th consecutive year of dividend growth

- Dividend increased by 7.1% to 1.50p per share (2017: 1.40p)
- Four times dividend cover
- £7.9m of share buy-backs to date performed at average of 43.8p per share: 4.53% of issued share capital repurchased
- AGM authority for future buy-backs to be sought
- Focus on returns and capital allocation: anticipate returning to strong free cashflows



# Current developments

- **Retail formats**
  - digitalisation; innovative retail formats; network restructuring
- **Powertrain developments**
  - petrol/diesel demand switch: growth of electric/hybrid market
- **WLTP**
  - potential for new car supply dislocation in short-term
- **GDPR**
  - management of customer data and contact
- **FCA**
  - motor sector review of financing
  - remuneration, affordability, transparency

# Current trading Solid start to current year

**In March and April 2018:**

- **Trading performance is in line with management expectations, which were lower than prior year levels**
- **Like-for-like new car retail volumes fell by 2.6% – ahead of the UK private market registrations which were down 8.8%**
- **Outperformance gaining market share in new retail cars, Motability, Fleet and Commercial channels**
- **Used car like-for-like volumes up 7.0% with stable margins: return to growth**
- **Service like-for-like revenues up 6.8%**
- **Surplus property disposed of releasing £2.0m of cash**
- **Strengthening of acquisition pipeline: increased prospects**

**March/April 2018**
**Increase/(decrease) year-on-year**

| Revenue: | Like-for-Like % | SMMT Registrations % |
|---|---|---|
| Group revenues | 3.3 | |
| Service revenues | 6.8 | |
| **Volumes:** | | |
| Used retail vehicles | 7.0 | |
| New retail vehicles | (2.6) | (8.8) |
| Motability vehicles | (2.3) | (3.8) |
| Fleet and Commercial vehicles | - | (9.5) |

# Outlook

- Stabilisation of UK private new car market anticipated from April 2018 onwards: April encouraging
- WLTP and petrol vehicle supply issues may cause short-term supply limitations
- Positive outlook for used cars and vehicle servicing
- Cost pressures remain with strong management required
- Board anticipates trading to be in line with current market estimates

# Summary

- Experienced and energetic management team to navigate changing sector environment
- Strong balance sheet to enable acquisition growth with conservative debt levels
- Capital allocation at forefront of Board thinking
- Active portfolio management: potential acquisitions visible, surplus property disposals and pruning
- Continued close management of costs imperative
- Encouraging start to year in March and April gives Board confidence
- Full year results anticipated to be in line with market expectations

# List of appendices

1. Definition of key terminology
2. Objectives and Group strategy
3. Brand Model
4. Business Model
5. Vehicle volumes sold
6. UK New vehicle registrations
7. Cash and borrowing facilities

# Definitions of key terminology

**Core:**
Dealerships that have traded for two full consecutive financial years and comparatives are restated each year, this definition is used for the profit bridge

**Like-for-like:**
Dealerships that have comparable trading periods in two consecutive financial years, only the comparable period is measured as “like-for-like”

