

Analyst & Investor Presentation

Interim results for the 6 months ended
31 August 2019

9 October 2019



Strategic highlights

- Values driven business with well invested systems infrastructure and experienced leadership team
- Financial position enables growth of franchised businesses with Manufacturer partners
- Developing omni-channel retailing to be at the forefront of the transformation of the automotive retail experience
- Strong portfolio management and capital allocation including divestment of sub-scale outlets, disposal of surplus properties, share buyback programme and further acquisitions being assessed



Financial highlights

- £86.7m (5.6%) growth in total revenues to £1.6bn, with like-for-like revenue growth of 2.3%
- Strong cost disciplines exhibited, like-for-like operating expense growth in the period slowed to 1% (H1 FY2019: 7%)
- Operating profit of £20.3m (H1 FY2019: £18.6m)
- Adjusted^[1] operating profit of £19.6m (H1 FY2019: £19.4m)
- Profit before tax of £16.1m (H1 FY2019: £17.3m)
- Adjusted^[1] profit before tax of £17.1m (H1 FY2019: £18.1m)
- Interim dividend up 9.1% to 0.6p per share (H1 FY2019: 0.55p per share)
- Excellent cash conversion of profits with Free Cash Flow^[1] of £14.6m generated (H1 FY2019: £1.9m)

^[1] adjusted to remove non-underlying items: including share based payments, amortisation of intangible assets and the impact of adoption of IFRS 16 on FY20 figures



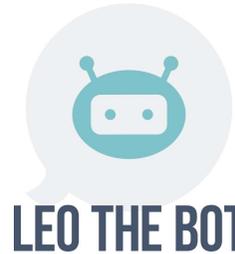
Development of omni-channel retailing



Total social media reach improved by 355%. Market leading Facebook following



Buy on-line functionality rolling out across Group brand websites



Chatbot functionality developed in house to generate service bookings



Group website page views grown by 17% YOY. In Top 10 groups, Vertu ranks second in average website visits per dealership location



Website page load times reduced by 43% to market leading levels



Showroom deal builder mirrored on-line, integration of on-line/off-line sales process



Marketing spend attribution technology deployed to increase ROI

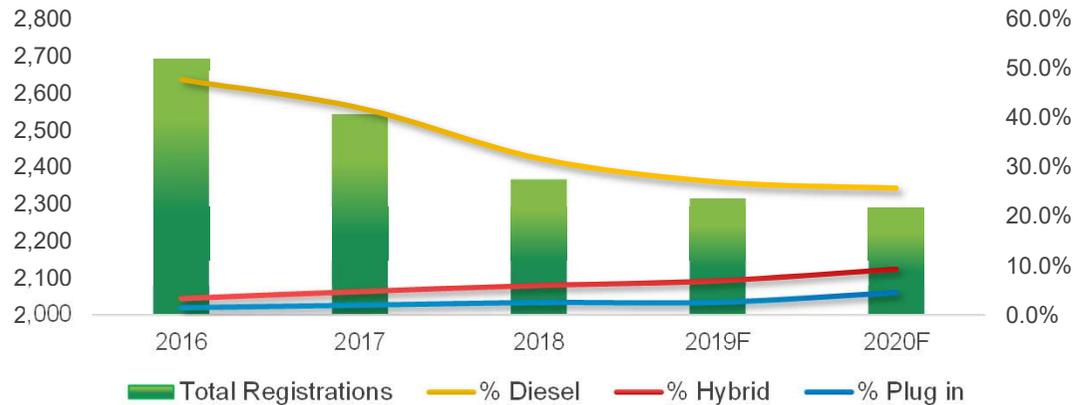


Brand marketing campaign promoting buy on-line launched in August across TV, cinema, radio and digital



Technological and network change **Creates opportunities**

UK Vehicle Registrations by Engine Type



Honda e



- Physical dealership network vital to long-term delivery of local, convenient customer service
- Changes in the structure of UK franchise dealership network expected in coming years, with significant reduction in outlets
- New emissions targets in EU from 1 January 2020 seek to drive down CO₂ emissions:
 - Manufacturers face significant EU fines if emissions targets missed
 - Likely to change profile of vehicles sold, irrespective of consumer demand
 - Retailers expected to retail “correct” emissions mix: link to targets and volume bonus
 - Small vehicle supply impact may be marked as segment disproportionately affected by costs of new technology and high emissions to weight ratios



Values driven business Colleague and customer satisfaction

Improving colleague stability in customer facing roles



Customer satisfaction

% Dealerships above National Average as measured by Manufacturer surveys



Colleague satisfaction survey (August 2019)

81% of colleagues participated in annual survey

84% would recommend the Group as a great place to work

97% know the Vertu Values

90% believe the directors actively practice the Values

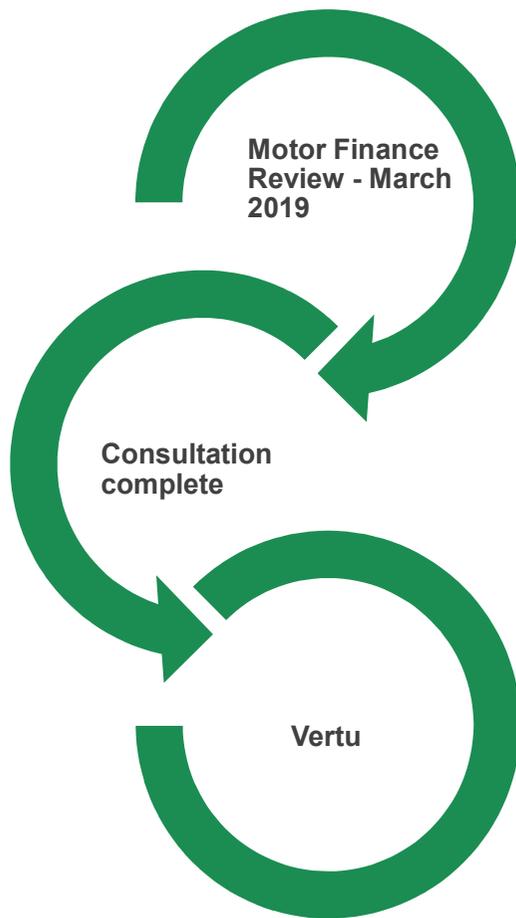
Recommendation rate

95.6%

of used car customers would recommend the Group to their friends and family (7,001 customers surveyed in last 3 months)



