Vertu Motors plc

INTERIM RESULTS

For the six months ended 31 August 2019

CHAIRMAN'S STATEMENT

This is my first Chairman's statement since taking the role on 25 July. Peter Jones had a remarkable influence and impact on the Group as Non-Executive Chairman and, as the sector undergoes a period of transformation in the next few years, the Board is very confident that the Group's strategy and execution will set it apart. I am personally very excited to be involved with a Group with a strong set of Values, well invested systems and much potential.

I am pleased to report that the Group has delivered a resilient result for the Period against a backdrop of continued Sterling weakness, weaker consumer confidence and pricing instability in the used vehicle market. Overall the Group has remarkably delivered higher operating profits in the Period and the Board believes the Group remains on track to meet its overall expectations for the full year.

The Group generated higher levels of Free Cash Flow than the prior year period, aided by the expected reduced capital expenditure and robust control of cost and working capital in the Period. The Group continued to buyback shares, purchasing 2.0% of the share capital in the Period. A 9% increase in the interim dividend to 0.6p per share is proposed as the Board recognises the importance of dividends to Total Shareholder Returns.

The Group's core strategy remains unchanged, which is to grow a scaled franchised automotive retail group, working in conjunction with major Manufacturer partners. This will facilitate the increasing growth of market leading retail brands in the sector with strong, efficient marketing and digital scale to grow market share in the UK. Investment in the development of omni-channel retailing continues to be vital as customer behaviour and expectations evolve. Our aim is to deliver outstanding customer service and to build long term value through the delivery of sustainable growth in cash flows and earnings per share.

Andy Goss, Chairman

HIGHLIGHTS

Strategy

- 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

- £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 1.0% (2018 H1: 7.0%)
- Operating profit of £20.3m (2018 H1: £18.6m)
- Adjusted[1] operating profit of £19.6m (2018 H1: £19.4m)
- Profit before tax of £16.1m (2018 H1: £17.3m)
- Adjusted[1] profit before tax of £17.1m (2018 H1: £18.1m)
- Interim dividend of 0.6p per share, up 9.1% (2018 H1: 0.55p per share)
- Excellent cash conversion of profits with Free Cash Flow[1] of £14.6m generated (2018 H1: £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 the FY20 figures

Capital Structure

- Significant increase in the level of Adjusted[2] Net Cash up to £29.1m (2018 H1: £10.5m) reflecting strong focus on working capital management
- Strong balance sheet to fund future growth with real estate backing
- Used car stocking funding utilised of £22.5m (cover of 4.7 times used car stock value) (H1 2018: £19.2m). Substantially lower usage than industry peer group reflecting resilient balance sheet
- £2.7m of shares bought back in FY20, representing 2.0% of the opening shares in issue, £1.3m of the £3m programme announced at the AGM has been utilised to date.

[2] Adjusted to remove used car stocking loans and excludes IFRS 16 lease liabilities

Six months ended 31 August 2019	**Increase (decrease) period-on-period**		
	Total	**Like-for-Like**	**SMMT UK Registrations**
Group Revenues	5.6%	2.3%	
Service Revenues[3]	12.2%	8.5%	
Volumes:			
Used retail vehicles	2.8%	1.6%	
New retail vehicles	(7.9%)	(10.1%)	(4.2%)
New Motability vehicles	(2.3%)	(3.0%)	6.6%
New fleet cars[4]	19.6%	13.8%	(1.3%)
New commercial vehicles[4]	15.2%	2.0%	12.4%

[3] Includes internal and external revenues

[4] Includes agency volumes

CHIEF EXECUTIVE'S REVIEW

The purpose of this interim report is to inform all stakeholders on how the Group has performed in the six-month Period to 31 August 2019, through the provision of a detailed analysis of financial performance. It also appraises the challenges and opportunities the Group faces and provides an update on progress towards the strategic objectives of the Group, outlined in the last Annual Report.

Strategic Overview

Economic Backdrop

UK employment remains at record levels and economic growth has continued. The Period saw a softening in both consumer demand for cars and a further weakening of the Sterling exchange rate against the major currencies. A weak Sterling exchange rate both discourages Manufacturer supply into the UK and inevitably increases prices for consumers. This has impacted on retail vehicle sales in the UK, with the SMMT reporting a fall in the number of new retail vehicles registered in the Period compared to last year of 4.2%.

The used vehicle market was also affected by demand and supply imbalances, resulting in a more pronounced than normal decline in values, particularly from April to June 2019. Prices in the used vehicle market have now stabilised, in particular in volume used cars, whilst values remain under pressure in the premium segment, driven by continued oversupply of new vehicles in certain franchises.

The clarification of the UK company vehicle tax regime, issued in July and taking effect from 1 April 2020 now provides certainty to the fleet and company car market, whilst potentially causing demand shifts pre and post the implementation date as users will seek to optimise their tax position.

Network Change – physical dealerships in an on-line world

The Group has established and maintains positive relationships with its chosen Manufacturer partners, and therefore remains well placed to benefit from the potential future changes in the composition and structure of the UK franchise dealership network. Physical dealership locations remain vital in the delivery of convenient and localised customer service, whilst the Group also continued to invest heavily in its on-line presence and the development towards omni-channel retailing. Omni-channel retailing is a multichannel approach to retailing that seeks to provide customers with a seamless shopping experience, whether they're shopping on-line from a desktop, mobile device, telephone or in a bricks and mortar outlet.

The Board envisages a significant reduction in the number of franchise outlets in the UK between now and 2023 as networks are restructured, made fit for purpose for the digital age and reflect the changing economics in the European automotive sector in general. Given strong relationships with the Group's Manufacturer partners, the Board is confident the Group will be a net beneficiary of these changes, particularly if scale can be further enhanced to drive cost and marketing efficiencies.

Technological change

Our Manufacturer partners continue to invest heavily in the development of alternative power train vehicles, in order to meet increasing EU regulatory standards on emissions. New emission testing regimes came into force on 1 September 2019, namely the 'Real Driving Emissions' ("RDE") regulations for passenger vehicles and the EU 'Worldwide Harmonised Light Vehicle Test Procedure' ("WLTP") regulations for commercial vehicles. As anticipated, the overall impact of the introduction of these regulations on UK vehicle supply was not as disruptive as the impact on cars seen in FY19. The supply of commercial vehicles has been more challenging as Manufacturers balance compliant and non-compliant supply.

New emissions targets in the EU for Manufacturers are set to come in force from 1 January 2020. These complex regulations seek to drive down CO_2 emissions from new vehicle registrations and are likely to lead to a changing profile of vehicles sold, such as an increase in pure electric (BEV) and hybrid vehicles. Potential fines on Manufacturers who fail to meet targets will generate significant supply changes, irrespective of consumer demand, and automotive retailers will be expected to

CHIEF EXECUTIVE'S REVIEW (CONTINUED)

Strategic Overview (continued)

Technological change (continued)

retail the correct mix and are likely to be targeted to do so. In the medium term, margins on new vehicles are likely to come under pressure due to the resulting supply and demand potential imbalances and the higher production cost of non-petrol/diesel powertrains. The impact on the supply of small vehicles may be marked since this segment is disproportionately affected by the costs of new technology and high emissions to weight ratios.