**FY2018:**
The twelve month period ended 28 February 2018

**FY2020:**
The twelve month period ending 29 February 2020

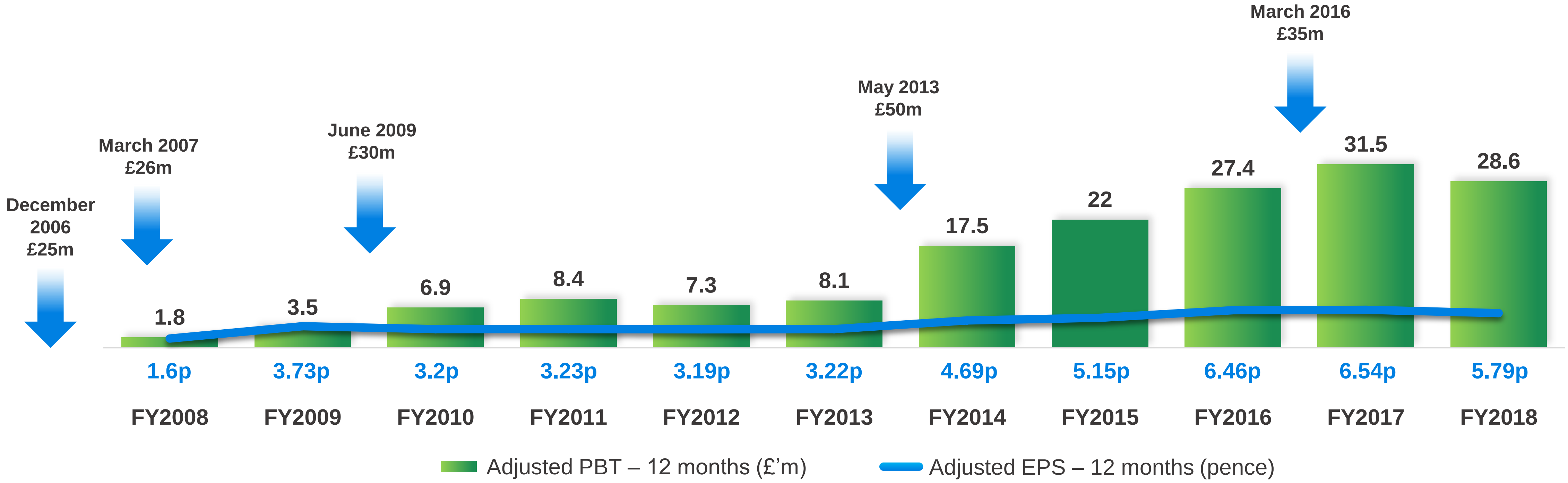
**H2 FY2018:**
The six month period ended 28 February 2018

**H2 FY2017:**
The six month period ended 28 February 2017

**Adjusted:**
Adjusted for exceptional items, amortisation of intangible assets and share based payments

# Objectives and Group strategy

- Deliver long-term value for owners by growing profits and cashflows
- Build a sustainable, scaled, diversified franchised dealership business through acquisition and organic growth
- Apply a consistent business model with a stable, experienced management team
- Establish a robust competitive position with excellent customer experience levels



# Brand model Tried and tested process to drive dealership turnaround

- 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”**

# Business model Tried and tested process to drive dealership turnaround

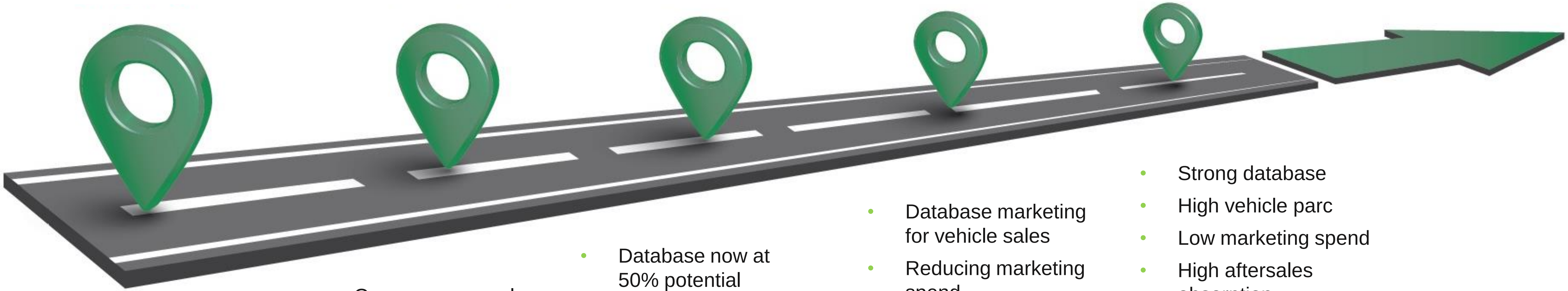
**ACQUIRE / START UP**

**YEAR 1**
Focus on new and used car sales

**YEAR 2**
Aftersales beginning to build

**YEAR 3**
Vehicles replacement cycle aids sales

**YEAR 4**
Maturity



**ACQUIRE / START UP**

- No customer database
- High marketing spend
- Lack of aftersales absorption
- New branding
- Commence service plan sales
- Group enterprise wide systems implemented swiftly

**YEAR 1**

- One year parc only
- Medium marketing spend
- Low aftersales absorption

**YEAR 2**

- Database now at 50% potential
- Medium marketing spend
- Medium aftersales absorption
- Repeat sales business commences