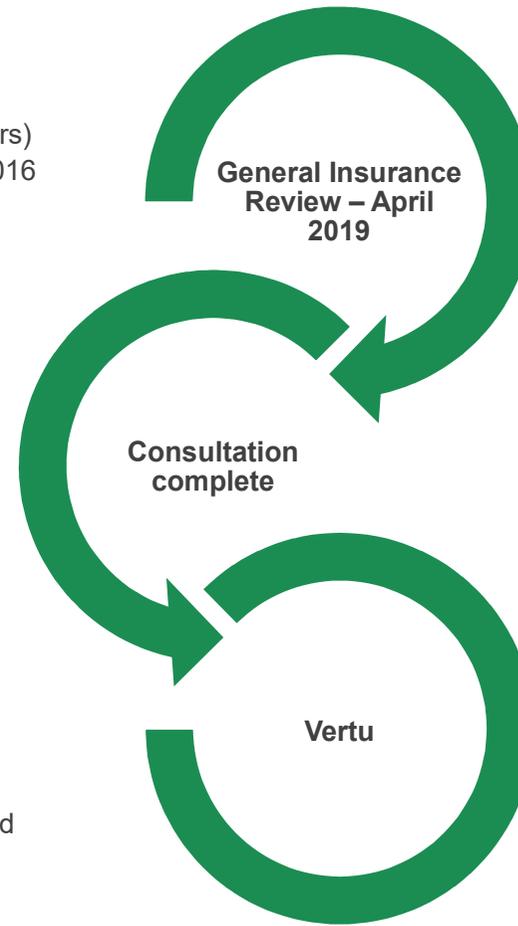
Regulatory change FCA reviews



- Scope of FCA review:
 - 122 Mystery shops (37 franchise retailers)
 - Lender finance contracts dated 2013-2016 reviewed
- Key focus areas:
 - Commission Arrangements
 - Timely and transparent information to consumers

- Responses being considered by FCA
- Guidance from FCA expected Q4 2019

- Moved to scaled commission from DIC method in May 2015
- Reduced discretion and rate caps applied



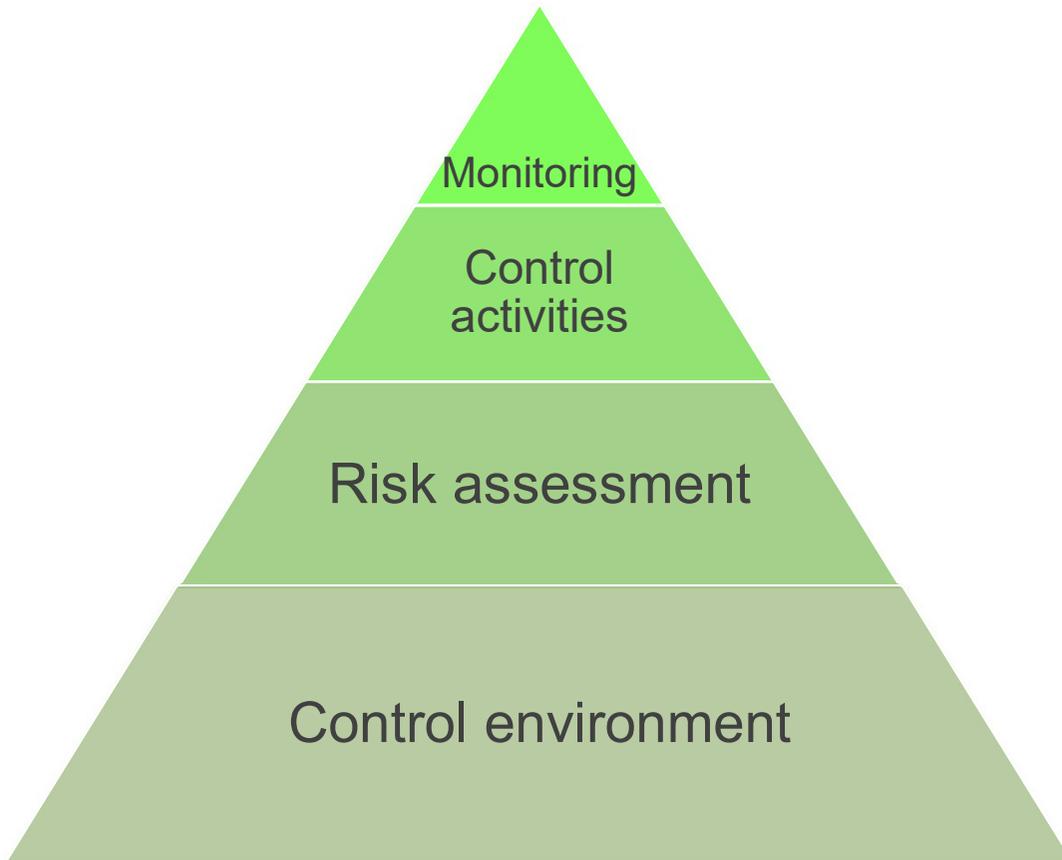
- Thematic FCA review on general insurance products released in April 2019
- Key focus areas:
 - Commission Arrangements
 - Delivery of service to customers

- Responses being considered by FCA
- Guidance from FCA expected Q4 2019

- In-house system development to automatically register products



Regulated activity Regarded as core operational competency



- Formal Compliance Committee reports to plc board (comprising COO, CFO, Group Counsel and others, with operations directors attending in rotation)
- Comprehensive reporting produced monthly and reviewed by senior management including all Approved Persons
- Detailed finance income operational policy signed by all sales facing colleagues annually
- Single bespoke electronic showroom system ensures consistency in approach to regulated activities with all regulated activities recorded and electronic signature
- Internal audit review
- Formal complaints process and system to ensure root cause analysis undertaken and appropriate customer outcomes
- Independent customer satisfaction surveys and video mystery shops undertaken
- Values driven business
- Culture of continuous process review and improvement
- Structured training programme around regulated products
- Specialist Automotive Finance (“SAF”) qualification held by 1,563 colleagues including Approved Persons
- Plans well advanced for adoption of new SMCR environment in December 2019



Financial performance

	H1 FY2019	H1 FY2020 Pre IFRS 16	% Change	H1 FY2020	% Change
Revenue	£1,560.4m	£1,647.1m	+5.6%	£1,647.1m	+5.6%
Gross profit	£165.9m	£172.7m	+4.1%	£172.7m	+4.1%
Gross margin	10.6%	10.5%	(0.1%)	10.5%	(0.1%)
Adjusted ^[1] EBITDA	£24.3m	£25.0m	+2.9%	£33.4m	+37.4%
Adjusted^[1] operating profit	£19.4m	£19.6m	+1.0%	£21.1m	+8.8%
Operating expenses	£146.6m	£153.1m	+4.4%	£151.6m	+3.4%
Adjusted^[1] operating expenses as % of revenue	9.4%	9.3%	(0.1%)	9.2%	(0.2%)
Net finance costs	(£1.3m)	(£2.5m)	+92.3%	(£4.3m)	+230.8%
Adjusted^[1] profit before tax	£18.1m	£17.1m	(5.5%)	£16.9m	(6.6%)
Profit before tax	£17.3m	£16.3m	(5.8%)	£16.1m	(6.9%)
Earnings per share	3.71p	3.54p	(4.6%)	3.48p	(6.2%)
Adjusted ^[1] earnings per share	3.90p	3.74p	(4.1%)	3.68p	(5.6%)
Dividend per share	0.55p	0.60p	+9.1%	0.60p	+9.1%

- Revenue growth of 5.6% (2.3% like-for-like)
- Stable gross margins
- Growth in Adjusted operating profit
- Increased finance costs

	H1 FY2019 £'m	H1 FY2020 Pre IFRS 16 £'m	H1 FY2020 £'m
Bank interest	0.3	0.5	0.5
Stocking finance costs	1.0	2.0	2.0
IFRS 16 Lease interest	-	-	1.8
Net finance costs	1.3	2.5	4.3

- Operating expenses as a % of revenue demonstrates strong cost control and enhanced productivity
- 9.1% growth in interim dividend

