Vertu Motors plc

INTERIM RESULTS

For the six months ended 31 August 2018

OVERVIEW

During the Period, the Group has continued to deliver profits in line with the Board's expectations. Adjusted profit before tax declined from £20.9m to £18.1m, representing a 13.4% decline, which the Board anticipated and believes is credible given the market headwinds. Adjusted earnings per share fell by a lower rate of 8.0% as the Company's share buyback programme reduced the number of shares in issue. Profit before taxation declined from £24.2m in 2017 to £17.3m in the Period predominantly reflecting the prior year impact of a £4.1m profit on disposal of a freehold property which was treated as an exceptional item.

Across the automotive retail sector profitability is increasingly under pressure. Reduced profits arose in new vehicle sales channels, reflect reduced supply and margins, as Manufacturers react to the impact of currency weakness on their own financial results and navigate new EU-wide emissions regulations ("WLTP"). UK private and fleet new vehicle registrations fell by 2.4% and 5.2% respectively during the Period. Against this more challenging market backdrop, the Group has seen growth of over 5% in both new retail, commercial van and used car sales volumes in the Period on a like-for-like basis, representing a significant growth in market share in all these channels. Cost pressures have been well documented in the sector and the wider retail sector. These continue to impact overall profitability despite substantial increases in gross profit generated in the Period.

The Group also moved into acquisition mode once more in the Period with the acquisition of five sales outlets from the Hughes Group on 30 June 2018, including two additional Mercedes-Benz outlets. In the Period the Hughes business performed in line with the Board's expectations.

While profits and earnings per share both declined during the Period, the Board remains optimistic about the Group's long-term prospects. The Group's low levels of net debt, and the very strong property backed balance sheet, provide significant capacity to fund further growth and provide resilience. The Group has established strong relationships with both current Manufacturer and other potential partners and believes that these relationships, together with the Group's forward-thinking approach, will put the Group in a good position to increase its share of the UK automotive market. As one of a very limited number of truly national players, increased pressure in the short-term on sector profitability will increase both rationalisation of the dealerships operated in the UK and the number of potentially good value opportunities for acquisition. The impact of new technologies in the digital space, and changing consumer demands, are also likely to stimulate franchise network changes in the next few years. The development of enhanced digitalisation and increased adoption of on-line sales channels are anticipated and the Board believes the Group is well positioned to take advantage of these trends. The Group, for example, launched full online retailing of used cars in May 2017 and remains the only UK player with this digital and operational capability to date.

The Group's strategy is built on recruiting, developing and retaining empowered management and colleagues, who are able to deliver outstanding customer experiences, in line with local market needs. There is a strong emphasis on the Vision of the Group and upon the Values with which we operate. This is reflected in high levels of awareness by colleagues of the Group's Vision and Values. Strong adoption of the Group's Values which include Integrity and Respect, are key to delivering the Vision whether through face-to-face or online interaction. Linked to this is a deep commitment to develop the skills of management and colleagues through leadership development programmes and the wide adoption of e-learning to seek to set the Group apart, both as a place to work and in its delivery to customers and to its Manufacturer partners. As the industry enters a period of likely significant change through changing customer needs and digitalisation, creating a flexible, learning culture is vital. The

OVERVIEW (CONTINUED)

Board fundamentally believes that it is the combination of the Vision, delivered by talented, highly motivated people combined with strong systems, processes and digital expertise and functionality that leads to business success, now and in the future.

To give an insight into the Group's culture, the following represent highlights from the survey of the Group's 5,500 colleagues, conducted in July 2018:

- Participation levels rose to 81.1% (2017: 77.1%)
- 81.9% viewed the Group as a great place to work (2017: 80.8%)
- 97.5% (2017: 98.0%) knew the Vertu Values (Passion, Integrity, Professionalism, Opportunity, Respect, Commitment and Recognition)
- 97.7% (2017: 98.4%) know the Group Vision and understood its objectives
- 58.2% believe the Group's e-learning initiatives had made them more effective in their roles

The Board believes such scores underline the strong culture within the business and the high engagement levels that exist.

Financial Highlights

- Revenues of £1.56bn (2017 H1: £1.45bn) representing growth of 7.9% (8.0% on like-for-like basis)
- Group gross margin of 10.7% (2017 H1: 11.0%)
- Adjusted[1] operating profit of £19.4m (2017 H1: £21.4m)
- Adjusted[1] profit before tax of £18.1m (2017 H1: £20.9m)
- Profit before tax of £17.3m (2017 H1: £24.2m) with no exceptional items (2017 H1: exceptional profit of £4.1m on disposal of freehold property)
- Adjusted[1] earnings per share of 3.90p (2017 H1: 4.24p)
- Period end net debt of £8.7m (2017 H1: net cash £20.8m)
  - Hughes Acquisition completed for consideration of £21.8m in the Period
- Freehold and long leasehold property portfolio: £202.9m (2017 H1: £175.0m)
- Tangible net assets per share 45.9p (2017 H1: 44.5p)
- Focus on returns to shareholders and capital allocation:
  - Free cashflow of £10.9m (2017 H1: £4.6m)
  - 5.6m shares repurchased at an average of 43.6 pence per share deploying £2.5m of cash
  - Interim dividend held at 0.55p per share (2017 H1: 0.55p)

Operational Highlights

- Like-for-like service revenues up 7.4% continuing the long term growth trend in aftersales
- Rise in like-for-like aftersales gross profits of £3.4m year on year
- Strong growth in like-for-like used vehicle volumes of 5.8%, representing 12.4% revenue growth
- Increase in like-for-like used car gross profits due to volume growth and higher gross profit per unit; lower margins of 8.8% (2017 H1: 9.2%) due to higher average prices
- Group like-for-like new car retail volumes up 5.7%, gaining market share as UK private registrations declined by 2.4%
- Average new car sales prices continue to rise; gross profit per unit stable; new car margins of 7.4% (2017 H1: 7.6%)

[1] Adjusted for exceptional items, amortisation of intangible assets and share based payments charge

OVERVIEW (CONTINUED)

Operational Highlights (continued)

- Operating expenses as a % of revenue lower at 9.4% (2017 H1: 9.5%) reflecting strong cost control despite on-going cost pressures
- Surplus property realisations of £3.3m during the Period with more anticipated
- New Board and management appointments

Six months ended 31 August 2018

	Increase (decrease) period-on-period		
	Total	**Like-for-Like**	**SMMT UK Registrations**
Group Revenues	+7.9%	+8.0%	-
Service Revenues*	+8.7%	+7.4%	-
Volumes:			
Used retail vehicles	+5.3%	+5.8%	-
New retail vehicles	+4.4%	+5.7%	(2.4%)
New Motability vehicles	(7.4%)	(6.3%)	(2.5%)
New fleet cars	(11.8%)	(12.4%)	(5.2%)
New commercial vehicles	+9.9%	+8.1%	(2.7%)

** includes internal and external revenue*

OPERATING REVIEW

Market dynamics

New vehicles

The new car market in the UK has been impacted by two distinct factors in the Period. The first impact is that Sterling continued to trade at historically weak levels against other major currencies following the Brexit referendum in June 2016. These currency levels continued to impact the supply side of the UK new vehicle market. Most of the vehicles sold in the UK are manufactured in factories located in either Euro, Yen or Won currency zones, and the depreciation of Sterling has made it less profitable for Manufacturers to import vehicles into the UK. As a consequence of the need to respond to increasing financial pressures on their European operations, many Manufacturers have again increased UK selling prices, reassessed their UK variable marketing budgets and their appetite to participate in less profitable channels. These trends have been most acute in Volume franchises and have both reduced the supply of new vehicles into the UK market and impacted sales volumes due to price rises for customers. The channels most affected were Volume manufacturer supply through the car fleet channels and pre-registration of cars in Volume franchises by retailers. Both channels have seen declines in the Period.