**YEAR 3**

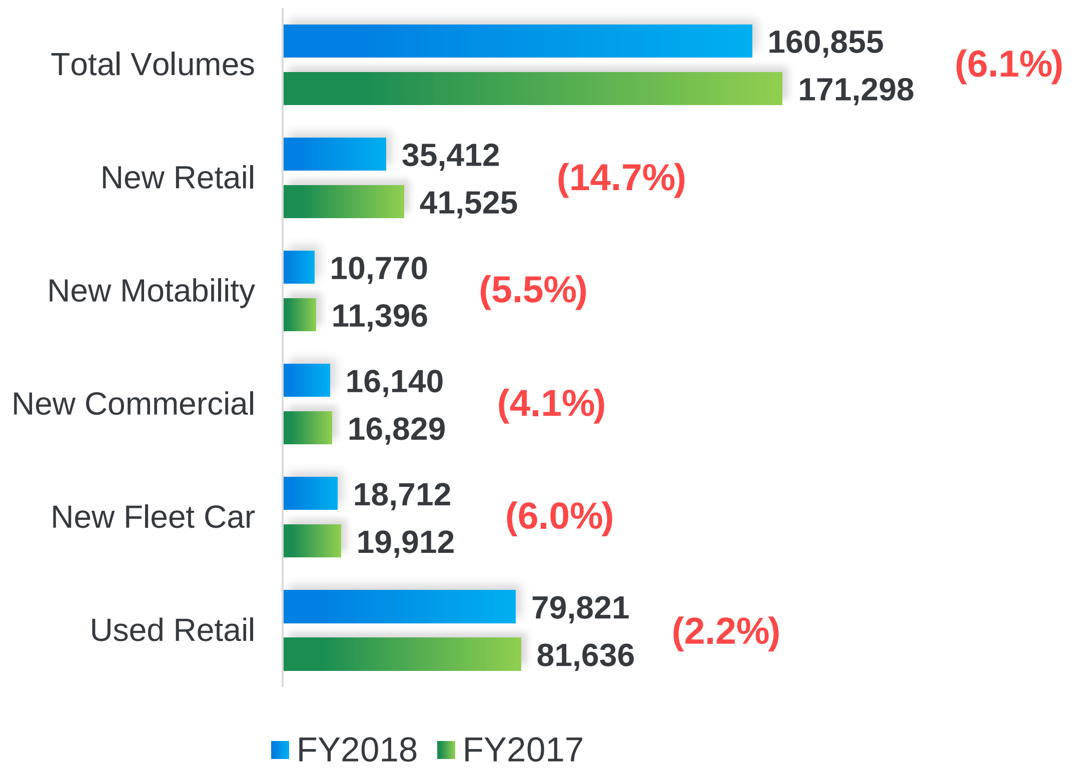
- Database marketing for vehicle sales
- Reducing marketing spend
- Service plan customers maturing with high retention into high margin service
- Acceptable aftersales absorption

**YEAR 4**

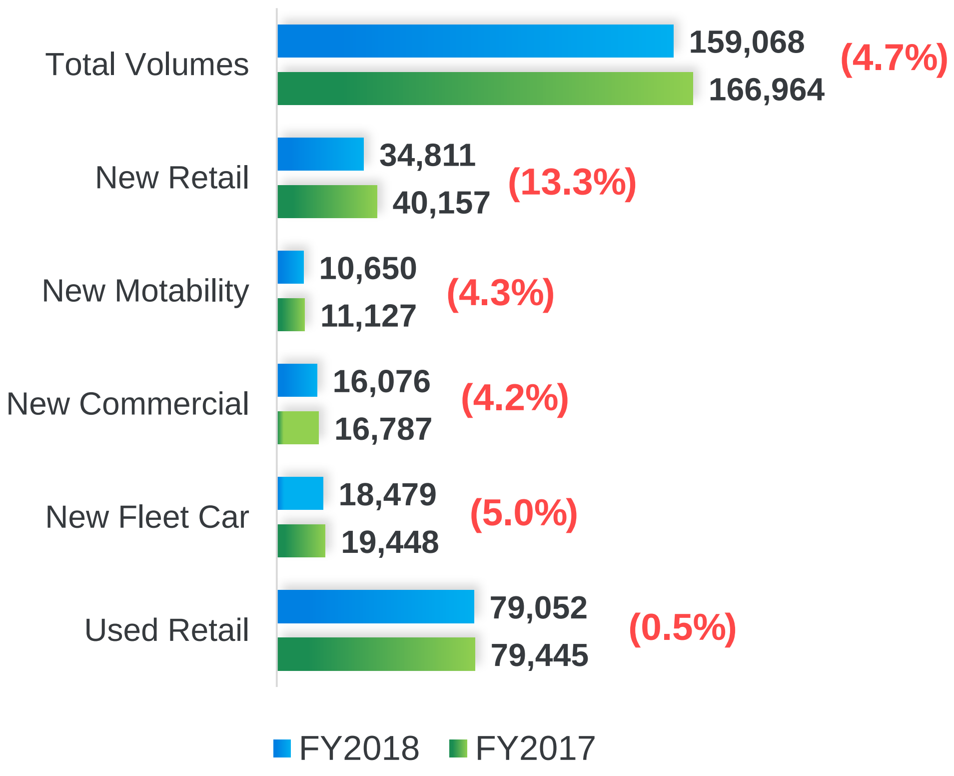
- Strong database
- High vehicle parc
- Low marketing spend
- High aftersales absorption