^[1] Adjusted for amortisation and share based payment charges



Strong balance sheet Flexibility and resilience

	31 Aug 2018 £'m	31 Aug 2019 Pre IFRS 16 £'m	31 Aug 2019 £'m
Intangible assets	106.7	112.1	112.1
Retirement benefit asset	6.9	7.8	7.8
Right of use assets	-	-	78.5
Tangible assets	218.8	224.4	224.4
Non-current assets	332.4	344.3	422.8
Current assets	554.3	626.2	626.2
Property assets held for sale	1.1	1.4	1.4
Cash and cash equivalents	46.9	72.7	72.7
Total assets	934.7	1,044.6	1,123.1
Current liabilities	(589.2)	(677.3)	(677.3)
Non-current liabilities	(16.7)	(16.5)	(16.5)
Lease liabilities	-	-	(87.9)
Borrowings	(55.6)	(66.1)	(66.1)
Net assets	273.2	284.7	275.3
Net assets per share (pence)	72.3	77.1	74.6
Tangible net assets per share (pence)	45.9	48.6	46.1

- Strong balance sheet underpinned by property and Adjusted net cash
- Conservative financing structure with low use of used car stocking loans
- Pension surplus on funding basis: no contributions planned

	31 Aug 2018 £'m	31 Aug 2019 Pre IFRS 16 £'m	31 Aug 2019 £'m
Adjusted net cash	10.5	29.1	29.1
Used car stocking loans	(19.2)	(22.5)	(22.5)
IFRS16 Lease liability	-	-	(87.9)
Total (debt)/cash	(8.7)	6.6	(81.3)



Movement in net cash/(debt) Strong conversion and generation of Free Cash Flow

	H1 FY2019 £'m	H1 FY2020 pre IFRS 16 £'m	H1 FY2020 £'m
Adjusted EBITDA	24.3	25.0	33.4
Working capital movement	0.6	1.8	1.8
Capital expenditure ^[1]	(13.6)	(7.1)	(7.1)
Disposals	3.3	1.4	1.4
Purchase of freehold property	(9.0)	(1.4)	(1.4)
Interest	(1.4)	(2.6)	(4.4)
Tax	(2.3)	(2.5)	(2.5)
Free Cash Flow	1.9	14.6	21.2
Principle element of lease repayments	-	-	(6.6)
Acquisitions (including borrowings)	(23.7)	(1.5)	(1.5)
Dividends	(3.6)	(3.9)	(3.9)
Repurchase of own shares	(2.6)	(2.3)	(2.3)
Movement in net cash/(debt)	(28.0)	6.9	6.9

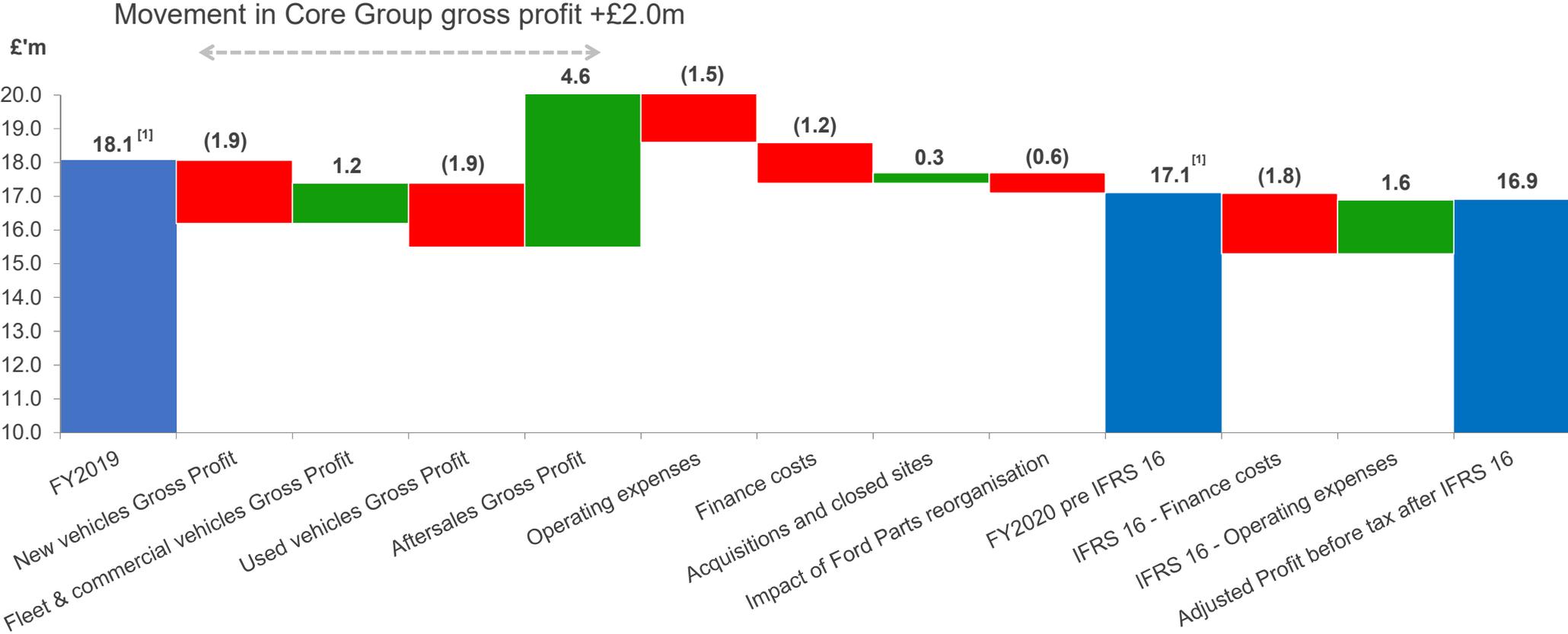
Movement in working capital	H1 FY2020 £'m
New vehicle inventory	52.4
Payables	(53.6)
Used vehicle inventory	0.6
Parts inventory	(0.4)
Receivables	2.8
	1.8

- Increased Free Cash Flow due to lower capital expenditure as anticipated
- Continued cash generation from property disposals
- Interest payments up due to higher stocking charges