The Premium new car market continues to be characterised by supply and demand imbalances. Some franchises saw oversupply of new cars into the UK market, inevitably impacting retailer margins. In addition, new lucrative model launches have not had the expected impact in the Period due to limited supply, which is expected to ease in the second half of the financial year. Premium manufacturers have also been disproportionately impacted by the dramatic decline in UK diesel sales and are working hard to increase petrol supply into the UK. In the Period diesel vehicles represented 31.8% of all new vehicle registrations compared to 42.8% in the previous year. The market has been characterised by oversupply of diesel derivatives and long lead times for some petrol model lines. Again these trends have the potential for both volume and margin impact, which in time should resolve as supply is rebalanced to market demand.

OPERATING REVIEW (CONTINUED)

Market dynamics (continued)

New vehicles (continued)

During the Period and into September, the Group also experienced longer new vehicle lead times from many Volume and Premium Manufacturers as they sought to manage the changes required due to the EU-wide introduction of new emissions regulations (Worldwide Harmonised Light Vehicle Testing Procedures ("WLTP")) on 1 September 2018. This caused short term new vehicle supply volatility with an element of pull-forward of September vehicle sales into July and August, as Manufacturers and retailers sought to dispose of non-compliant models. Supply constraints were particularly evident in September and are extending from quarter 3 to quarter 4 of the calendar year as Manufacturers continue to balance supply, production and the availability of testing capacity for the implementation of the new testing regime. It is worth highlighting that Manufacturers have seen varying levels of disruption due to WLTP, with some Manufacturers unaffected. On the demand side, consumer confidence has remained robust during the Period. As is so often the case in the UK new car market, the supply side is by far and away the key to explaining variations and trends.

Against this background, UK private new vehicle registrations fell by 2.4% during the Period, with the market stabilising in July and growing significantly in August (albeit this is historically a low volume month preceding the September plate change). This arose due to the unusual supply characteristics as a result of the introduction of WLTP on 1 September 2018, whereby certain cars had to be registered in advance of that date. Marketing campaigns by Manufacturers and retailers were structured to promote increased sales prior to September.

The new car fleet market has been subject to a number of trends in the Period, many of which are highlighted above in relation to the retail market. Volume Manufacturers, under margin pressure due to the currency and strong competition from Premium Manufacturers in the car fleet segment, have been reducing supply in this low margin channel. Moreover, late in the Period, uncertainty over personal taxation levels for company car drivers arising from the new WLTP emissions regulations, has led to a slowdown in fleet order take and sales volumes, especially in the Premium sector. This has been exacerbated by many models not being available to order in the WLTP transition period. As a consequence, the car fleet market saw UK registrations drop 5.2% in the Period.

Vans are not subject to WLTP changes in 2018 (September 2019 being the key implementation date) and the market has been relatively stable. UK registrations of light commercial vehicles fell 2.7% in the Period.

Used cars

We believe that the UK used car market fell slightly during the Period, partly due to lower levels of pre-registered cars in the Volume franchises. Prices for used vehicles have strengthened following the reduced supply of new vehicles into the UK market. There have been no significant similar trends between diesel and petrol vehicles, in terms of demand, for used vehicles to those seen in the new car market. The used car market has been working efficiently to reduce any oversupply of diesel product. Lower new vehicle supply also generates reduced part exchange supply into the used market, so leading to increased pricing tension.

Market dynamics (continued)

Aftersales

The aftersales market continued to benefit during the Period from a growing vehicle parc, following several years of growth in the new car market. As cars become more technologically advanced it is expected that retention of customers by franchised retailers in the service channel will increase. The mix of service hours worked shifted further in favour of warranty work, with continued high levels of vehicle recalls and product quality issues in a number of franchises. The introduction by Manufacturers of increasingly technologically complex, connected vehicles with innovative engine and vehicle management systems continues to exacerbate this trend. Higher levels of complex warranty work have reduced efficiency levels of technicians, with a consequent impact on available resource levels and margins, in comparison to normal service work, which exhibits higher efficiency levels.

Service operations throughout the industry are witnessing a continued shortage of experienced technicians as other sectors seek to recruit for technical and mechanical skills, and sector aftersales demand rises. Pay levels for technicians increased as a consequence.

The distribution market for franchised parts continues to benefit from higher vehicle parc levels driving service and repair activity, both within franchised operations and in terms of increasing the trade supply of parts to the independent aftermarket. Some manufacturers continue to review their parts distribution models, which could lead to both opportunities for existing operators in operating these new models, and also in potentially losing existing revenue and profit streams.

Revenue and margins

Six months ended 31 August 2018

	Revenue £'m	Revenue mix %	Gross profit £'m	Gross profit mix %	Gross margin %
Aftersales [2]	127.2	8.2	68.2	40.9	44.0
Used vehicles	616.6	39.5	54.0	32.4	8.8
New car retail and Motability	468.7	30.0	34.7	20.8	7.4
New fleet and commercial	347.9	22.3	9.8	5.9	2.8
Overall Group	1,560.4	100.0	166.7	100.0	10.7

Six months ended 31 August 2017

	Revenue £'m	Revenue mix %	Gross profit £'m	Gross profit mix %	Gross margin %
Aftersales [2]	115.5	8.0	64.2	40.4	45.2
Used vehicles	546.9	37.8	49.8	31.3	9.1
New car retail and Motability	450.6	31.2	34.3	21.5	7.6
New fleet and commercial	332.7	23.0	10.8	6.8	3.2
Overall Group	1,445.7	100.0	159.1	100.0	11.0

[2] Margin expressed on internal and external turnover

Aftersales

The Group's high quality, consistently higher margin aftersales operations maintained their growth trajectory, accounting for an increasing proportion of the Group's revenues (8.2% of revenues (2017 H1: 8.0%)) and earned 40.9% of the Group's gross profit in the Period (2017 H1: 40.4%). Like-for-like aftersales gross profit rose £3.4m year on year.

The main driver of the Group's aftersales operations is the servicing and repair of vehicles, where like-for-like revenues grew by a very pleasing 7.4%. The Group has continued to drive its customer retention programme, to maximise the proportion of new and used vehicle customers who return to the Group's dealerships for vehicle servicing. Key tools in these programmes include improving the transparency of vehicle servicing by using videos to show customers additional work required on their vehicle, and the sale of three year service plans. The Group has consistently maintained over 100,000 customers who pay monthly for their service and MOT on the Group's own plans. In addition, a significant and increasing number of Manufacturer service plans are in place with the Group's customers which further aid retention. Service revenues were also aided by more internal work, generated from the preparation of the increased number of vehicles sold by the Group (used cars in particular) and increased levels of warranty work undertaken on behalf of Manufacturers. Warranty revenues grew by 12% on a like-for-like basis in the Period, accounting for a higher proportion of total service revenues.

Like-for-like service margins fell to 76.0% (2017 H1: 77.4%) due to the impact of higher pay levels for technicians, and the increase in the mix of less efficient diagnostic and warranty work referred to above. During the Period, the Group has continued to invest in the recruitment and training of technician apprentices, as part of its strategy to ensure future aftersales growth is less constrained by technician resource levels.