Regulatory change

In addition to regulatory changes in respect of vehicle emissions, the Financial Conduct Authority ("FCA") continues its motor finance review and thematic review on general insurance sales. The Group has been actively engaged in the consultation process; however, we do not know what, if any, changes will arise from the findings which are not expected to apply until 2020.

The Group has always considered regulatory compliance to be a core operational competence and vital to putting the customer first. Indeed it is central to the delivery of the longstanding Mission Statement of the Group "to deliver an outstanding customer motoring experience through honesty and trust". The Group has for many years used one electronic showroom system to ensure consistency of process in this important area of regulatory compliance, as well as to provide customers with the right information to select the financial and other products which best suit their needs. The Group has a long-established Compliance Committee (with independent representation) which regularly reviews the Group's sales process, key performance metrics and real time customer feedback to ensure that the Group continues to demonstrate appropriate compliance with all the relevant legislation. For example, used car customers are surveyed on their views on their experience including the explanation of finance and an extensive mystery shopping programme is in place providing data on the adherence to the Group sales process. The Group benefits from uniformity of its core systems platforms and its core sales and administration processes. The Group has an excellent, internally developed in-house management information system providing a holistic view to management on activity including customer outcomes. Acquisitions are brought on to these platforms quickly.

Importance of Management, Colleagues and Culture

The Group recognises the vital importance of its management and colleagues in the delivery of the Group's Mission Statement and its strategic objectives. The Group seeks to maintain a consistent culture across all of its businesses and tests the application of the Group's core values and processes through both an annual colleague satisfaction survey and the extensive mystery shopping programme. The latest annual colleague survey, completed in August 2019 by over 80% of the Group's 5,500 colleagues, confirmed that 97% knew the Values and 90% believed the directors actively demonstrated them. In evidence of the Group's commitment to the delivery of excellent customer service, the Group was delighted to be recognised in July by AutoTrader in winning their externally verified Customer Experience award.

The Group's key long-term strategic objectives were summarised in the Annual Report and are re-iterated below:

1. Continue to focus on capital allocation including the share buyback programme
2. Build a scaled automotive retail group through targeted acquisitions
3. Invest and develop on-line capability to deliver a seamless omni-channel retailing experience
4. Manage costs
5. Increase colleague retention to enhance productivity and customer experience

Strategic Overview (continued)

Importance of Management, Colleagues and Culture (continued)

An update on the progress on these objectives is set out below:

1. Capital Allocation

At the AGM in July, the Group announced a further share buy-back programme committing an additional £3m for this purpose. Since 1 March, the Group has repurchased 7.4m shares for cancellation, representing 2.0% of shares in issue. The average price of shares purchased was 36.89p and £1.7m of the further £3m so earmarked remains. The Board intends to continue to buy-back shares at prices considered to be well below intrinsic value.

The Group continues to actively manage its dealership and asset portfolio. Since 1 March the Group has sold two surplus freehold dealership properties at above net book value as well as exiting two sub-scale dealership operations, one through sale and one through closure, in the Period. These activities have generated £3.0m of cash in the financial year to date, yielding a profit to net book value. Further surplus property asset disposals are in the process of being made. The Board continues to review the portfolio of dealerships operated by the Group to ensure appropriate allocation of capital and returns.

2. Growth

The Group continues to pursue acquisition opportunities. Strict investment hurdle rates are rigorously applied in each case to ensure that the Group does not pay excessive consideration and capital allocation disciplines are applied. The Group's acquisition pipeline is currently strong, including a number of Manufacturer led introductions.

3. Omni-channel retailing

The Group continues to invest in digital marketing/e-commerce expertise in order to ensure the business is at the forefront of the development of omni-channel retailing in the sector. Key developments in the period include:

- Buy-online functionality for used vehicles extended to all Group based websites
- Page load times of web pages significantly reduced to sector leading levels
- Attribution modelling capability increasingly developed to ensure marketing spend is targeted to high return on investment channels
- Development of chatbot functionality (Leo) now taking service bookings alongside on-line service booking capability

The Group continues to invest in brand-building marketing activity to encourage customers to engage with the Group's websites A TV, cinema and radio campaign entitled "Upside down" has been launched to inform customers as to the omni-channel retailing options of the Group.

4. Cost management

In an environment of constrained margins and sales volumes, the Group continues to prioritise cost management whilst seeking to deliver gross profit growth and outstanding customer experiences. In the Period, the rate of operating expense increase slowed to 1.0% on a like-for-like basis, with this increase predominantly arising from investment in the Group's aftersales capacity. The higher cost base contributed to the strong aftersales growth in the Period. Ensuring that the Group invests only in those costs which will bring incremental benefit to Group profitability remains a continued focus of management and the Board is very pleased with the progress to date. Operating expenses as a percentage of revenue consequently fell from 9.4% to 9.3%.

5. Colleague retention

The retention of high performing colleagues within the Group is key to the delivery of both customer experience and financial performance. The Group has set a goal of 80% of all colleagues having 12 months or more of continuous service by February 2020. As at 31 August, the Group has colleague

CHIEF EXECUTIVE'S REVIEW (CONTINUED)

Strategic Overview (continued)

Importance of Management, Colleagues and Culture (continued)

5. Colleague retention(continued)

stability of 75%. Stability within the Group's management colleagues has long exceeded this figure, whilst historically, greater turnover has been experienced in the roles of sales executive and service advisors. During the Period, the Group saw significantly reduced colleague turnover within these key roles, following a number of specific initiatives. Technician stability is at a high level and has returned to more normalised levels following increased turnover of technician colleagues in recent years. Further work remains to achieve the Group's stated target, and this remains a major priority.

Robert Forrester, CEO

FINANCIAL REVIEW

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

	H1 FY20 £'000	Mix %	H1 FY19 £'000	Mix %	% change	Like-for-like Change %
Revenue						
New	472,102	28.7	468,730	30.0	0.7	(2.2)
Fleet & Commercial	390,480	23.7	347,906	22.3	12.2	6.6
Used	653,787	39.7	616,531	39.5	6.0	3.3
Aftersales	130,739	7.9	127,204	8.2	2.8	2.7
Total Group Revenue	**1,647,108**	**100.0**	**1,560,371**	**100.0**	**5.6**	**2.3**

	H1 FY20 £'000	Margin[5] %	H1 FY19 £'000	Margin[5] %	Gross profit change £'000	Like-for-like Gross Profit change %
Gross profit						
New	33,654	7.1	34,687	7.4	(1,033)	(5.4)
Fleet & Commercial	13,137	3.4	9,798	2.8	3,339	11.7
Used	52,793	8.1	54,038	8.8	(1,245)	(3.5)
Aftersales	73,113	47.1	67,429	43.5	5,684	7.2
Total gross profit	**172,697**	**10.5**	**165,952**	**10.6**	**6,745**	**1.2**
Operating expenses	(153,111)		(146,552)			
Adjusted operating profit	**19,586**		**19,400**			
Net finance charges	(2,486)		(1,323)			
Adjusted PBT	**17,100**		**18,077**			
Non-underlying items	(1,001)		(752)			
Profit before tax	**16,099**		**17,325**			
Taxation	(3,100)		(3,294)			
Profit after tax	**12,999**		**14,031**			
Earnings per share (p)	**3.48**		**3.71**			
Interim Ordinary dividend per share (p)	**0.60**		**0.55**			