^[1] Includes intangible additions, profits on sale of fixed assets



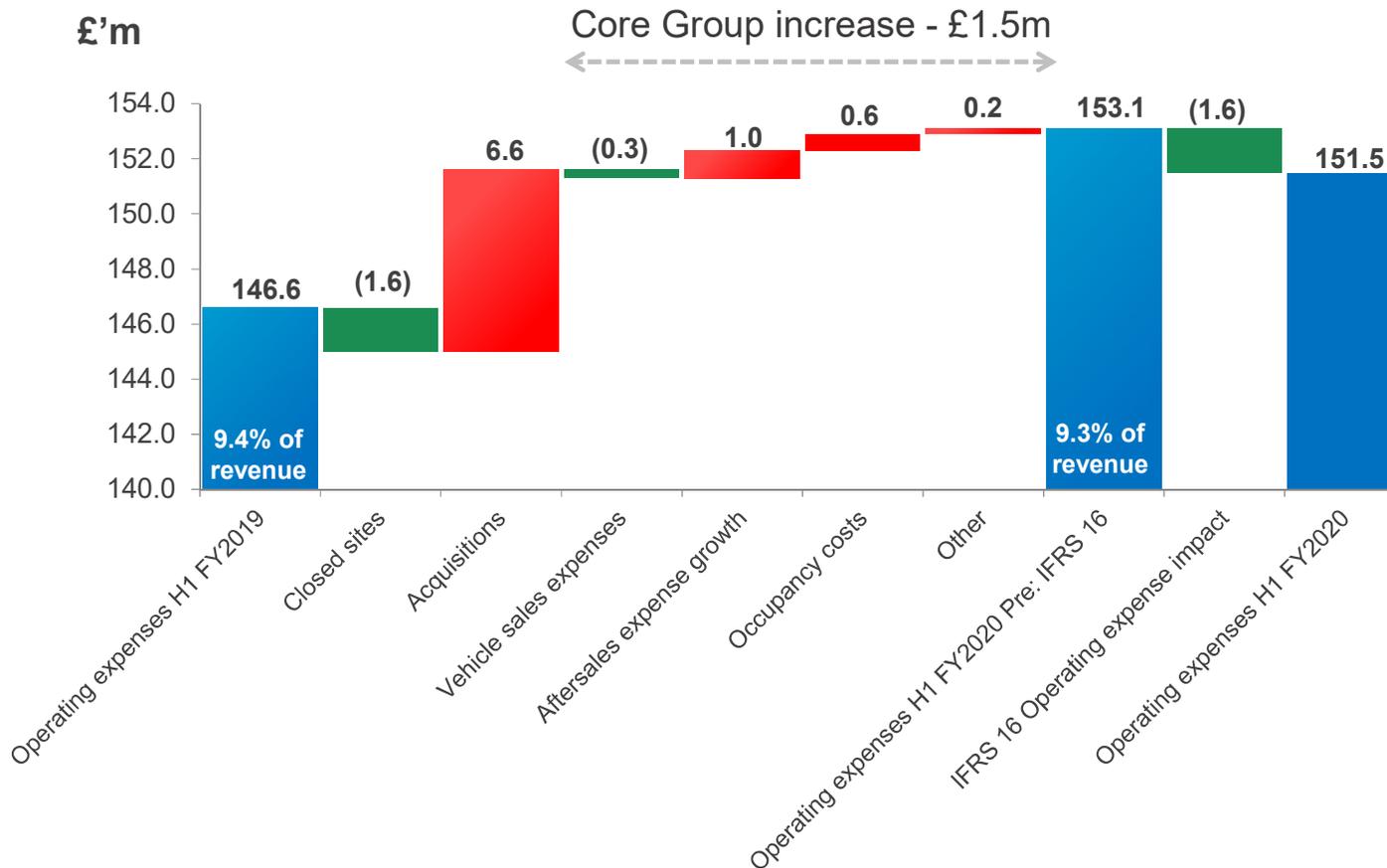
Profit bridge 6 months ended 31 August 2019



^[1] Adjusted profit before tax, adjusted for share based payments charge, amortisation of intangibles and IFRS 16



Operating expenses



- Falling operating expenses as % of revenue
- Rise in operating expenses just 1% (H1 FY2019: 7%) like-for-like, reflecting strong cost disciplines
- Investment in additional aftersales capacity (payroll, depreciation and vehicles) added incremental profits
- Occupancy costs primarily increased due to insurance, rates and energy
- H2 likely to see additional investment in marketing in order to boost market share

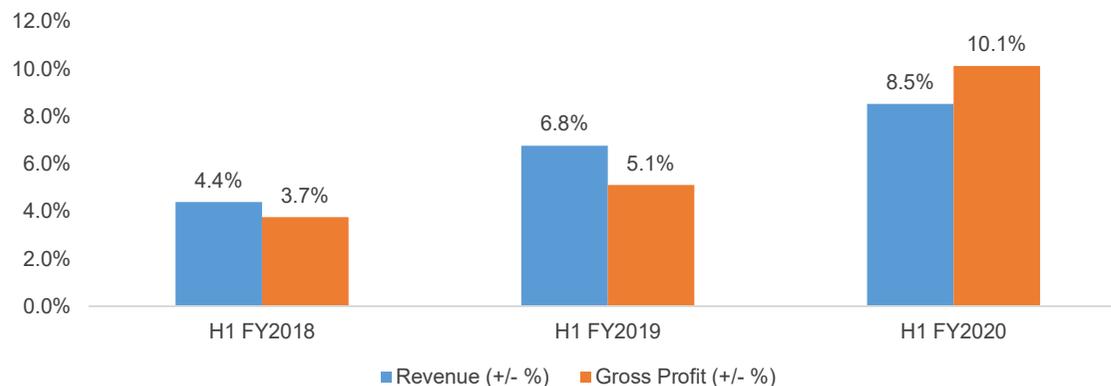


Aftersales Recurring high margin income: Strong execution

Core Group	Service	Impact of internal rate change	Service excluding impact of internal rate change
	£'000	£'000	£'000
Revenue ^[1]	64,543	2,174	62,369
Revenue ^[1] change	+5,068	+2,174	+2,894
Like-for-like revenue^[1] change	+8.5%		+4.9%
Gross profit change	+4,558	+2,174	+2,384
Gross margin ^[2] 2019	76.9%		76.1%
Gross margin ^[2] 2018	75.8%		75.8%

- Continued focus on driving growth in vehicle service departments; like-for-like service revenues up 8.5%
- Service internal rate increases implemented 1 March 2019 increased like-for-like gross profit by £2.2m (representing just under half of the 8.5% like-for-like service revenue growth)
- Core Group service gross profit up £4.6m augmented by internal rate increase
- Service revenues also aided by growth in average invoice value per customer visit through focus on vehicle health check process and pricing actions increasing retail recovery rates
- Over 100,000 active Vertu service plans in addition to extensive manufacturer service plans delivering high retention levels
- Reduced contribution from parts of £0.6m due to previously announced Ford parts distribution reorganisation; underlying parts and accident repair gross profits level