Vehicle sales

The table below shows the volumes of vehicles sold on a Total and like-for-like basis:

	2018 Core	2018 Acquired[3]	2018 Total	2017 Total[4]	2017 Core	Total % Variance	Like-for-like % Variance
Used retail vehicles	**43,249**	**574**	**43,823**	**41,599**	**40,864**	**5.3%**	**5.8%**
New retail cars	19,756	152	19,908	19,069	18,684	4.4%	5.7%
Motability cars	5,228	93	5,321	5,747	5,577	(7.4%)	(6.3%)
Fleet and commercial vehicles	17,117	264	17,381	17,690	17,619	(1.7%)	(2.8%)
Total New vehicles	**42,101**	**509**	**42,610**	**42,506**	**41,880**	**0.2%**	**0.5%**
Total vehicles	**85,350**	**1,083**	**86,433**	**84,105**	**82,744**	**2.8%**	**3.1%**

[3] Relates to businesses acquired or developed subsequent to 1 March 2017 with businesses migrating into core once they have been in the Group for over 12 months

[4] 2017 volumes include businesses acquired in the year ended 28 February 2017

Vehicle sales (continued)

Used retail vehicles

Like-for-like used vehicle volumes grew by 5.8% in the period, as the Group returned to growth in used cars. Like-for-like gross profit per unit increased to £1,234 (2017 H1: £1,209), a rise of 2.1%. Like-for-like gross margin percentages for the Period fell to 8.8% (2017 H1: 9.2%) due to the continued, higher average selling prices which rose 6.2% on a like-for-like basis. It is pleasing to see such strong used vehicle volume growth, given the structural decline in pre-registration activity and more subdued market data. Total used car gross profit increased by £4.2m with core used vehicle gross profit up by £4.0m year on year.

The Group has been particularly successful in improving used car growth in franchises such as Volkswagen. This franchise alone witnessed like-for-like growth in volume of 40.8% in the Period across the Group's six outlets.

Used cars represented 39.5% of the Group's revenues and 32.4% of the Group's gross profits. The Group is very active in marketing the Group's websites including bristolstreet.co.uk directly on-line and using TV, Radio and Press campaigns. Group website visits, measured on a rolling 12 month basis, rose 15% to 13.5m year on year (2017: 11.8m) and used vehicle sales generated from internet- derived enquiries generated an increasing proportion of the Group's sales, reflecting the importance of omni-channel approaches in delivering the right customer journey. The Group has also made good use of third party aggregator websites to drive additional enquiries and sales as well as using appropriate pricing and stock profiling strategies.

The Group launched in May 2017, a unique used vehicle on-line sales proposition which enables customers to select a used vehicle, value and sell their current vehicle as a part exchange, arrange finance for their purchase and to have the new vehicle delivered to their home, all fully on-line. This platform we believe is unique in the UK and has helped to generate incremental customers to the business. Volumes through this platform are increasing each month with over 250 used vehicle sales arising during the Period. This platform helped to fuel the used car volume growth and is now being extended from bristolstreet.co.uk to other Group websites.

New retail cars and Motability

During the Period, the UK new car retail market saw continued supply side pressures which resulted in a declining new retail market, exacerbated by the very strong March plate change month in the comparative period last year. Over the six month period, the UK new retail market declined by 2.4%. The falls in volumes were slightly weighted towards Premium franchises where the Group has less exposure. In contrast to the market decline, like-for-like new car retail volumes in the Group grew by 5.7% and together with rising average selling prices, like-for-like new retail car revenues increased by 7.1%. Like-for-like gross profit per unit fell slightly to £1,365 (2017 H1: £1,377), which, when combined with increased average selling prices, reduced gross margin to 7.4% (2017 H1: 7.6%). As a consequence of the continued weakness of Sterling, there has been some reduction in the opportunity to benefit from significant overachievement of targets as supply into the UK and Manufacturer budgets were more constrained. Reduced levels of pre-registration vehicles and slight margin weakness reflect these trends. In addition, margins declined due to lower supply of high margin, new launch models than anticipated in certain franchises and this is expected to reverse in the second half of the financial year as supply comes through.

Vehicle sales (continued)

New retail cars and Motability (continued)

The Motability new car market has been undergoing adjustment following, the impact of Government welfare reforms, coupled with the pressure on Manufacturers in this low margin channel due to currency weakness. This has impacted the Group disproportionately as several of the Volume manufacturers represented have significantly reduced their participation in the Motability scheme. Motability registrations in the UK fell 2.5% with the Group seeing a 6.3% like-for-like fall in vehicles volumes sold in this channel. Motability continues to represent a major strength with the Group's Bristol Street Motors Newcastle Vauxhall business being the current holder of the Motability Dealer of the Year award.

Overall, like-for-like gross profit from new retail car and Motability sales increased by £0.6m reflecting the higher volumes of vehicles sold despite a contracting market.

Fleet & commercial

The new car fleet market experienced pressure during the Period arising from some Volume Manufacturers reducing their exposure to this low margin channel and the impact of the introduction of the new WLTP emissions regulations. As a consequence, the SMMT recorded a decline of 5.2% in car fleet registrations during the Period. Due to the Group's high mix of car fleet business for Volume manufacturers, the Group's like-for-like car fleet volumes declined by 12.4% during the Period.

Van registrations in the UK fell by 2.7% during the Period. The Group recorded like-for-like growth in van volumes of 8.1%, gaining significant market share. This was an excellent performance in a core area of expertise and capability for the Group.

Like-for-like sales prices in the Group's fleet and commercial activities increased by 7.3% (reflecting the increased van mix) and like-for-like gross profit per unit fell to £561 (2017 H1: £575). This margin pressure reflected slightly increased discounting in the van market and reduced levels of Manufacturer incentives. The Group's like-for-like gross profit generated by the fleet and commercial activities fell by £0.9m during the period due to lower car fleet volumes.

Operating expenses

The Board is pleased to report a decline in operating expenses as a percentage of revenues to 9.4% (FY2017 H1: 9.5%). While the Group continues to invest in those resources which grow revenues such as training or marketing campaigns, the management continues to bear down upon back office, administrative and avoidable costs in all areas. This process is both tactical, ensuring that each cost saving opportunity is grasped at each dealership, and strategic, with productivity and efficiency initiatives being driven by a committee chaired by the CEO. The Group is actively developing the use of automation and integration with third party systems, such as those of Manufacturers, in order to reduce manual processing activities where feasible and to make customer interactions as seamless as possible. These programmes are crucial, as productivity improvements and economies of scale benefits are essential elements of successful businesses operating in low margin sectors.

Operating expenses (continued)

During the Period, like-for-like operating expenses increased by £9.2m. Of this amount £4.0m relates to variable costs linked to generating the like-for-like growth achieved in the Group's aftersales, used and new vehicles sales activities. Of the remaining increase in like-for-like operating expenses, £2.4m related to increases in employment costs (including a £0.7m impact of Government-led increases in the National Living Wage and pensions auto-enrolment costs), £0.9m to increases in property costs (including rents and business rates) and £0.3m to higher non-cash depreciation charges following recent periods of significant capital investment.

Interest costs

Net finance costs in the Period increased to £1.3m (2017 H1: £0.5m). The increase arose due to higher new vehicle consignment stock interest (net of related income) as the car fleet market slowed in the Period.

The Group has locked in the benefit of current low interest rates on a further £7m of bank debt by entering into a five year interest rate swap to fix the LIBOR component of the borrowing cost at 1.424%. The Group now has swaps relating to £17m of debt in place.

Pension Costs

The accounting surplus on the Group's closed defined benefit pension scheme rose to £6.9m during the Period (2017 H1: £5.7m) due to increases in the value of the hedged investments, together with routine amendments to the actuarial assumptions underlying the valuation of the scheme liabilities. As a consequence of the healthy funding position of the scheme, the Group ceased making cash contributions to the scheme during the Period, in line with the agreed recovery plan (2017 H1: £0.2m).