[5] Calculated on internal and external revenues in the case of aftersales

Volumes of vehicles sold on a Total and like-for-like basis:

	H1 2019 Core	H1 2019 Acquired[6]	H1 2019 Total	H1 2018 Total[7]	H1 2018 Core	Total % Variance	Like-for-like % Variance	SMMT % Variance
Used retail vehicles	**43,786**	**1,250**	**45,036**	**43,823**	**43,092**	**2.8**	**1.6**	**-**
New retail cars	17,718	625	18,343	19,908	19,713	(7.9)	(10.1)	(4.2)
Motability cars	5,046	150	5,196	5,321	5,202	(2.3)	(3.0)	6.6
Direct fleet sales	8,844	73	8,917	8,459	8,454	5.4	4.6	-
Agency fleet sales	2,018	484	2,502	1,087	1,087	130.2	85.6	-
Total fleet sales	10,862	557	11,419	9,546	9,541	19.6	13.8	(1.3)
Commercial sales	8,948	1,326	10,274	8,922	8,769	15.2	2.0	12.4
Total New vehicles	**42,574**	**2,658**	**45,232**	**43,697**	**43,225**	**3.5**	**(1.5)**	
Total vehicles	**86,360**	**3,908**	**90,268**	**87,520**	**86,317**	**3.1**	**0.1**	

[6] Relates to businesses acquired or developed subsequent to 1 March 2018 with businesses migrating into core once they have been in the Group for over 12 months

[7] H1 2018 volumes include businesses acquired in the year ended 28 February 2018

New retail cars and Motability sales

The UK private new car market saw registrations fall by 4.2% during the Period, with these registration statistics undoubtedly aided by increased pre-registration in the market year-on-year as underlying retail demand fell. Continued Sterling weakness driving price rises and declining used car residual values have led to an increase in the cost to change for consumers seeking a new car. This has reduced demand with change cycles lengthening. The Group saw like-for-like new vehicle volumes decline 10.1% in the Period reflecting the Group's franchise mix, with some of the Group's volume Manufacturers seeing significant contractions in volume. These Manufacturers tend to be more exposed to the impact of currency weakness. In contrast, premium franchises saw continued increasing registrations and the Group saw increased volumes in these franchises on a like-for-like basis. The Group was keen to balance volume and margin in the period through the exercise of strong pricing disciplines which led to a decline in volume and strengthening in gross profit per unit.

Motability volumes declined 3% on a like-for-like basis, compared to a rise in UK registrations in the channel of 6.6%. The Group's Motability volumes are heavily weighted to volume franchises which, due to pricing and supply actions, saw reduced market share in the UK compared to premium franchises.

Gross profit per unit rose 3.3% on a like-for-like basis reflecting the above pricing disciplines and the Group hitting Manufacturer targets and earning volume bonuses at a high level. Margin percentages declined from 7.4% to 7.2% on a like-for-like basis due to the impact of price inflation on new vehicle sales and the enhanced premium mix which has inherently lower margin percentages. Like-for-like gross profits from the sale of new retail and Motability vehicles by the Group fell £1.9m year on year driven by the reduced volume of new vehicles sold.

Fleet & Commercial vehicle sales

The Group outperformed the market in new fleet cars, growing like-for-like volumes including agency volumes by 13.8% against a decline of 1.3% in the UK fleet market. Agency volumes in the fleet channel relate to vehicles where the Group receives a handling fee for the registration, preparation and delivery of the vehicle, but where no vehicle sales revenue is recorded. The Group continues to see considerable success in developing its fleet capacity in both the premium and volume markets, with 11,419 cars delivered in the Period.

The UK commercial vehicle market experienced considerable strength in the Period, driven by the prospect of WLTP regulations which came into force for vans on 1 September 2019. The SMMT reported a 12.4% growth in vans registered in the UK in the Period with this figure boosted by increases in pre-registration and significant fleet supply prior to the September deadline of non-

Fleet & Commercial vehicle sales (continued)

compliant vehicles. Total Group sales volumes of commercial vehicles increased 15.2% in the Period boosted by the additional volume of the Vans Direct business acquired in January 2019. The Group's like-for-like sales volumes of new commercial vans increased by 2.0% in the Period. This growth was below the market trends, reflective of the performance of the Group's van franchises compared to the market and a purposeful move away from certain low margin supply arrangements, to enhance margins.

The Group grew like-for-like gross profit per unit in the Fleet and Commercial channel by 3.4% to £551 (H1 2018: £533). Like-for-like gross profit generation rose £1.2m in the Period reflecting both the strong performance in the Period and the Group's strength in this segment.

Used retail vehicles

During the Period, the Group continued to grow volumes of used vehicles sold with like-for-like volumes and revenues up 1.6% and 3.3% respectively. These increases were achieved despite a softening consumer demand environment. Overall, used car sales volumes in the UK are likely to have fallen in the Period.

The used vehicle market in the UK experienced higher than normal seasonal price drops, in particular from April to June. Strong supply of vehicles following a reasonably strong March market coincided with a period of reduced consumer demand, causing oversupply relative to demand. Auction conversions and trade profits fell, and overall prices fell at the fastest rate since 2014 for a short period until early July. Subsequent to this, used vehicle values have stabilised, particularly volume franchise used cars. High levels of new vehicle supply into the premium market continue to impact upon premium used vehicle residuals and margins.

Core gross profit generated from used vehicle sales in the Period fell £1.9m compared to the prior year, due principally to the lower margins being earned. The bulk of the Group's used car margin reduction (£1.6m) can actually be attributed to an increase at the start of the financial year in the internal labour rate charged by the Group's service operations in the preparation of used vehicles for sale. This increase has effectively transferred gross profit from the Group's vehicle departments into the aftersales channel. If the impact of this change is excluded, used car margins were remarkably resilient overall given market trends. The Group has consistent policies around disposal and pricing of ageing used vehicle stock and this, together with advanced stock management systems, leads to lean stock management and high stock turns. This aids tight control of working capital and such an environment also limits the Group's exposure to periodic market wide used vehicle valuation movements.

Gross profit per unit on a like-for-like basis declined from £1,235 to £1,172 (5.1%). Volume franchises saw gross profit per unit decline by only 1.1% whilst premium franchises declined 10.8%. Given the higher preparation costs charged due to the increase in internal rates charged, volume franchise used car profits were surprisingly resilient given the market backdrop. The pressure on used car margins in premium franchises is clearly evident and continues.

Lower margins, increased sales prices and a higher premium mix contributed to gross margin percentages declining from 8.8% to 8.3% on a like-for-like basis. This decline includes the impact of the higher internal service rates on preparation costs.