Like-for-like service revenue and gross profit growth
H1 FY2018 – H1 FY2020

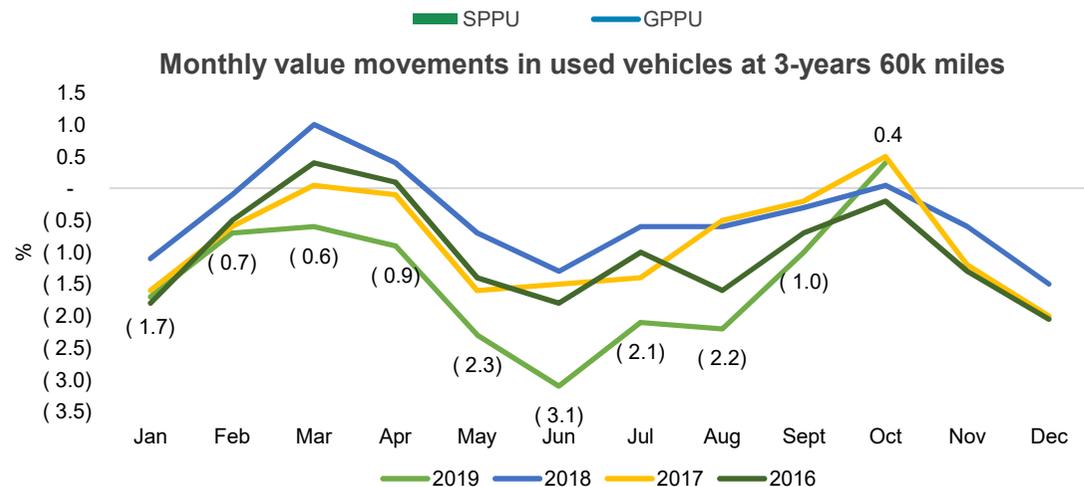
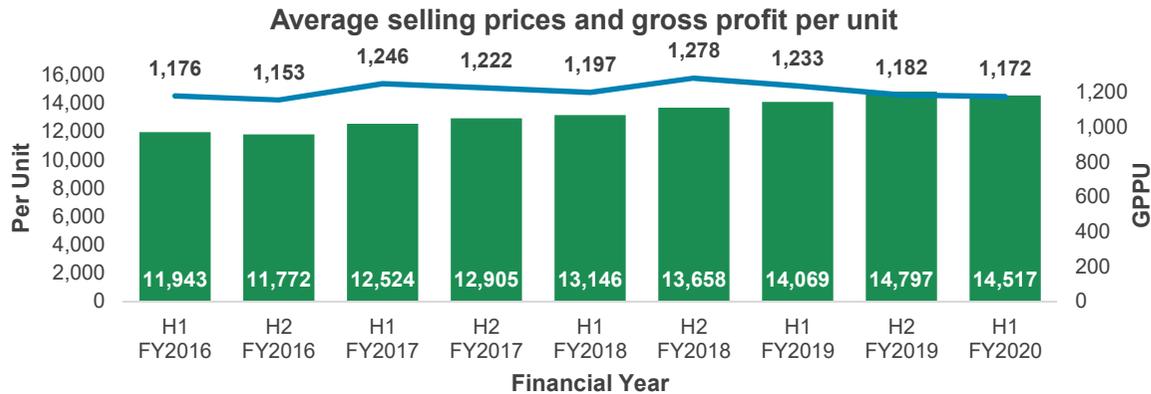


^[1] Includes internal and external revenue

^[2] Margin in aftersales expressed on internal and external revenue



Used vehicles Continued volume growth ahead of market

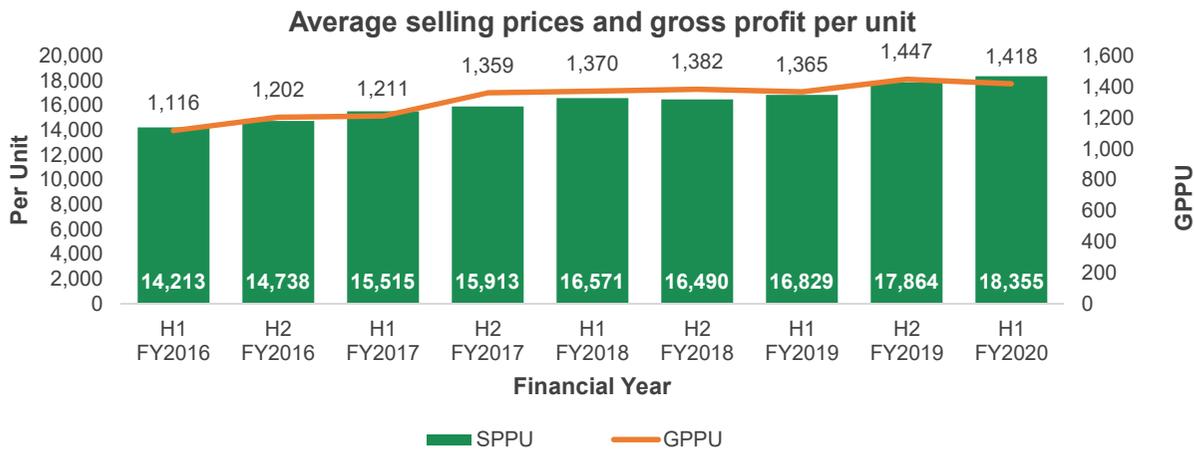


- Remarkably resilient profit performance given market value declines in Period
- Like-for-like volumes up 1.6%
- Like-for-like sales revenues up 3.3%
- Year on year growth in average selling prices following new car trend and reflecting increased premium mix of sales: Core Group margins fell from 8.8% to 8.3%
- Higher than normal seasonal price drops experienced particularly in the April to July period; fastest rate of fall since 2008
- Volume franchise used car values have since stabilised
- In certain premium franchises the market continues to be impacted by high levels of new and nearly new car supply
- Core Group used vehicle gross profit down £1.9m
- £1.6m of Group's gross profit reduction is attributed to an increase in the internal labour rate

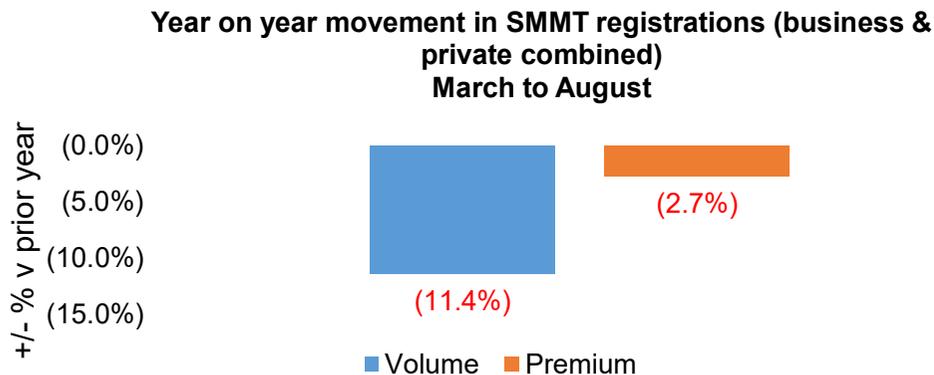
Source: CAP market overview October 2019