Tax payments

As the UK corporation tax rate declines to 17% by 2020, the Group's effective tax rate should also decrease. The underlying rate of corporation tax for the Period was 19.0% and the Group's effective rate of tax was stable at 19.0% (2017 H1: 19.0%), continuing to track the headline rate. The Group is 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.

Consistent with this approach, the Group has adopted a prudent approach to the VAT treatment of dealer deposit contributions, an area which was subject to interpretation. In July 2018 HMRC issued a policy paper which provided clarification as to the correct treatment of this area, and as a consequence the Group is working on a retrospective claim to correct the historic position. This may result in a significant cash receipt which would be treated as exceptional income when received.

Managing working capital

During the Period, the Group saw reduced levels of inventory of both new and self-registered vehicles as new car supply declined, while the value of used vehicle inventory was increased as volumes grew and prices strengthened. As car fleet volumes declined, the Group also reduced trade receivables, and the net impact of these items resulted in a small overall reduction in working capital, generating cash of £0.6m in the Period.

Investing to support future cash generation

On 30 June 2018 the Group acquired Hughes Group Holdings Limited ("Hughes") for consideration of £21.8m, of which £1.5m is deferred for 12 months. The estimated assets acquired include goodwill of £9.8m and freehold property of £6.2m. This acquisition added the Mercedes-Benz dealerships in Beaconsfield and Aylesbury to the Group's existing outlets in Reading, Ascot and Slough, as well as introducing the Mercedes-Benz Commercial Van franchise to the Group's portfolio for the first time. In addition, the acquisition has added outlets for Peugeot, Skoda and Jeep to the Group. This is a well-run business, and the Group has retained the operational management team which is currently working closely with the Vertu team to integrate the business into the Group. The integration has begun positively and this acquisition is expected to be earnings enhancing in its first full year of ownership.

The Group has also continued to actively manage its property and dealership portfolio during the Period:

- On 1 March 2018 the Group purchased a freehold property in Darlington for £1.5m. Following refurbishment, Darlington SEAT relocated to this new larger and better positioned site. This has allowed for increased used car sales and aftersales capacity. The former freehold dealership is now being marketed.
- On 19 March 2018 the Group disposed of surplus land at Newcastle-under-Lyme realising £2.0m of cash and generating a profit of £0.6m.
- On 31 March 2018 the Group closed its Cheltenham Mazda business which was loss-making, leaving a vacant freehold property which has been marketed and for which an offer has been accepted subject to planning permission.
- On 30 April 2018 the Group ceased its Volvo operation in Sheffield allowing sole focus on the Nissan franchise at this dealership location.
- On 6 July 2018 the Group acquired the freehold of its Newcastle Vauxhall dealership, which the Group had previously operated under a lease, whose terms provided for significant future rental increases over its remaining 14 year term. The consideration for the purchase was £7.5m including costs and this transaction provides the Group with improved future flexibility for this property and removes the impact of further rent increases.
- On 13 August 2018 the Group disposed of freehold property of its former Peugeot dealership in Chesterfield for £1.3m.
- Additional property disposals of surplus assets have been agreed subject to planning or other conditions. Provisions were made in the Period of £0.4m in relation to extra depreciation of property earmarked for disposal.

The Group's result for the Period benefitted by £0.4m year-on-year from the removal of loss-making operations closed or disposed of in the previous or current financial year. The Board continues to review the portfolio to ensure that each individual Group operation, and its balanced portfolio of Manufacturer representation, drives future cashflow generation and shareholder value.

Investing to support future cash generation (continued)

In common with most sector participants, the Group is nearing the end of a major programme of capital investment to both increase the capacity in existing dealerships and to meet revised Manufacturer franchise standards. In particular, significant sums are being invested in increasing capacity and enhancing the retail environment of the Group's Jaguar Land Rover dealerships with the implementation of the "Arch" concept. During the Period, the Group opened the newly constructed Bolton Jaguar Land Rover dealership (£10m investment) on time and on budget. This utilised surplus land adjacent to the Group's Ford operation in the town. A further two dealership redevelopments implementing the Land Rover "Arch" concept are currently in progress at Chesterfield and Guiseley. Developments are planned to improve certain of the Group's dealerships representing the Mercedes-Benz franchise with Slough and Reading Mercedes-Benz currently undergoing redevelopment to significantly increase capacity.

The Group's in-house property team manages all major investments, bringing the significant design, build and project management skills required to deliver these complex projects. The Board critically evaluates all proposed capital expenditure to ensure it makes sense from a shareholder return perspective, and following such reviews, has chosen not to undertake a number of projects or has deferred spend into future periods due to specific project circumstances.

The cash impact of capital expenditure and disposals during the Period, along with the anticipated spend in future periods, is set out below:

	Actual			Estimate	
	FY 2017 £'m	**FY 2018 £'m**	**H1 FY 2019 £'m**	**FY 2019 £'m**	**FY 2020 £'m**
Purchase of property	5.3	4.3	9.0	9.0	-
New dealership build	10.4	4.3	4.5	4.8	2.6
Existing dealership capacity increases	5.9	8.2	4.8	15.2	5.6
Manufacturer led refurbishment projects	2.4	3.0	0.6	1.4	7.2
IT and other ongoing capital expenditure	4.8	4.9	1.9	4.2	3.5
Movement on capital creditor	0.7	(0.6)	1.7	-	-
	29.5	**24.1**	**22.5**	**34.6**	**18.9**
Proceeds from property sales	(1.0)	(14.3)	(3.3)	(3.9)	-
Net capital investment	**28.5**	**9.8**	**19.2**	**30.7**	**18.9**

Current year estimated capital expenditure before disposal proceeds is expected to increase from £34.0m, as indicated at the time of the May results announcement, to £34.6m currently due to the £7.5m purchase of the leasehold property in Newcastle less the deferral of £6.9m of expenditure into FY2020.

The significant decline in capital expenditure anticipated in the year commencing 1st March 2019 will drive enhanced free cash flow from the business in future periods. In addition, further realisations of surplus property are expected over the next 12 months.

Financing and capital structure

The Group has a balance sheet with shareholders' funds of £273.2m (2017 H1: £264.6m) underpinned by a freehold and long leasehold portfolio of £202.9m (2017 H1: £175.0m) and with low levels of net debt. As at 31 August 2018, freehold locations represented 54% of dealerships (2017 H1: 53%).

The Group has a committed five year acquisition debt facility of £62m with the potential to add a further £15m which is currently uncommitted. £37m of the committed five year acquisition facility was drawn at 31 August 2018.

The Group's net debt position of £8.7m is stated including £19.2m of used car stocking loans. These loans with third party banks are subject to interest and are secured on the related used vehicle inventories. These facilities can be requested to be repaid on short notice periods. As a consequence, the Group only uses these facilities selectively. The Group had £104.8m of used vehicle inventory at 31 August 2018 (2017 H1: £86.9m).

The Group's conservative financing and capital structure results in a strong tangible net assets position with tangible net assets per share of 45.9p (2017 H1: 44.5p).

Shareholder returns

During the Period, the Group continued its programme of share buy-backs under which 5.6m shares have been purchased at an average price of 43.6p, deploying £2.5m of cash. This price level was below tangible net assets per share. At the Annual General Meeting in July, the Group renewed its approval to repurchase its own shares up to 10% of the Company's issued share capital.

An interim dividend of 0.55 pence per share (2017 H1: 0.55p) will be paid on 18 January 2019. The ex-dividend date will be 6 December 2018 and the associated record date will be 7 December 2018.

Board and management changes

During the Period two new appointments have been made to the Board. Firstly, on 25 July 2018 David Crane, the Group's Chief Operations Officer, was appointed as an Executive Director. David has been with the Group since it was founded in 2006 and has been instrumental in its development. Secondly on 31 August 2018 Andrew Goss, who was until recently the Global Sales Operations Director for Jaguar Land Rover, also joined the Board as a Non-executive Director.