Aftersales

In the Period, the Group continued its focus on driving growth in its vehicle servicing departments, achieving an 8.5% increase in the Group's like-for-like service revenues in the Period. The like-for-like gross margin percentage on vehicle servicing rose to 76.9% (H1 2018: 75.8%). As noted above, the Group has increased hourly rates charged on internal work undertaken for sales departments and this aided like-for-like aftersales margins by 0.8%. Technician salary levels stabilised, and the Group also drove higher average invoice values on retail work through pricing actions and more effective vehicle health check processes. These trends all aided margin expansion. Overall, like-for-

Aftersales (continued)

like gross profits in aftersales rose £4.6m in the Period year on year with the increase in internal rates accounting for £2.2m of this improvement.

The like-for-like numbers above exclude the impact of the Ford parts reorganisation previously announced. This reduced Group profitability by £0.6m compared to the prior year period. This is anticipated to be the bulk of the impact of the reorganisation for the full financial year.

Acquisitions

Acquisitions in the Period contributed an additional £0.2m. The Vans Direct business made a positive contribution, despite reduced supply of a number of core van product lines ahead of the introduction of WLTP. These supply constraints had a material impact which is expect to reverse in the remainder of 2019. The Hughes acquisition of the Mercedes-Benz market area made an additional positive contribution (it was acquired on 30 June 2018). The Board believes there is significant scope to increase the profitability of both these businesses in future periods. The Hughes Mercedes-Benz business in Beaconsfield and Aylesbury has been fully integrated under a single management structure with the Group's adjacent market area in Slough, Reading and Ascot, resulting in significant synergies being obtained.

Operating expenses

The ratio of operating expenses to revenues reduced slightly to 9.3% (H1 2018: 9.4%) during the Period, despite well-publicised cost headwinds. This reflects the continued focus on the management of costs throughout the business. Like-for-like operating expenses rose 1% in the Period year on year compared to a 7% increase in the prior year period. Like-for-like operating expenses rose £1.5m overall in the Period, predominantly due to investment in additional aftersales colleagues, courtesy vehicles and investment in enlarged properties. These higher costs have aided the creation of incremental aftersales profits.

Interest costs

Net finance expenses rose £1.2m year on year. This was a result of both higher levels of bank borrowing due to acquisitions, and higher vehicle stocking charges, with comparatives anticipated to ease in this regard for H2 2019.

Higher year on year new vehicle stocking charges were incurred, driven by both an increase in interest rates being charged by Manufacturers, as well as higher levels of funded consignment stock. This is partly due to greater volumes of consignment new vehicle inventory brought into the Period as Manufacturers built up stock levels in advance of the original Brexit deadline of 29 March 2019 and partly due to increased vehicle cost per unit as vehicle prices rose on currency impacts.

Pension Costs

The accounting surplus on the Group's closed defined benefit pension scheme rose to £7.8m during the Period (2018 H1: £6.9m) due to the actual investment return achieved on the assets being higher than that required to match the expected increase in defined benefit obligations in the Period. This was partially offset by changes in assumptions increasing the value of the defined benefit obligations, primarily caused by a lower discount rate following falls in UK corporate bond yields over the Period. The 2018 triennial valuation of the scheme was completed in the Period and showed that the scheme was fully funded on an actuarial funding basis, and as such, no cash contributions to the scheme are required. The Trustees are working with Vertu to ensure that this position is protected through a review of the scheme's investment strategy.

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 19.2% (2018 H1: 19.0%), continuing to track the headline rate. The Group is currently 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.

Managing working capital

The Group generated cash from operating activities of £28.4m from an operating profit of £20.3m. This performance therefore reflects excellent conversion of profits into cash.

The Group has significant levels of working capital in the form of inventory, receivables and payables. These are subject to significant, yet predictable, seasonal fluctuations which coincide with plate change months and quarterly Manufacturer new car campaigns. In addition, Manufacturer new vehicle supply levels and financing changes can also impact working capital patterns over time. The Group benefits from VAT reclaimed on new vehicle inventory invoiced from certain Manufacturers which have yet to be paid for in cash.

New vehicle inventory declined in the Period by £52.4m as high inventory levels at 28 February 2019, driven by Manufacturers planning towards the original Brexit date, unwound with a corresponding decrease in trade creditors. The Group's other working capital elements remained at similar levels seen at the year-end as strong working capital control disciplines continued.

Property and dealership portfolio management

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

- On 26 March 2019 the Group disposed of a surplus dealership property in Barnsley realising £0.6m of cash and generating a profit of £50,000.
- On 31 March 2019 the Group disposed of its Peugeot operation in High Wycombe, which had been acquired in the year ended 28 February 2019 as part of the Hughes acquisition. This disposal generated £0.8m of cash including £0.7m in relation to freehold property.
- In April 2019 the Group ceased its Honda operation in Retford, Lincolnshire. The Group expects to exchange shortly on the disposal of the related freehold property subject to planning for alternative use.
- On 30 September 2019 the Group disposed of a surplus former dealership freehold property in Cheltenham realising cash of £1.6m and generating a profit on disposal of £161,000. This asset has been classified as held for resale in the balance sheet as at 31 August 2019.

Additional property disposals of surplus assets have been agreed subject to planning and other conditions.

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 2018 £'m	FY 2019 £'m	H1 FY 2020 £'m	FY 2020 £'m	FY 2021 £'m
Purchase of property	4.3	9.0	1.4	1.4	1.0
New dealership build	4.3	6.7	1.7	3.1	-
Existing dealership capacity increases	8.2	11.9	0.6	10.2	4.5
Manufacturer led refurbishment projects	3.0	1.0	0.2	0.1	4.5
IT and other ongoing capital expenditure	4.9	4.2	2.6	4.2	5.0
Movement on capital creditor	(0.6)	0.9	1.8	-	-
	24.1	**33.7**	**8.3**	**19.0**	**15.0**
Proceeds from property sales	(14.3)	(4.0)	(1.4)	(3.0)	-
Net capital investment	**9.8**	**29.7**	**6.9**	**16.0**	**15.0**

The significant decline in capital expenditure anticipated in the current financial year is being delivered. In addition, further realisations of surplus property are expected over the next 12 months.

Adoption of IFRS 16 Leases

The Group has applied IFRS 16 for the first time in this Interim Report and Accounts for the six months ended 31 August 2019. The standard has been adopted using the modified retrospective approach, with consequently no restatement of prior year comparatives. The standard has no effect on the Group's commercial activity, nor does it impact on cash flows nor any of the Group's financing arrangements.

This standard removes the distinction between an operating lease and finance lease and instead requires that a 'right of use' asset and lease liability are recognised in the Consolidated Balance Sheet in respect of all leases. Operating lease rental expenses are replaced by an interest charge on the lease liability and a depreciation charge on the right of use asset.

In the Group's full year results announcement released in May 2019 the Group provided an estimate of the impact of adoption of this standard. Full details of the actual impact are set out in Note 3 of the Interim Financial Statements. To aid comparison, figures for the Period have also been presented excluding the IFRS 16 adjustments.