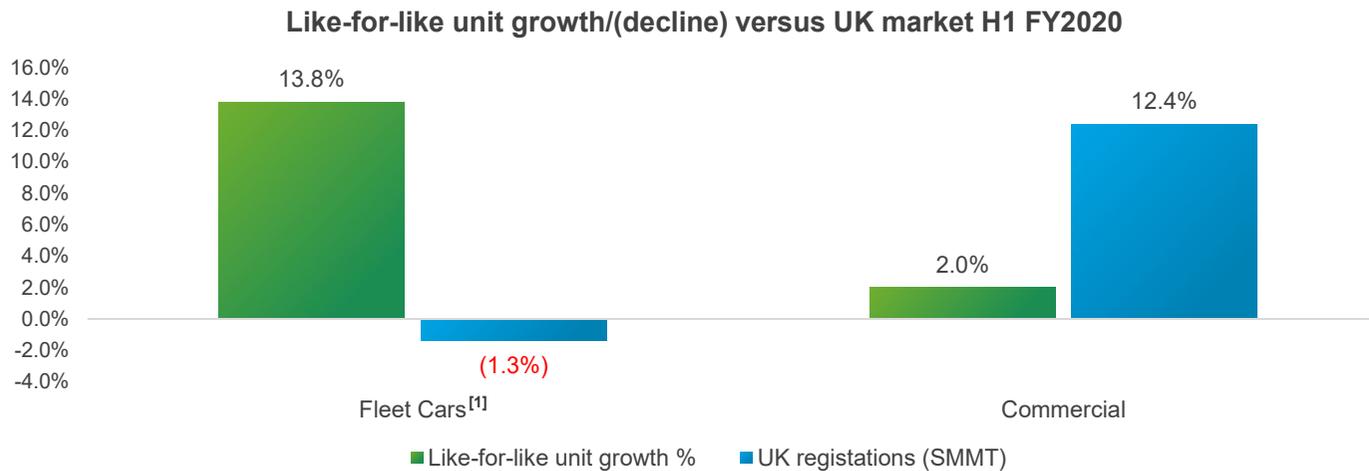
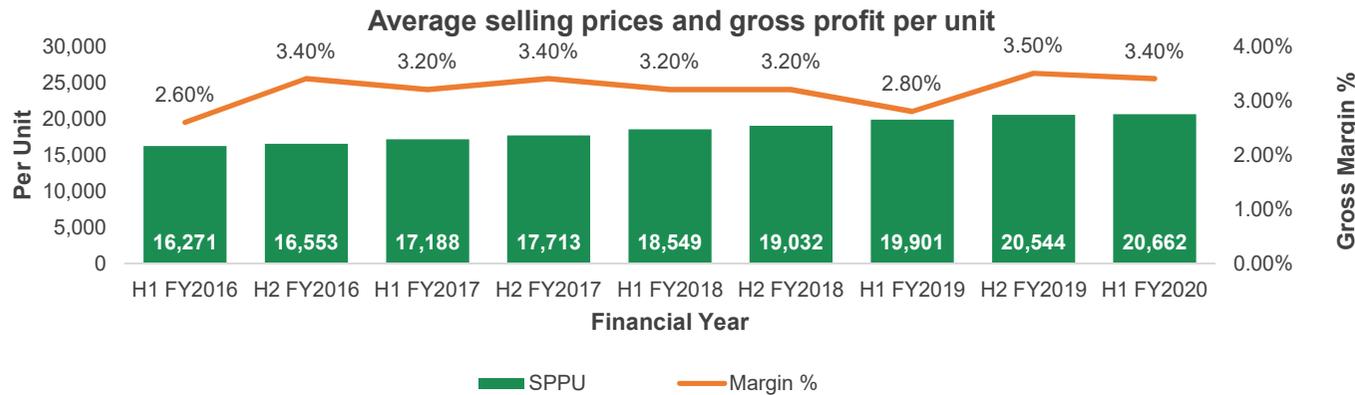
New retail vehicles Revenue growth despite market decline



- SMMT private registrations in the period fell 4.2% distorted by reclassifications from Business category
- Like-for-like new retail volumes down 10.1% in the Period reflecting the Group's franchise mix; Premium registration trends stronger than volume franchises
- Gross profit per unit up to £1,418 (FY19 H1: £1,365); reflecting strong pricing disciplines and hitting manufacturer targets to earn bonuses
- Rising sales prices due to increased premium mix and impact of currency pressures on Manufacturers
- Like-for-like gross profit reduced by £1.9m due to the reduced volume of vehicles sold
- Core Group margins declined from 7.4% to 7.2%



Fleet & commercial vehicles Market share gains in Fleet car sector



- Core Group gross profit in Fleet & commercial channel increased by £1.2m
- Group significantly out-performed the market in fleet cars
- Successful development of b2b capacity across the Group in both premium and volume dealerships continues
- UK van market experienced considerable strength in H1 FY2020
- SMMT reported 12.4% growth in van registrations in H1 FY2020 aided by fleet supply and pre-registration of non-WLTP compliant vehicles pre 1 September
- Vans Direct acquired January 2019 immediately contributed to Group profit and provides further growth opportunity
- Gross profit per unit strengthened from £528 to £603 per unit

^[1] Includes agency volumes



Current trading and outlook

Current trading

Revenue:	September 2019 Increase/(decrease) year-on-year	
	Like-for-Like %	SMMT Registrations %
Group revenues	(0.8%)	
Service revenues	+11.4%	
Volumes:		
Used retail vehicles	+3.5%	
New retail vehicles	(1.6%)	+0.1%
Motability vehicles	+15.5%	+21.6%
Fleet car vehicles ^[1]	+42.8%	+8.6%
Commercial vehicles	(41.0%)	(23.5%)

^[1] Includes agency volumes

Outlook

- Board confident in future prospects for Group
- Strategically well placed to capitalise on challenges and opportunities in the sector
- New vehicle supply side considerations:
 - EU exit
 - Consumer confidence
 - Exchange rate movements
 - Impact of emission legislation on the market
- Board believes the Group remains on track to meet its overall expectations for the full year



Summary

- Values driven business with strong systems and experienced leadership team
- Strong execution demonstrated around;
 - resilient used vehicle profitability
 - increased generation of Free Cash Flow
 - cost control
- Focus on delivery of omni-channel retailing and marketing: building brand strength
- Disciplined approach to capital allocation with potential to grow further scale with Manufacturer Partners



List of appendices

1. Definitions of key terminology
2. Revenue & margin analysis: Total Group
3. Used vehicle trends
4. New retail vehicle trends
5. Fleet & commercial vehicle trends
6. Vehicle volumes sold
7. Cash and borrowing facilities
8. Dealership portfolio



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”

FY2020:

The twelve month period ending 29 February 2020

FY2019:

The twelve month period ended 28 February 2019

H1 FY2020:

The six month period ended 31 August 2019

H1 FY2019:

The six month period ended 31 August 2018



Revenue and margin analysis **Total Group**

	H1 FY2019					H1 FY2020				
	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]	127.2	8.2	67.4	40.6	43.5	130.7	7.9	73.1	42.3	47.1
Used vehicles	616.6	39.5	54.0	32.6	8.8	653.8	39.7	52.8	30.6	8.1
	743.8	47.7	121.4	73.2	15.7	784.5	47.6	125.9	72.9	15.6
New retail and Motability	468.7	30.0	34.7	20.9	7.4	472.1	28.7	33.7	19.5	7.1
Fleet & commercial	347.9	22.3	9.8	5.9	2.8	390.5	23.7	13.1	7.6	3.4
Overall Group	1,560.4	100.0	165.9	100.0	10.6	1,647.1	100.0	172.7	100.0	10.5

- More gross profit generated (like-for-like increase of £2.0m)

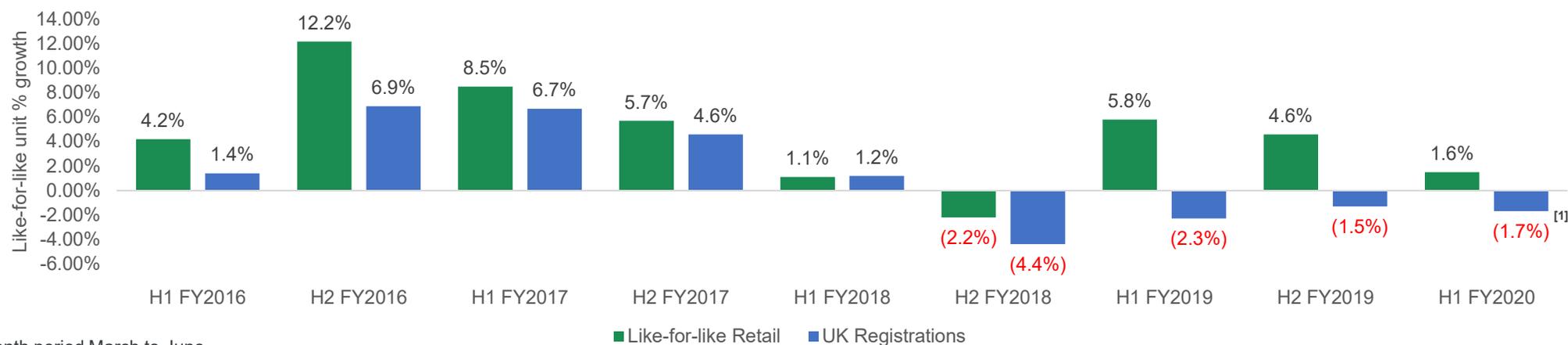
^[1] Margin in aftersales expressed on internal and external revenue