These two appointments provide the Board with further automotive sector insight.

In addition, a new appointment has also been made to the Group's main operational board (CEOCOM). In July 2018 Tim Tozer left the Group to take up the position of CEO of Allianz Partners in the UK. Tim held the position of Group Operations Director overseeing the Hyundai, Volvo, Toyota and Peugeot franchises. On 1 October, the Group announced that Leon Caruso will join the Group on 1 November 2018 to take up this position. Leon (41) is currently Vauxhall Retail Sales Director.

Current trading and outlook

Supply side issues in the new car market have continued into September, resulting in a weak month for total UK vehicle registrations, which fell by 20.5%. This has been driven in particular by the EU - wide WLTP emissions regulations, which are likely to cause continued disruption to supply into early 2019 for certain Manufacturers. In addition, weak Sterling has continued to weigh on the profitability of Manufacturers supplying the UK market. This has contributed to a reduction in the supply of new vehicles into the UK and new car margins have also been under pressure. Political uncertainty in the UK may undermine consumer demand for the remainder of the financial year in contrast to the relatively robust consumer environment the Group experienced in the 6 months ended 31 August 2018.

In September, the Group significantly outperformed the new retail market in volume terms, with like-for-like new retail volumes down 13.8%, whilst UK new private registrations fell 20.1% in the month.

Used cars continued to exhibit strong profit growth year on year in September. Used car margins strengthened in September on the back of the reduction in vehicle supply arising from reduced part exchange volumes as the new retail market fell, and also reduced pre-registration volumes. Used car prices are likely to strengthen in the coming months as these market conditions persist. Aftersales continues to exhibit growth trends and represents a significant opportunity to drive increased higher margin revenues.

Cost pressures continue to impact the Group's trading performance and remain a crucial focus for management. Encouragingly, a period of significant capital expenditure is now coming to an end and the Board expects materially lower levels of capex and higher free cash flow from 1 March 2019.

Following the September trading performance, the Board anticipates that the Group's full year results will be in line with expectations[5] as recently revised by the market.

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[5] The Board considers market expectations for the financial year ending February 2019 are best defined by the forecasts of adjusted profit before taxation published by analysts who consistently follow the Group. The current consensus of adjusted profit before taxation at 10 October 2018, based on the published analysts' forecasts of which the Board is aware, is £22.1m.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 31 August 2018

	Note	Six months ended 31 August 2018 £'000	Six months ended 31 August 2017 £'000	Year ended 28 February 2018 £'000
Revenue		1,560,371	1,445,688	2,796,068
Cost of sales		(1,393,648)	(1,286,579)	(2,487,176)
Gross profit		**166,723**	**159,109**	**308,892**
Operating expenses		(148,075)	(138,564)	(280,086)
Exceptional items		-	4,149	3,539
Operating profit		**18,648**	**24,694**	**32,345**
Amortisation of intangible assets		274	313	614
Share based payments charge		478	548	1,031
Exceptional items		-	(4,149)	(3,539)
Operating profit before amortisation, share based payments charge and exceptional items		**19,400**	**21,406**	**30,451**
Finance income	4	134	66	66
Finance costs	4	(1,457)	(528)	(1,964)
Profit before tax		**17,325**	**24,232**	**30,447**
Amortisation of intangible assets		274	313	614
Share based payments charge		478	548	1,031
Exceptional items		-	(4,149)	(3,539)
Profit before tax, amortisation, share based payments charge and exceptional items		**18,077**	**20,944**	**28,553**
Taxation	5	(3,294)	(4,607)	(5,766)
Profit for the period attributable to equity holders		**14,031**	**19,625**	**24,681**
Basic earnings per share (p)	6	**3.71**	**4.97**	**6.31**
Diluted earnings per share (p)	6	**3.65**	**4.90**	**6.21**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 31 August 2018

	Note	Six months ended 31 August 2018 £'000	Six months ended 31 August 2017 £'000	Year ended 28 February 2018 £'000
Profit for the period		**14,031**	**19,625**	**24,681**
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Actuarial gain on retirement benefit obligations	8	236	3,710	4,422
Deferred tax relating to actuarial gain on retirement benefit obligations		(40)	(631)	(752)
Items that may be reclassified subsequently to profit or loss:				
Cash flow hedges		93	-	(93)
Deferred tax relating to cash flow hedges		(18)	-	18
Other comprehensive income for the period, net of tax		**271**	**3,079**	**3,595**
Total comprehensive income for the period attributable to equity holders		**14,302**	**22,704**	**28,276**

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 31 August 2018

	Note	31 August 2018 £'000	31 August 2017 £'000	28 February 2018 £'000
Non-current assets				
Goodwill and other indefinite life assets	11	105,564	94,595	94,381
Other intangible assets		1,086	1,504	1,316
Retirement benefit asset	8	6,887	5,704	6,551
Property, plant and equipment		218,798	190,468	198,004
Derivative financial instruments		63	-	-
		332,398	**292,271**	**300,252**
Current assets				
Inventories		507,662	502,585	558,386
Trade and other receivables		46,698	63,007	66,272
Cash and cash equivalents		46,912	44,158	41,709
		601,272	**609,750**	**666,367**
Property assets held for sale		1,079	-	2,449
Total current assets		**602,351**	**609,750**	668,816
Total assets		**934,749**	**902,021**	**969,068**
Current liabilities				
Trade and other payables		(582,343)	(592,050)	(663,404)
Deferred consideration		(1,500)	(1,540)	-
Current tax liabilities		(5,436)	(5,632)	(3,304)
Borrowings		(19,153)	(13,597)	(12,811)
Total current liabilities		**(608,432)**	**(612,819)**	**(679,519)**
Non-current liabilities				
Borrowings		(36,426)	(9,794)	(9,585)
Derivative financial instruments		(63)	-	(92)
Deferred consideration		(100)	(267)	(100)
Deferred income tax liabilities		(7,069)	(6,267)	(6,477)
Deferred income		(9,507)	(8,254)	(8,877)
		(53,165)	**(24,582)**	**(25,131)**
Total liabilities		**(661,597)**	**(637,401)**	**(704,650)**
Net assets		**273,152**	**264,620**	**264,418**
Capital and reserves attributable to equity holders of the Group				
Ordinary shares		37,929	39,443	38,552
Share premium		124,939	124,932	124,934
Other reserve		10,645	10,645	10,645
Hedging reserve		-	-	(75)
Treasury share reserve		(645)	(756)	(690)
Capital redemption reserve		1,798	284	1,175
Retained earnings		98,486	90,072	89,877
Shareholders' equity		**273,152**	**264,620**	**264,418**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 31 August 2018