Financing and capital structure

The Group has a balance sheet with shareholders' funds of £275.3m (2018 H1: £273.2m) underpinned by a freehold and long leasehold portfolio of £209.1m (2018 H1: £202.9m) and net cash. As at 31 August 2019, freehold locations represented 53% of dealerships (2019 H1: 54%).

The Group has a committed acquisition debt facility of £62m, maturing in February 2024, with the potential to add a further £15m which is currently uncommitted. £44m of this committed facility was drawn at 31 August 2019.

The Group's Adjusted net cash position of £29.1m is stated excluding £22.5m 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 £105.4m of used vehicle inventory at 31 August 2019 (2018 H1: £104.8m).

The Group's conservative financing and capital structure results in a strong tangible net assets position.

Shareholder returns

The Group continued its programme of share buy-backs under which 7.4m shares have been purchased since 1 March 2019 at an average price of 36.89p, deploying £2.7m of cash. This purchase price level was therefore below tangible net assets per share. At the Annual General Meeting in July 2019, the Group renewed its approval to repurchase its own shares up to 10% of the Company's issued share capital and flagged that £3m of cash had been earmarked for a new programme of buy-backs, £1.3m of this total has been utilised to date.

An interim dividend of 0.6 pence per share (2018 H1: 0.55p) will be paid on 17 January 2020. The ex-dividend date will be 5 December 2019 and the associated record date will be 6 December 2019.

Current trading and outlook

The Board is confident in the future prospects for the Group. With its strong balance sheet and experienced leadership team, the Board believes that the Group is strategically very well placed to capitalise on the challenges and consequent opportunities in the UK motor retail sector. The Board considers that there will be significant consolidation opportunities in the coming few years whilst, at the same time, dealership numbers in the UK are likely to face downward pressure. This should improve the profit potential of those that remain, with more scaled operations gaining from cost and marketing synergies.

The Group's trading performance in September was ahead of prior year levels. September like-for-like new retail volumes were down 1.6% with UK private retail registrations stable. Used vehicle like-for-like volumes rose 3.5% and service revenues grew 11.4% on a like-for-like basis. Used vehicle residual volumes have remained stable in volume franchises, whilst oversupply in certain

Current trading and outlook (continued)

premium franchises continues to impact on vehicle values. The Group significantly outperformed in the fleet car sector with a 42.8% rise in volumes (SMMT registrations up 8.6%). The commercial vehicle market saw a significant reduction in volumes as new WLTP regulations were introduced on 1 September compared to significant growth prior to this date. UK commercial vehicle registrations reduced 23.5% with Group volumes down 41.0% on a like-for-like basis reflecting franchise mix.

The UK economy is growing and has record levels of employment, albeit ongoing uncertainty over the UK's departure from the EU may be met with caution from consumers. New vehicle supply may be affected by Sterling exchange rate fluctuations which impact Manufacturer margins and prices to consumers EU emissions legislation changes may impact future new vehicle model mix.

The Board believes the Group remains on track to meet its overall expectations for the full year.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 31 August 2019

	Note	Six months ended 31 August 2019			Six months ended 31 August 2018			Year ended 28 February 2019		
		Underlying items	**Non-underlying items (Note 5)**	**Total**	**Underlying items**	**Non-underlying items (Note 5)**	**Total**	**Underlying items**	**Non-underlying items (Note 5)**	**Total**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Revenue		1,647,108	-	1,647,108	1,560,371	-	1,560,371	2,982,200	-	2,982,200
Cost of sales		(1,474,411)	-	(1,474,411)	(1,394,419)	-	(1,394,419)	(2,660,095)	-	(2,660,095)
Gross profit		**172,697**	**-**	**172,697**	**165,952**	**-**	**165,952**	**322,105**	**-**	**322,105**
Operating expenses		(153,111)	760	(152,351)	(146,552)	(752)	(147,304)	(294,714)	1,622	(293,092)
Operating profit		**19,586**	**760**	**20,346**	**19,400**	**(752)**	**18,648**	**27,391**	**1,622**	**29,013**
Finance income	6	216	-	216	134	-	134	276	-	276
Finance costs	6	(2,702)	(1,761)	(4,463)	(1,457)	-	(1,457)	(3,957)	-	(3,957)
Profit before tax		**17,100**	**(1,001)**	**16,099**	**18,077**	**(752)**	**17,325**	**23,710**	**1,622**	**25,332**
Taxation	7	(3,161)	61	(3,100)	(3,346)	52	(3,294)	(4,470)	(326)	(4,796)
Profit for the year attributable to equity holders		**13,939**	**(940)**	**12,999**	**14,731**	**(700)**	**14,031**	**19,240**	**1,296**	**20,536**
Basic earnings per share (p)	8			**3.48**			**3.71**			**5.45**
Diluted earnings per share (p)	8			**3.45**			**3.65**			**5.37**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 31 August 2019

	Note	Six months ended 31 August 2019 £'000	Six months ended 31 August 2018 £'000	Year ended 28 February 2019 £'000
Profit for the period		**12,999**	**14,031**	**20,536**
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Actuarial gain / (loss) on retirement benefit obligations	10	1,377	236	(269)
Deferred tax relating to actuarial (gain) / loss on retirement benefit obligations		(234)	(40)	46
Items that may be reclassified subsequently to profit or loss:				
Cash flow hedges		(429)	93	67
Deferred tax relating to cash flow hedges		73	(18)	(11)
Other comprehensive income for the period, net of tax		**787**	**271**	**(167)**
Total comprehensive income for the period attributable to equity holders		**13,786**	**14,302**	**20,369**

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 31 August 2019

	Note	31 August 2019 £'000	31 August 2018 £'000	28 February 2019 £'000
Non-current assets				
Goodwill and other indefinite life assets	12	109,729	105,564	112,229
Other intangible assets		2,330	1,086	2,599
Retirement benefit asset	10	7,840	6,887	6,430
Property, plant and equipment		224,391	218,798	224,818
Right of use assets	3	78,557	-	-
Derivative financial instruments		-	63	44
		422,847	**332,398**	**346,120**
Current assets				
Inventories		566,037	507,662	618,628
Trade and other receivables		60,131	46,698	62,940
Cash and cash equivalents		72,679	46,912	66,519
		698,847	**601,272**	**748,087**
Property assets held for sale		1,401	1,079	1,324
Total current assets		**700,248**	**602,351**	**749,411**
Total assets		**1,123,095**	**934,749**	**1,095,531**
Current liabilities				
Trade and other payables		(660,673)	(573,446)	(717,204)
Deferred consideration		(100)	(1,500)	(1,500)
Current tax liabilities		(6,459)	(5,436)	(3,742)
Contract liabilities		(10,085)	(8,897)	(9,590)
Borrowings		(22,488)	(19,153)	(23,166)
Lease liabilities	3	(15,426)	-	-
Total current liabilities		**(715,231)**	**(608,432)**	**(755,202)**
Non-current liabilities				
Borrowings		(43,571)	(36,426)	(43,600)
Lease liabilities	3	(72,516)	-	-
Derivative financial instruments		(454)	(63)	(69)
Deferred consideration		-	(100)	(2,600)
Deferred income tax liabilities		(5,636)	(7,069)	(7,594)
Contract Liabilities		(10,341)	(9,507)	(9,823)
Total non-current liabilities		**(132,518)**	**(53,165)**	**(63,686)**
Total liabilities		**(847,749)**	**(661,597)**	**(818,888)**
Net assets		**275,346**	**273,152**	**276,643**
Capital and reserves attributable to equity holders of the Group				
Ordinary shares		37,042	37,929	37,661
Share premium		124,939	124,939	124,939
Other reserve		10,645	10,645	10,645
Hedging reserve		(375)	-	(19)
Treasury share reserve		(602)	(645)	(602)
Capital redemption reserve		2,685	1,798	2,066
Retained earnings		101,012	98,486	101,953
Shareholders' equity		**275,346**	**273,152**	**276,643**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 31 August 2019