Used vehicle trends

	H1 FY2016	H2 FY2016	H1 FY2017	H2 FY2017	H1 FY2018	H2 FY2018	H1 FY2019	H2 FY2019	H1 FY2020
Selling price per unit (£)	11,943	11,772	12,524	12,905	13,146	13,658	14,069	14,797	14,517
Gross profit per unit (£)	1,176	1,153	1,246	1,222	1,197	1,278	1,233	1,182	1,172
Margin (Group)	9.8%	9.8%	9.9%	9.5%	9.1%	9.4%	8.8%	8.0%	8.1%
Margin (Core Group)	10.3%	10.4%	10.2%	9.8%	9.5%	9.6%	8.8%	8.2%	8.3%
Like-for-like unit growth/(decline)	4.2%	12.2%	8.5%	5.7%	1.1%	(2.2%)	5.8%	4.6%	1.6%

Like-for-like used unit growth/(decline) versus UK market



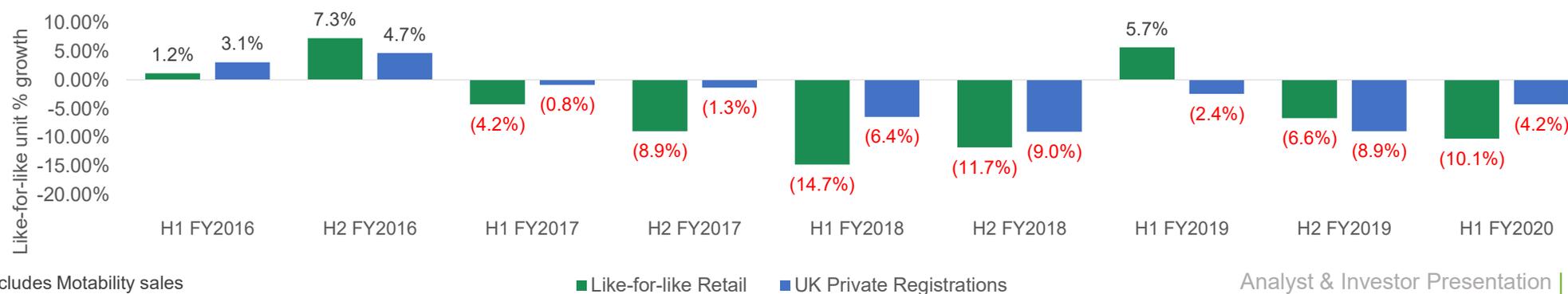
[1] 4 Month period March to June



New retail vehicle trends

	H1 FY2016	H2 FY2016	H1 FY2017	H2 FY2017	H1 FY2018	H2 FY2018	H1 FY2019	H2 FY2019	H1 FY2020
Selling price per unit ^[1] (£)	14,213	14,738	15,515	15,913	16,571	16,490	16,829	17,864	18,355
Gross profit per unit ^[1] (£)	1,116	1,202	1,211	1,359	1,370	1,382	1,365	1,447	1,418
Margin (Group) ^[1]	7.3%	7.6%	7.2%	7.8%	7.6%	7.7%	7.4%	7.4%	7.1%
Margin (Core Group) ^[1]	7.3%	7.5%	7.2%	7.7%	7.5%	7.7%	7.4%	7.5%	7.2%
Like-for-like unit (Retail) growth/(decline)	1.2%	7.3%	(4.2%)	(8.9%)	(14.7%)	(11.7%)	5.7%	(6.6%)	(10.1%)
UK private registrations ^[2] growth/(decline)	3.1%	4.7%	(0.8%)	(1.3%)	(6.4%)	(9.0%)	(2.4%)	(8.9%)	(4.2%)