	Note	Six months ended 31 August 2018 £'000	Six months ended 31 August 2017 £'000	Year ended 28 February 2018 £'000
Operating profit		18,648	24,694	32,345
Profit on sale of property, plant and equipment		(564)	(4,149)	(3,529)
Amortisation of intangible assets		275	313	614
Depreciation of property, plant and equipment		5,515	4,726	9,714
Impairment charges		-	-	513
Movement in working capital	10	552	(24,393)	(13,332)
Share based payments charge		429	497	954
Cash generated from operations		**24,855**	**1,688**	**27,279**
Tax received		69	344	350
Tax paid		(2,336)	(3,079)	(6,468)
Finance income received		46	42	14
Finance costs paid		(1,605)	(823)	(2,321)
Net cash inflow/(outflow) from operating activities		**21,029**	**(1,828)**	**18,854**
Cash flows from investing activities				
Acquisition of businesses, net of cash, overdrafts and borrowings acquired		(23,739)	-	(1,181)
Acquisition of freehold land and buildings		(8,982)	-	(4,346)
Proceeds from disposal of business (net of cash, overdrafts and borrowings)		-	167	1,528
Purchases of intangible assets		(44)	(301)	(411)
Purchases of property, plant and equipment		(13,516)	(8,031)	(19,802)
Proceeds from sale and leaseback transactions		-	14,150	14,150
Proceeds from disposal of property, plant and equipment		3,285	-	165
Net cash (outflow)/inflow from investing activities		**(42,996)**	**5,985**	**(9,897)**
Cash flows from financing activities				
Proceeds from borrowings	7	33,342	4,926	4,140
Repayment of borrowings	7	-	-	(166)
Sale of treasury shares		49	-	62
Repurchase of own shares		(2,634)	(1,212)	(5,451)
Dividends paid to equity shareholders		(3,587)	(3,558)	(5,678)
Net cash inflow/(outflow) from financing activities		**27,170**	**156**	**(7,093)**
Net increase in cash and cash equivalents	7	**5,203**	**4,313**	**1,864**
Cash and cash equivalents at beginning of period		41,709	39,845	39,845
Cash and cash equivalents at end of period		**46,912**	**44,158**	**41,709**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31 August 2018

	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 2018	**38,552**	**124,934**	**10,645**	**(75)**	**(690)**	**1,175**	**89,877**	**264,418**
Profit for the period	-	-	-	-	-	-	14,031	14,031
Actuarial gain on retirement benefit obligations	-	-	-	-	-	-	236	236
Tax on items taken directly to equity	-	-	-	(18)	-	-	(40)	(58)
Fair value gains	-	-	-	93	-	-	-	93
Total comprehensive income for the period	**-**	**-**	**-**	**75**	**-**	**-**	**14,227**	**14,302**
Repurchase of own shares	-	-	-	-	-	-	(2,460)	(2,460)
Sale of treasury shares	-	5	-	-	45	-	-	50
Cancellation of shares	(623)	-	-	-	-	623	-	-
Dividends paid	-	-	-	-	-	-	(3,587)	(3,587)
Share based payments charge	-	-	-	-	-	-	429	429
As at 31 August 2018	**37,929**	**124,939**	**10,645**	**-**	**(645)**	**1,798**	**98,486**	**273,152**

The purchase of treasury shares in the period was made pursuant to the share buyback programme announced in the previous financial year. Ordinary shares to the value of £2,460,000 were repurchased in the six months to 31 August 2018. 6,232,468 of the repurchased shares were cancelled in the six months ended 31 August 2018 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 for shares as consideration to the former shareholders of acquired companies.

For the six months ended 31 August 2017

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total Equity £'000
As at 1 March 2017	**39,727**	**124,932**	**10,645**	**(756)**	**-**	**71,881**	**246,429**
Profit for the period	-	-	-	-	-	19,625	19,625
Actuarial gain on retirement benefit obligations	-	-	-	-	-	3,710	3,710
Tax on items taken directly to equity	-	-	-	-	-	(631)	(631)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**22,704**	**22,704**
Repurchase of own shares	-	-	-	-	-	(1,452)	(1,452)
Cancellation of shares	(284)	-	-	-	284	-	-
Dividends paid	-	-	-	-	-	(3,558)	(3,558)
Share based payments charge	-	-	-	-	-	497	497
As at 31 August 2017	**39,443**	**124,932**	**10,645**	**(756)**	**284**	**90,072**	**264,620**

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

For the year ended 28 February 2018

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedge reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total Equity £'000
As at 1 March 2017	**39,727**	**124,932**	**10,645**	**-**	**(756)**	**-**	**71,881**	**246,429**
Profit for the period	-	-	-		-	-	24,681	24,681
Actuarial gains on retirement benefit obligations	-	-	-	-	-	-	4,422	4,422
Tax on items taken directly to equity	-	-	-	18	-		(752)	(734)
Fair value losses	-	-	-	(93)	-	-	-	(93)
Total comprehensive income for the year	**-**	**-**	**-**	**(75)**	**-**	**-**	**28,351**	**28,276**
Sale of treasury shares	-	2	-	-	66	-	(6)	62
Repurchase of own shares	-	-	-	-	-		(5,625)	(5,625)
Cancellation of repurchased shares	(1,175)	-	-		-	1,175	-	-
Dividends paid	-	-	-	-	-	-	(5,678)	(5,678)
Share based payments charge	-	-	-	-	-	-	954	954
As at 28 February 2018	**38,552**	**124,934**	**10,645**	**(75)**	**(690)**	**1,175**	**89,877**	**264,418**

NOTES

For the six months ended 31 August 2018

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 2018 and similarly the period ended 31 August 2017 has neither been audited nor reviewed by the auditors. The financial information for the year ended 28 February 2018 has been based on information in the audited financial statements for that period.

The information for the year ended 28 February 2018 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that period has been delivered to the Registrar of Companies. The Auditors' Report on those accounts was not qualified and did not contain an emphasis of matter statement 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, the 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 2018, except as explained below.

Adoption of new standards

IFRS 15 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' is mandatory for all financial years commencing on or after 1 January 2018. IFRS 15 provides a detailed framework for the timing and amount of revenue recognised. The standard replaced IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The impact of applying IFRS 15 to the Group's financial statements has been reviewed by revenue stream.

Sale of motor vehicles, parts and aftersales services

Sales of vehicles and parts are recognised when the goods have been supplied. Aftersales services are recognised when the service has been completed in line with stage of completion of the transaction at the reporting date, assessed by the time expended on services that are charged on a labour rate basis. Under IFRS 15, revenue is recognised when the customer has control of the goods. This has had no impact on the current revenue recognition policies. Manufacturer incentives (e.g. free service when purchasing a vehicle) do not impact the Group as the legal obligation lies with the manufacturer.

Sale of warranty products

There is no change to the recognition of revenue from the sale of warranty products as a result of transition to IFRS 15. Under the new accounting standard, revenue is recognised in line with the performance obligation, i.e. the period in which the customer can exercise their rights under the warranty, and therefore recognised over the life of the warranty, as was the case under IAS 18.

2. Accounting policies (continued)

Adoption of new standards (continued)

IFRS 15 'Revenue from contracts with customers' (continued)

Commissions received

The Group recognises income received in respect of commissions from various finance and insurance companies when the finance and/or insurance package that the customer has entered into commences, and recognises a provision for the estimated cost of this commission being repaid should the customer subsequently cancel their finance package. Typically, this is on delivery of the vehicle. The Group's assessment indicated that no change in revenue recognition policy was required as a result of adopting IFRS 15.

Transition

The Group adopted IFRS 15 using the cumulative effect method. The Group has therefore not applied the requirements of IFRS 15 to the comparative period.

IFRS 9 'Financial Instruments'

IFRS 9, 'Financial Instruments' is effective for financial years commencing on or after 1 January 2018 and replaced IAS 39.

Under IFRS 9, financial assets are classified according to the business model for their realisation, as determined by the expected contractual cash flows. This is in contrast to IAS 39 where assets are classified by nature. IFRS 9 requires the classification to determine the accounting treatment i.e. amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification requirements of financial assets and liabilities under IFRS 9 is largely in line with that of IAS 39 and therefore no material differences exist.

Impairment of financial assets

Impairment of assets under IAS 39 was based on an incurred loss approach whereby an impairment exists when a credit event occurs (debts become overdue) whereas IFRS 9 is based upon expected credit loss (ECL) approach. IFRS 9 also requires the impairment of financial assets to be shown as a separate line item in either the income statement or statement of comprehensive income. Impairment of financial assets under IFRS 9 is recognised in operating expenses. The impairment of financial assets under IFRS 9 has not materially changed from that under IAS 39 and therefore no restatement is necessary.