	Note	Six months ended 31 August 2019 £'000	Six months ended 31 August 2018 £'000	Year ended 28 February 2019 £'000
Operating profit		20,346	18,648	29,013
Profit on sale of property, plant and equipment		(34)	(564)	(520)
Amortisation of intangible assets		321	275	543
Depreciation of property, plant and equipment		12,342	5,515	10,722
Movement in working capital	11	1,791	552	18,861
Share based payments charge		416	429	904
Cash generated from operations		**35,182**	**24,855**	**59,523**
Tax received		362	69	157
Tax paid		(2,857)	(2,336)	(4,860)
Finance income received		132	46	99
Finance costs paid		(4,466)	(1,605)	(3,953)
Net cash inflow from operating activities		**28,353**	**21,029**	**50,966**
Cash flows from investing activities				
Acquisition of businesses, net of cash, overdrafts and borrowings acquired		(1,547)	(23,739)	(31,514)
Acquisition of freehold land and buildings		(1,421)	(8,982)	(9,008)
Purchases of intangible assets		(54)	(44)	(150)
Purchases of property, plant and equipment		(7,058)	(13,516)	(24,681)
Proceeds from disposal of property, plant and equipment		1,374	3,285	3,964
Net cash outflow from investing activities		**(8,706)**	**(42,996)**	**(61,389)**
Cash flows from financing activities				
Proceeds from borrowings	9	-	33,342	44,455
Repayment of borrowings	9	(678)	-	-
Principal elements of lease repayments		(6,577)	-	-
Sale of treasury shares		-	49	64
Repurchase of own shares		(2,319)	(2,634)	(3,629)
Dividends paid to equity shareholders		(3,913)	(3,587)	(5,657)
Net cash (outflow)/inflow from financing activities		**(13,487)**	**27,170**	**35,233**
Net increase in cash and cash equivalents	9	**6,160**	**5,203**	**24,810**
Cash and cash equivalents at beginning of period		66,519	41,709	41,709
Cash and cash equivalents at end of period		**72,679**	**46,912**	**66,519**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31 August 2019

	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 2019	37,661	124,939	10,645	(19)	(602)	2,066	101,953	276,643
Change in accounting policy (note 3)	-	-	-	-	-	-	(9,167)	(9,167)
Restated total as at 1 March 2019	37,661	124,939	10,645	(19)	(602)	2,066	92,786	267,476
Profit for the period	-	-	-	-	-	-	12,999	12,999
Actuarial gain on retirement benefit obligations	-	-	-	-	-	-	1,377	1,377
Tax on items taken directly to equity	-	-	-	73	-	-	(234)	(161)
Fair value losses	-	-	-	(429)	-	-	-	(429)
Total comprehensive income for the period	**-**	**-**	**-**	**(356)**	**-**	**-**	**14,142**	**13,786**
Repurchase of own shares	-	-	-	-	-	-	(2,420)	(2,420)
Cancellation of shares	(619)	-	-	-	-	619	-	-
Dividends paid	-	-	-	-	-	-	(3,912)	(3,912)
Share based payments charge	-	-	-	-	-	-	416	416
As at 31 August 2019	**37,042**	**124,939**	**10,645**	**(375)**	**(602)**	**2,685**	**101,012**	**275,346**

The purchase of own shares in the period was made pursuant to the share buyback programme previously announced. Ordinary shares to the value of £2,420,000 were repurchased in the six months to 31 August 2019. 6,191,984 of repurchased shares were cancelled in the six months ended 31 August 2019 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 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**

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

For the year ended 28 February 2019

	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 year	-	-	-	-	-	-	20,536	20,536
Actuarial losses on retirement benefit obligations	-	-	-	-	-	-	(269)	(269)
Tax on items taken directly to equity	-	-	-	(11)	-	-	46	35
Fair value gains	-	-	-	67	-	-	-	67
Total comprehensive income for the year	**-**	**-**	**-**	**56**	**-**	**-**	**20,313**	**20,369**
Sale of treasury shares	-	5	-	-	88	-	(29)	64
Repurchase of own shares	-	-	-	-	-	-	(3,455)	(3,455)
Cancellation of repurchased shares	(891)	-	-	-	-	891	-	-
Dividend paid	-	-	-	-	-	-	(5,657)	(5,657)
Share based payments charge	-	-	-	-	-	-	904	904
As at 28 February 2019	**37,661**	**124,939**	**10,645**	**(19)**	**(602)**	**2,066**	**101,953**	**276,643**

NOTES

For the six months ended 31 August 2019

1. Basis of Preparation

Vertu Motors plc is a Public Limited Company which is quoted on the A*i*M 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 2019 and similarly the period ended 31 August 2018 has neither been audited nor reviewed by the auditors. The financial information for the year ended 28 February 2019 has been based on information in the audited financial statements for that period.

The information for the year ended 28 February 2019 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, these condensed interim financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 28 February 2019, except as explained in note 3 below.

NOTES (CONTINUED)

3. Change in accounting policies

IFRS 16 'Leases'

In the period ended 31 August 2019, the Group has applied IFRS 16 *'Leases'*, for the first time.

The Group has adopted IFRS 16 retrospectively from 1 March 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the adoption of IFRS 16 have therefore been recognised in the opening balance sheet on 1 March 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 March 2019. The incremental borrowing rate applied to the lease liabilities on 1 March 2019 was 4.15% in respect of the Group's property leases, and 2.25% in respect of the Group's vehicle leases.

The associated right-of-use assets were measured on a retrospective basis as if the new rules had always been applied.

The change in accounting policy affected the following items in the balance sheet on 1 March 2019:

- Right-of-use assets – increased by £78,861,000
- Current lease liabilities – increased by £15,286,000
- Non-current lease liabilities – increased by £72,742,000

The net impact on retained earnings on 1 March 2019 was a decrease of £9,167,000.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- Reliance on previous assessment of whether leases are onerous,
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 March 2019 as short-term leases,
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Until the year ended 28 February 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 March 2019, leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less any incentives receivable,
- Variable lease payments that are based on an index or a rate,
- Amounts expected to be payable by the lessee under residual value guarantees,
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

3. Change in accounting policies (continued)

IFRS 16 'Leases' (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability,
- Any lease payments made at or before the commencement date, less any lease incentives received,
- Any initial direct costs; and
- Restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 month or less. Low-value assets comprise small items of furniture or equipment.