# Vehicle volumes sold

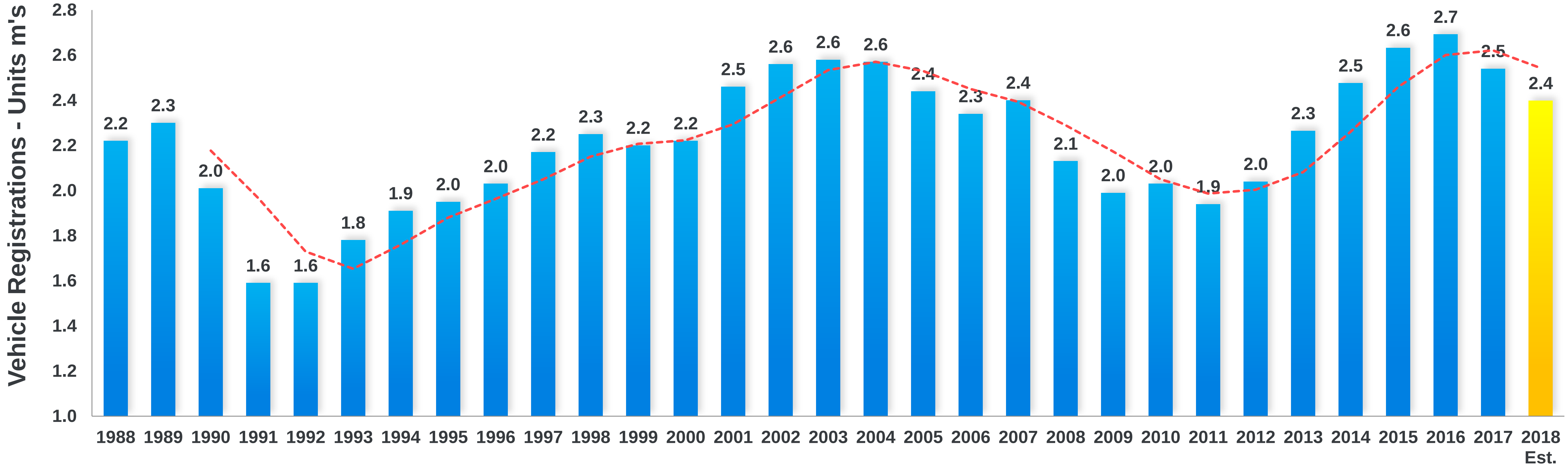
### Total units sold




### Like-for-like units sold



# UK new vehicle registrations



# Cash and borrowing facilities

| | Facilities at 28 Feb 18 £'m | Drawn at 28 Feb 18 £'m |
|---|---|---|
| 5 year acquisition facility (from February 2018) | 40.0 | (9.6) |
| 1 year working capital facility (from February 2018) | 68.0 | - |
| **Total committed facilities** | **108.0** | **(9.6)** |
| Used vehicle funding facility | 30.0 | (12.8) |
| Overdraft | 5.0 | - |
| **Total facilities** | **143.0** | **(22.4)** |
| | | |
| **Cash** | | **41.7** |
| **Net cash** | | **19.3** |

- **Facilities extended February 2018**
- **"Accordion" facility of a further £30m currently uncommitted**

# Disclaimer

This presentation contains forward looking statements. Although the Group believes that the estimates and assumptions on which such statements are based are reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond the Group's control.
The Group does not make any representation or warranty that the results anticipated by such forward looking statements will be achieved and this presentation should not be relied upon as a guide to future performance.