Transition

The Group adopted IFRS 9 at 1 March 2018 using the cumulative effect method. The Group has therefore not applied the requirements of IFRS 9 to the comparative period.

New standards and interpretations issued but not yet effective and not early adopted

IFRS 16 'Leases'

In addition to the above, IFRS 16, 'Leases', is effective for periods beginning on or after 1 January 2019 and replaces IAS 17, 'Leases'. The new standard requires lessees to recognise a right-of-use asset and a lease liability based on discounted future lease payments for almost all leased assets with some exemptions available for short-term or low value leases.

2. Accounting policies (continued)

New standards and interpretations issued but not yet effective and not early adopted (continued)

IFRS 16 'Leases' (continued)

The impact of this standard on the Group will be the recognition of right-of-use assets and lease liabilities, predominantly in respect of the Group's operating leased property portfolio, as well as an increase in depreciation and interest charges which will replace the straight-line operating lease expense recognised under IAS 17. The Group will continue to assess the financial impact over the next financial year until the effective date. The Group's minimum lease payments under non-cancellable operating leases, at 28 February 2018, amounted to £90.8m on an undiscounted basis, as disclosed in note 36 of the year-end financial statements.

Transition

For lessees, transition options include a retrospective approach in which comparative financial information will be restated at the date of transition and the right-of-use asset and lease liability will be calculated as if IFRS 16 had been applied from inception of the lease. A modified retrospective approach is also available in which comparative information is not required to be restated and instead, the cumulative effect of adopting IFRS 16 is recognised as an adjustment to the opening balance of retained earnings at 1 March 2018. Due to the volume and age of the leases in the Group's property portfolio, it is currently anticipated that the modified retrospective approach will be applied with additional disclosure of any financial information required to increase comparability of financial periods given where necessary.

Other standards

Annual improvements 2015-2017 – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Amendments to IAS 28 'Investments in associates', on long term interests in associates and joint ventures

Amendments to IAS 19, 'Employee benefits' on plan amendments, curtailment or settlement

IFRIC 23, 'Uncertainty over income tax treatments'

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

Other new standards and interpretations in the year have not been included in the list above as they are not considered relevant to the Group.

3. Segmental information

The Group adopts the 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. 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. Therefore, to increase transparency, the Group has included below an additional voluntary disclosure analysing revenue and gross margin within the reportable segment.

NOTES (CONTINUED)

3. Segmental information (continued)

Six Months ended 31 August 2018	Revenue £'m	Revenue Mix %	Gross Profit £'m	Gross Profit Mix %	Gross Margin %
Aftersales[6]	127.2	8.2	68.2	40.9	44.0
Used vehicles	616.6	39.5	54.0	32.4	8.8
New car retail and Motability	468.7	30.0	34.7	20.8	7.4
New fleet & commercial	347.9	22.3	9.8	5.9	2.8
Total	**1,560.4**	**100.0**	**166.7**	**100.0**	**10.7**

Six Months ended 31 August 2017	Revenue £'m	Revenue Mix %	Gross Profit £'m	Gross Profit Mix %	Gross Margin %
Aftersales[6]	115.5	8.0	64.2	40.4	45.2
Used vehicles	546.9	37.8	49.8	31.3	9.1
New car retail and Motability	450.6	31.2	34.3	21.5	7.6
New fleet & commercial	332.7	23.0	10.8	6.8	3.2
Total	**1,445.7**	**100.0**	**159.1**	**100.0**	**11.0**

Year ended 28 February 2018	Revenue £'m	Revenue Mix %	Gross Profit £'m	Gross Profit Mix %	Gross Margin %
Aftersales[6]	228.2	8.2	124.7	40.4	44.5
Used vehicles	1,068.9	38.2	98.7	31.9	9.2
New car retail and Motability	836.5	29.9	64.1	20.8	7.7
New fleet & commercial	662.5	23.7	21.4	6.9	3.2
Total	**2,796.1**	**100.0**	**308.9**	**100.0**	**11.0**

[6] Margin in aftersales expressed on internal and external turnover

4. Finance income and costs

	Six months ended 31 August 2018 £'000	Six months ended 31 August 2017 £'000	Year ended 28 February 2018 £'000
Interest on short term bank deposits	46	6	18
Vehicle stocking interest	-	36	-
Net finance income relating to Group pension scheme	88	24	48
Finance income	**134**	**66**	**66**
Bank loans and overdrafts	(404)	(364)	(673)
Other finance costs	-	(164)	-
Vehicle stocking interest	(1,053)	-	(1,291)
Finance costs	**(1,457)**	**(528)**	**(1,964)**

5. Taxation

The tax charge for the six months ended 31 August 2018 has been provided at the effective rate of 19% (Six months ended 31 August 2017: 19%).

6. 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.

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 2018 £'000	**Six months ended 31 August 2017 £'000**	**Year ended 28 February 2018 £'000**
Profit attributable to equity shareholders	14,031	19,625	24,681
Exceptional items	-	(4,149)	(3,539)
Amortisation of intangible assets	274	313	614
Share based payments charge	478	548	1,031
Tax effect of adjustments	(52)	417	(119)
Adjusted earnings attributable to equity shareholders	**14,731**	**16,754**	**22,668**
Weighted average number of shares in issue ('000s)	378,058	394,938	391,317
Potentially dilutive shares ('000s)	5,931	5,412	5,948
Diluted weighted average number of shares in issue ('000s)	**383,989**	**400,350**	**397,265**
Basic earnings per share	**3.71p**	**4.97p**	**6.31p**
Diluted earnings per share	**3.65p**	**4.90p**	**6.21p**
Adjusted earnings per share	**3.90p**	**4.24p**	**5.79p**
Diluted adjusted earnings per share	**3.84p**	**4.18p**	**5.71p**

At 31 August 2018, there were 379,292,049 shares in issue.

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

	31 August 2018 £'000	31 August 2017 £'000	28 February 2018 £'000
Net increase in cash and cash equivalents	5,203	4,313	1,864
Cash inflow from increase in borrowings	(33,342)	(4,926)	(4,140)
Cash outflow from repayment of borrowings	-	-	166
Cash movement in net cash	**(28,139)**	**(613)**	**(2,110)**
Capitalisation of loan arrangement fees	214	425	501
Amortisation of loan arrangement fee	(55)	(53)	(86)
Non cash movement in net cash	**159**	**372**	**415**
Movement in net cash	**(27,980)**	**(241)**	**(1,695)**
Opening net cash	**19,313**	**21,008**	**21,008**
Closing net (debt)/cash	**(8,667)**	**20,767**	**19,313**

8. Retirement benefits

During the six month period ended 31 August 2018, there was a gain on assets of £608,000. There have been no changes in the financial and demographic assumptions underlying the calculation of the liabilities. The data underlying the calculation of liabilities has been updated based on the initial results of the actuarial valuation as at 5 April 2018. The effect of this change was an increase in liabilities of £372,000. In total, there was an actuarial gain of £236,000 recognised in the Statement of Comprehensive Income in the period, before deferred taxation.

9. Acquisitions

On 30 June 2018, the Group acquired the entire issued share capital of Hughes Group Holdings Limited and its subsidiary Hughes of Beaconsfield Limited (together "Hughes") which operates two Mercedes-Benz outlets in Beaconsfield and Aylesbury, Mercedes-Benz Commercial Vans in Aylesbury, Jeep in Beaconsfield, Peugeot in High Wycombe and a vehicle preparation centre in Wendover. Estimated cash consideration amounted to £20,267,000 which was funded through a £20,000,000 drawing on the Group's bank loan facility, with the remainder settled from the Group's existing cash resources. A further £1,500,000 has been deferred over 12 months. The excess of consideration over the provisional fair value of the net assets acquired was £9,750,000 of which £6,218,000 has been allocated to franchise relationships. Estimated fair value and acquisition accounting adjustments of £1,433,000 were made to goodwill at 31 August 2018. For the year ended 31 December 2017, Hughes achieved revenues of £150,000,000 and profit before tax of £2,100,000.