Extension and termination options are included in a number of property leases across the Group and are used to maximise flexibility to respond to the changing retail environment in the years ahead. Approximately one third of the Group's property leases have the benefit of a tenant break clause.

A reconciliation of total operating lease commitments to the IFRS 16 lease liability at 1 March 2019 is as follows:

	£'000
Operating lease commitments disclosed at 28 February 2019	104,375
Effect of discounting using incremental borrowing rate at the date of initial application	(19,799)
Impact of IFRS 16 data review [8]	3,452
Lease liability recognised at 1 March 2019	**88,028**
Of which:	
Current lease liabilities	15,286
Non-current lease liabilities	72,742
	88,028

[8] When producing transition calculations for IFRS 16, the calculations underlying the operating lease commitments note have been refined, with £3,452,000 additional present value of lease liabilities on transition identified as a result.

The impact on profit or loss for the six-month period ended 31 August 2019 was the following:

- Depreciation charge – increase by £6,796,000
- Finance costs – increase by £1,761,000
- Lease rental expense – decrease by £8,338,000

As the Group has adopted this accounting policy change using the modified retrospective approach in the current period and therefore comparatives have not been restated, the profit or loss impact has been presented within non-underlying items (note 5) to enhance comparability with the previous period.

The adoption of IFRS 16 has also had an impact on the presentation of the payment of lease rentals in the cash flow statement. In the comparative periods, lease rentals were included in operating expenses and therefore operating cash flows. In the six months ended 31 August 1019, operating expenses instead includes a depreciation charge which has subsequently been added back to cash generated from operations. The interest element of lease repayments is presented within finance costs paid and the principal element has been included within cash flows from financing activities.

NOTES (CONTINUED)

3. Change in accounting policies (continued)

***IFRS 16 'Leases'* (continued)**

As the Group has used the modified retrospective approach in adopting IFRS 16, comparatives have not been restated. The impact on the cash flow statement for the six months ended 31 August 2019 is as follows:

- Operating profit – increase by £1,542,000
- Depreciation of property plant and equipment – increase by £6,796,000
- Finance costs paid – increase by £1,761,000

Net cash inflow from operating activities – increase by £6,577,000

- Principal elements of lease repayments – increase by £6,577,000

Net cash outflow from financing activities – increase by £6,577,000

4. 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.

Six Months ended 31 August 2019	**Revenue £'m**	**Revenue Mix %**	**Gross Profit £'m**	**Gross Profit Mix %**	**Gross Margin %**
Aftersales[9]	130.7	7.9	73.1	42.3	47.1
Used vehicles	653.8	39.7	52.8	30.6	8.1
New car retail and Motability	472.1	28.7	33.7	19.5	7.1
New fleet & commercial	390.5	23.7	13.1	7.6	3.4
Total	**1,647.1**	**100.0**	**172.7**	**100.0**	**10.5**

Six Months ended 31 August 2018	**Revenue £'m**	**Revenue Mix %**	**Gross Profit £'m**	**Gross Profit Mix %**	**Gross Margin %**
Aftersales[9]	127.2	8.2	67.4	40.6	43.5
Used vehicles	616.6	39.5	54.0	32.6	8.8
New car retail and Motability	468.7	30.0	34.7	20.9	7.4
New fleet & commercial	347.9	22.3	9.8	5.9	2.8
Total	**1,560.4**	**100.0**	**165.9**	**100.0**	**10.6**

Year ended 28 February 2019	**Revenue £'m**	**Revenue Mix %**	**Gross Profit £'m**	**Gross Profit Mix %**	**Gross Margin %**
Aftersales[9]	257.1	8.6	136.0	42.2	43.9
Used vehicles	1,217.6	40.9	102.0	31.7	8.4
New car retail and Motability	862.8	28.9	63.9	19.8	7.4
New fleet & commercial	644.7	21.6	20.2	6.3	3.1
Total	**2,982.2**	**100.0**	**322.1**	**100.0**	**10.8**

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

NOTES (CONTINUED)

5. Non-underlying items

	Six months ended 31 August 2019 £'000	Six months ended 31 August 2018 £'000	Year ended 28 February 2019 £'000
VAT reclaim on dealer deposit contribution	-	-	3,069
Share based payment charge	(461)	(478)	(904)
Amortisation	(321)	(274)	(543)
Impact of change in accounting policy (note 3):			
- Depreciation	(6,796)	-	-
- Operating lease rentals	8,338	-	-
Non-underlying operating expenses	**760**	**(752)**	**1,622**
Impact of change in accounting policy (note 3):			
- Finance cost	(1,761)	-	-
Non-underlying (loss)/profit before tax	**(1,001)**	**(752)**	**1,622**
Tax on non-underlying items above	61	52	(326)
Non-underlying (loss)/profit after tax	**(940)**	**(700)**	**1,296**

6. Finance income and costs

	Six months ended 31 August 2019 £'000	Six months ended 31 August 2018 £'000	Year ended 28 February 2019 £'000
Interest on short-term bank deposits	132	46	99
Net finance income relating to Group pension scheme	84	88	177
Finance income	**216**	**134**	**276**
Bank loans and overdrafts	(739)	(404)	(1,063)
Vehicle stocking interest	(1,963)	(1,053)	(2,894)
Lease liability interest	(1,761)	-	-
Finance costs	**(4,463)**	**(1,457)**	**(3,957)**

7. Taxation

The tax charge for the six months ended 31 August 2019 has been provided at the effective rate of 19.2% (Six months ended 31 August 2018: 19%).

8. Earnings per share

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

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

NOTES (CONTINUED)

8. Earnings per share (continued)

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

	Six months ended 31 August 2019 £'000	Six months ended 31 August 2018 £'000	Year ended 28 February 2019 £'000
Profit attributable to equity shareholders	12,999	14,031	20,536
Non-underlying items (note 5)	940	700	(1,296)
Adjusted earnings attributable to equity shareholders	**13,939**	**14,731**	**19,240**
Weighted average number of shares in issue ('000s)	373,195	378,058	377,024
Potentially dilutive shares ('000s)	3,809	5,931	5,512
Diluted weighted average number of shares in issue ('000s)	**377,004**	**383,989**	**382,536**
Basic earnings per share	**3.48p**	**3.71p**	**5.45p**
Diluted earnings per share	**3.45p**	**3.65p**	**5.37p**
Adjusted earnings per share	**3.74p**	**3.90p**	**5.10p**
Diluted adjusted earnings per share	**3.70p**	**3.84p**	**5.03p**

At 31 August 2019, there were 370,413,984 shares in issue (including 1,582,786 held in Treasury).