Like-for-like new retail unit growth/(decline) versus UK market



^[1] Includes Motability sales

^[2] Source SMMT



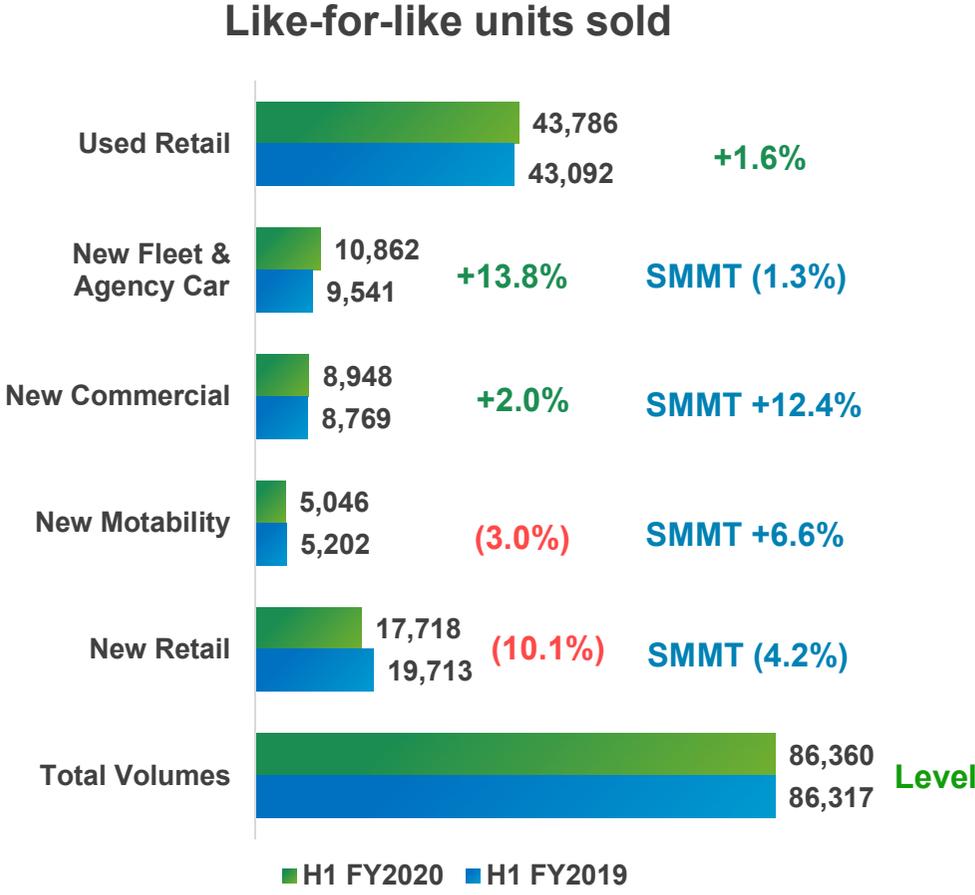
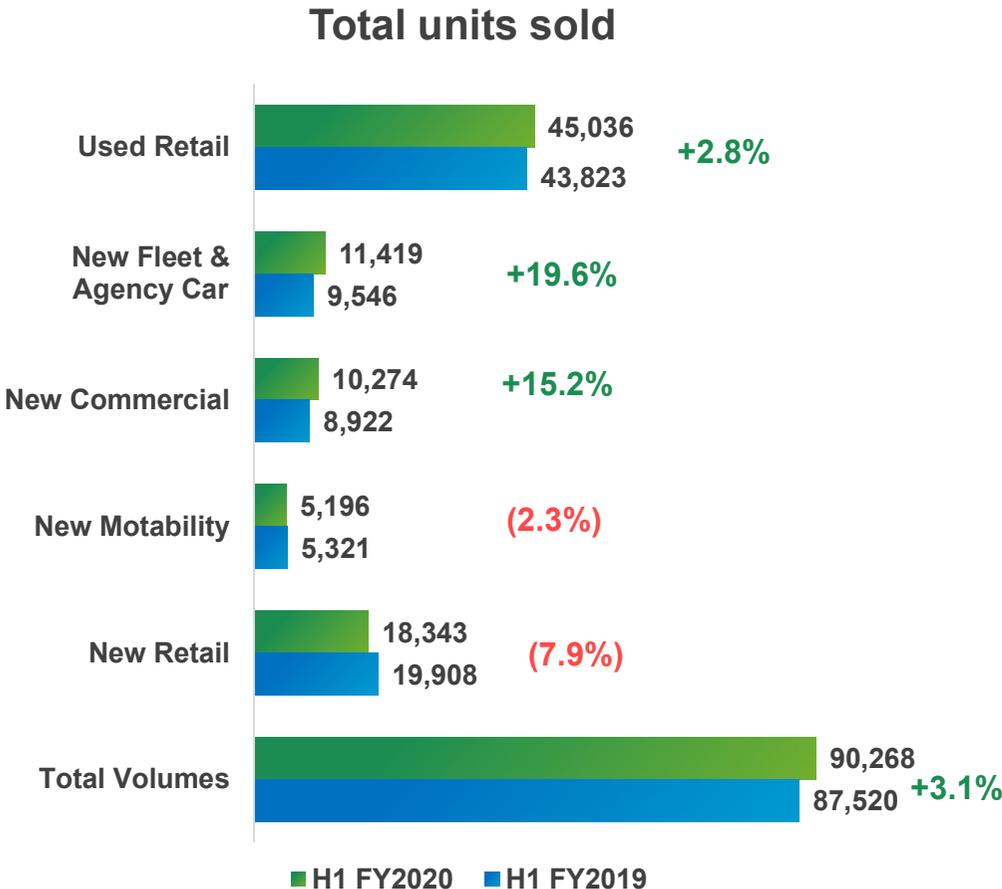
Fleet & commercial vehicles trends

	H1 FY2016	H2 FY2016	H1 FY2017	H2 FY2017	H1 FY2018	H2 FY2018	H1 FY2019	H2 FY2019	H1 FY2020
Selling price per unit (£)	16,271	16,553	17,188	17,713	18,549	19,032	19,901	20,544	20,662
Gross profit per unit (£)	426	562	536	585	576	588	528	695	603
Margin (Group)	2.6%	3.4%	3.2%	3.4%	3.2%	3.2%	2.8%	3.5%	3.4%
Like-for-like unit growth/(decline) (Fleet)	(8.5%)	1.3%	(10.6%)	3.8%	(4.3%)	(5.4%)	(12.4%)	(28.5%)	4.6%
UK car fleet registrations ^[1] growth/(decline)	10.8%	8.2%	6.1%	4.1%	(0.5%)	(11.3%)	(5.2%)	(10.2%)	(1.3%)
Like-for-like unit growth/(decline) (Vans)	24.2%	20.1%	11.6%	(7.9%)	(9.6%)	1.9%	8.1%	(1.9%)	2.0%
UK van commercial registrations ^[1] growth/(decline)	16.4%	10.1%	3.9%	(1.6%)	(3.2%)	(4.0%)	(2.7%)	1.2%	12.4%

^[1] Source SMMT



Vehicle volumes sold



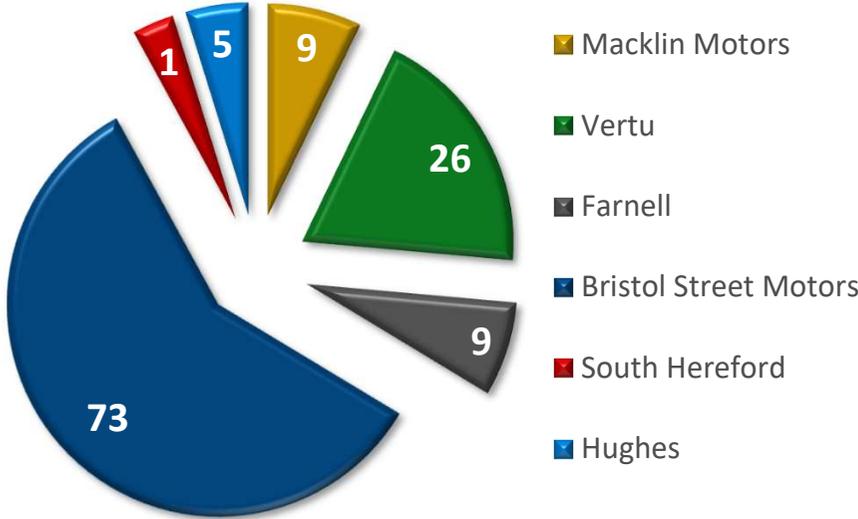
Cash and borrowing facilities

	Facilities at 31 Aug 19 £'m	Drawn at 31 Aug 19 £'m
5 year acquisition facility (from February 2019)	62.0	(43.6)
1 year working capital facility (from February 2019)	68.0	-
Total committed facilities	130.0	(43.6)
Cash		72.7
Adjusted net cash (before used vehicle funding)		29.1
Used vehicle funding facility	35.0	(22.5)
Overdraft	5.0	-
IFRS 16 Lease liability		(87.9)
Total facilities	170.0	
Total debt		(81.3)
Used vehicle stock value		105.4
Cover on used funding facility		4.7 times

- “Accordion” facility of a further £15m currently uncommitted



Dealership portfolio



Volume	Outlets
Ford	22
Vauxhall	14
Nissan	11
Hyundai	8
Renault	6
Peugeot	5
SEAT	4
Citroen	4
Skoda	4
Mazda	2
	<u>80</u>

Premium	Outlets
Honda	12
Land Rover	6
Volkswagen	5
Mercedes-Benz	5
Jaguar	3
Volvo	1
Audi	1
Toyota	1
Jeep	1
	<u>35</u>

Other	Outlets
Honda Motorcycles	2
Volkswagen Commercials	1
Mercedes Commercials	1
	<u>4</u>

Non-franchise	Outlets
Bristol Street Versa	1
Other used car operations	3
	<u>4</u>

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.