10. Cash flow from movement in working capital

The following adjustments have been made to reconcile from the movement in working capital balance sheet headings to the amount presented in the cash flow as the movement in working capital. This is in order to more appropriately reflect the cash impact of the underlying transactions.

For the six months ended 31 August 2018

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(582,343)	
Deferred consideration			(1,600)	
Deferred income			(9,507)	
At 31 August 2018	507,662	46,698	(593,450)	
At 28 February 2018	558,386	66,272	(672,381)	
Balance sheet movement	**50,724**	**19,574**	**(78,931)**	
Acquisitions	21,826	10,017	(23,040)	
Deferred consideration on acquisitions	-	-	(1,500)	
Movement excluding business combinations	**72,550**	**29,591**	**(103,471)**	**(1,330)**
Pension related balances				(12)
Decrease in capital creditor				1,732
Increase in interest accrual				(12)
Increase in share repurchase accrual				174
Movement in working capital				**552**

For the six months ended 31 August 2017

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(592,050)	
Deferred consideration			(1,807)	
Deferred income			(8,254)	
At 31 August 2017	502,585	63,007	(602,111)	
At 28 February 2017	506,470	52,545	(619,741)	
Balance sheet movement	**3,885**	**(10,462)**	**(17,630)**	
Disposals	(297)	(11)	144	
Movement excluding disposal of business	**3,588**	**(10,473)**	**(17,486)**	**(24,371)**
Pension related balances				(86)
Decrease in capital creditor				381
Increase in interest accrual				(77)
Increase in share repurchase accrual				(240)
Movement in working capital				**(24,393)**

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

For the year ended 28 February 2018

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(663,404)	
Deferred consideration			(100)	
Deferred income			(8,877)	
At 28 February 2018	558,386	66,272	(672,381)	
At 28 February 2017	506,470	52,545	(619,741)	
Balance sheet movement	**(51,916)**	**(13,727)**	**52,640**	
Disposals	(432)	(24)	155	
Deferred consideration on acquisitions	-	-	1,181	
Movement excluding business combinations	**(52,348)**	**(13,751)**	**53,976**	**(12,123)**
Pension related balances				(197)
Increase in capital creditor				(784)
Increase in interest accrual				(54)
Increase in share repurchase accrual				(174)
Movement in working capital				**(13,332)**

11. Goodwill and other indefinite life assets

	31 August 2018 £'000	31 August 2017 £'000	28 February 2018 £'000
Goodwill	79,154	74,403	74,189
Other indefinite life assets – Franchise relationships	26,410	20,192	20,192
At end of period	**105,564**	**94,595**	**94,381**

12. 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, including the potential consequences of the UK decision to leave the EU, 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 2018.

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 2019.

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"
2018 H1	The six month period ended 31 August 2018
2017 H1	The six month period ended 31 August 2017
Adjusted	Adjusted for exceptional items, amortisation of intangible assets and share based payments 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 2018 £'000	**Six months ended 31 August 2017 £'000**
Profit before tax	17,325	24,232
Amortisation	274	313
Share based payment charge	478	548
Exceptional items	-	(4,149)
Adjusted PBT	**18,077**	**20,944**

Tangible net assets per share

	Six months ended 31 August 2018 £'000
Net assets	273,152
Less:	
Goodwill and other indefinite life assets	(105,564)
Other intangible assets	(1,086)
Add:	
Deferred tax on above adjustments	6,994
Tangible net assets	**173,496**
Tangible net assets per share (p)	**45.9**

At 31 August 2018, there were 379,292,049 shares in issue, of which 1,696,369 were held by the Group's employee benefit trust.

ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

Like-for-like reconciliations:

Revenue by department

	2018 H1 Group revenue £'m	Acquisitions revenue £'m	Disposals revenue £'m	2018 H1 Like-for-like revenue £'m	2017 H1 Like-for-like revenue £'m
New car retail and Motability	468.7	(3.2)	(0.6)	464.9	442.6
New fleet and commercial	347.9	(1.4)	-	346.5	331.7
Used cars	616.6	(10.5)	(0.5)	605.6	538.4
Aftersales	127.2	(3.1)	(0.1)	124.0	113.6
Total revenue	**1,560.4**	**(18.2)**	**(1.2)**	**1,541.0**	**1,426.3**

Aftersales revenue by department

	2018 H1 Group revenue £'m	Acquisitions revenue £'m	Disposals revenue £'m	2018 H1 Like-for-like revenue £'m	2017 H1 Like-for-like revenue £'m
Parts	88.3	(1.7)	-	86.6	79.4
Accident repair	3.0	(0.1)	-	2.9	2.8
Parts and accident repair	91.3	(1.8)	-	89.5	82.2
Service	63.6	(1.5)	(0.1)	62.0	57.7
Total revenue *	**154.9**	**(3.3)**	**(0.1)**	**151.5**	**139.9**

*Inclusive of both internal and external revenue

Gross profit by department

	2018 H1 Group gross profit £'m	Acquisitions gross profit £'m	Disposals gross profit £'m	2018 H1 Like-for-like gross profit £'m	2017 H1 Like-for-like gross profit £'m
New car retail and Motability	34.7	(0.2)	-	34.5	33.9
New fleet and commercial	9.8	-	-	9.8	10.7
Used cars	54.0	(0.6)	-	53.5	49.5
Aftersales	68.2	(1.4)	-	66.8	63.4
Total gross profit	**166.7**	**(2.2)**	**-**	**164.6**	**157.5**

Aftersales gross profit by department

	2018 H1 Group gross profit £'m	Acquisitions gross profit £'m	Disposals gross profit £'m	2018 H1 Like-for-like gross profit £'m	2017 H1 Like-for-like gross profit £'m
Parts	18.0	(0.3)	-	17.7	16.9
Accident repair	2.0	(0.1)	-	1.9	1.8
Parts and accident repair	20.0	(0.4)	-	19.6	18.7
Service	48.2	(1.0)	-	47.2	44.7
Total gross profit	**68.2**	**(1.4)**	**-**	**66.8**	**63.4**

ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

Number of units sold by department

	2018 H1 Group	Acquisitions	Disposals	2018 H1 Like-for-like	2017 H1 Like-for-like
New car retail	19,908	(124)	(28)	19,756	18,684
New car Motability	5,321	(89)	(4)	5,228	5,577
New fleet	8,349	(101)	(1)	8,247	9,411
New commercial	9,032	(162)	-	8,870	8,208
Used cars	43,823	(541)	(33)	43,249	40,864
Total units	**86,433**	**(1,017)**	**(66)**	**85,350**	**82,744**

Average selling price by department

	2018 H1	Acquisitions	Disposals	2018 H1 Like-for-like	2017 H1 Like-for-like
New car retail and Motability*	16,829	23,954	19,734	16,808	16,565
New fleet and commercial*	19,785	28,674	20,367	19,992	18,635
Used cars	14,069	19,478	16,275	14,000	13,176

*Average selling price is stated inclusive of wholesale units

Operating expenses

	2018 H1 £'m	Acquisitions £'m	Disposals £'m	2018 H1 Like-for-like £'m	2017 H1 Like-for-like £'m
Adjusted operating expenses	147.3	(2.4)	(0.2)	144.7	135.5

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