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

	31 August 2019 £'000	31 August 2018 £'000	28 February 2019 £'000
Net increase in cash and cash equivalents	6,160	5,203	24,810
Cash inflow from increase in borrowings	-	(33,342)	(44,455)
Cash outflow from repayment of borrowings	678	-	-
Cash movement in net cash	**6,838**	**(28,139)**	**(19,645)**
Capitalisation of loan arrangement fees	117	214	214
Amortisation of loan arrangement fee	(88)	(55)	(129)
Non cash movement in net cash	**29**	**159**	**85**
Movement in net cash	**6,867**	**(27,980)**	**(19,560)**
Opening net cash	**(247)**	**19,313**	**19,313**
Closing net cash/(debt)	**6,620**	**(8,667)**	**(247)**
Lease liabilities	(87,942)	-	-
Closing net cash/(debt) following adoption of IFRS 16	**(81,322)**	**(8,667)**	**(247)**

10. Retirement benefits

The Group operates a defined benefit pension scheme in which accrual ceased on 31 May 2003. The Group has applied IAS 19 (revised) to the scheme. During the six month period ended 31 August 2019, there was a gain on assets of £8,364,000. There have also been changes in the financial and demographic assumptions underlying the calculation of the liabilities. In particular, the discount rate has fallen over the six month period due to reductions in corporate bond yields, and the

10. Retirement benefits (continued)

expectation of future mortality improvements has slightly reduced. The effect of these changes in assumptions was an increase in liabilities of £6,987,000. In total, there was an actuarial gain of £1,377,000 recognised in the Statement of Comprehensive Income in the period, before deferred taxation.

11. 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 2019

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(660,673)	
Deferred consideration			(100)	
Contract liabilities			(20,426)	
At 31 August 2019	566,037	60,131	(681,199)	
At 28 February 2019	618,628	62,940	(740,717)	
Balance sheet movement	**52,591**	**2,809**	**(59,518)**	
Acquisitions (note 12)	47	-	-	
Deferred consideration paid on acquisitions	-	-	1,500	
Reassessment of contingent deferred consideration on acquisitions (note 12)	-	-	2,500	
Movement excluding business combinations	**52,638**	**2,809**	**(55,518)**	**(71)**
Pension related balances				51
Decrease in capital creditor				1,938
Increase in interest accrual				(26)
Increase in share repurchase accrual				(101)
Movement in working capital				**1,791**

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			(573,446)	
Deferred consideration			(1,600)	
Contract liabilities			(18,404)	
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)
Decrease in share repurchase accrual				174
Movement in working capital				**552**

NOTES (CONTINUED)

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

For the year ended 28 February 2019

	Inventories £'000	Current trade and other receivables £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(717,204)	
Deferred consideration			(4,100)	
Contract liabilities			(19,413)	
At 28 February 2019	618,628	62,940	(740,717)	
At 28 February 2018	558,386	66,272	(672,381)	
Balance sheet movement	**(60,242)**	**3,332**	**68,336**	
Acquisitions	27,604	8,398	(25,575)	
Deferred consideration on acquisitions	-	-	(4,000)	
Movement excluding business combinations	**(32,638)**	**11,730**	**38,761**	**17,853**
Pension related balances				29
Decrease in capital creditor				894
Increase in interest accrual				(89)
Decrease in share repurchase accrual				174
Movement in working capital				**18,861**

12. Goodwill and other indefinite life assets

	31 August 2019 £'000	31 August 2018 £'000	28 February 2019 £'000
Goodwill	83,319	79,154	85,819
Other indefinite life assets – Franchise relationships	26,410	26,410	26,410
At end of period	**109,729**	**105,564**	**112,229**

On 4 January 2019, the Group acquired the entire issued share capital of Vans Direct Limited ("Vans Direct").

The purchase price for this acquisition included deferred consideration up to a maximum of £2,500,000 as a result of an earn-out arrangement subject to Vans Direct achieving specific performance criteria over a period of two financial years following acquisition. The maximum payable under this arrangement was recognised in deferred consideration, and goodwill, at 28 February 2019.

Subsequent to the 28 February 2019, the Group has reviewed the likelihood of this consideration being payable based on the terms of the earn-out and the performance against the earn-out criteria post year-end. As a result, the fair value of the deferred consideration in respect of the Vans Direct acquisition has been reassessed at 31 August 2019 as nil, with the change in fair value being recognised in profit or loss in accordance with IFRS 9. Consequently, there has been a corresponding £2,500,000 impairment in the value of goodwill recognised in profit or loss in respect of Vans Direct on acquisition.

Measurement period adjustment

Within the measurement period following the acquisition of Vans Direct and in accordance with IFRS 3, the purchase price allocation was finalised which resulted in a £47,000 reduction in the fair value of stock acquired and a corresponding increase in the fair value of goodwill on acquisition.

In accordance with IFRS 3, measurement period adjustments are reflected in the financial statements as if the final purchase price allocation had been completed at the balance sheet date.

NOTES (CONTINUED)

13. Risks and uncertainties

There are certain risk factors which could result in the actual results of the Group differing materially from expected results. These factors include: failure to deliver on the strategic goal of the Group to acquire and consolidate UK motor retail businesses, failure to meet competitive challenges to our business model or sector, advances in vehicle technology providing customers with mobility solutions which bypass the dealer network, inability to maintain current high quality relationships with manufacturer partners, economic conditions, 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 2019.

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 29 February 2020.

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"
2019 H1	The six month period ended 31 August 2019
2018 H1	The six month period ended 31 August 2018
Adjusted	Adjusted for exceptional items, amortisation of intangible assets and share based payments, as these are unconnected with the ordinary business of the Group, and the adoption of IFRS 16 to aid comparability with the prior period.
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 2019 £'000**	**Six months ended 31 August 2018 £'000**
Profit before tax	16,099	17,325
Amortisation	321	274
Share based payment charge	461	478
Impact on change in accounting policy (note 3):		
- Depreciation	6,796	-
- Finance cost	1,761	-
- Operating lease rentals	(8,338)	-
Adjusted PBT	**17,100**	**18,077**

Like-for-like reconciliations:

Revenue by department

2019	**2019 H1 Group revenue £'m**	**Acquisitions revenue £'m**	**Disposals revenue £'m**	**2019 H1 Like-for-like revenue £'m**
New car retail and Motability	472.1	(17.3)	(1.1)	453.7
New fleet and commercial	390.5	(21.2)	(0.1)	369.2
Used cars	653.8	(30.2)	(0.7)	622.9
Aftersales	130.7	(8.7)	(0.2)	121.8
Total revenue	**1,647.1**	**(77.4)**	**(2.1)**	**1,567.6**

ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

2018	2018 H1 Group revenue £'m	Acquisitions revenue £'m	Disposals revenue £'m	Ford Parts Revenue £'m	2018 H1 Like-for-like revenue £'m
New car retail and Motability	468.7	(2.6)	(2.4)	-	463.7
New fleet and commercial	347.9	(1.1)	(0.3)	-	346.5
Used cars	616.6	(10.0)	(3.4)	-	603.2
Aftersales	127.2	(3.1)	(0.5)	(5.0)	118.6
Total revenue	**1,560.4**	**(16.8)**	**(6.6)**	**(5.0)**	**1,532.0**

Aftersales revenue by department

2019	2019 H1 Group revenue £'m	Acquisitions revenue £'m	Disposals revenue £'m	2019 H1 Like-for-like revenue £'m
Parts	83.4	(5.0)	(0.1)	78.3
Accident repair	3.1	(0.5)	-	2.6
Parts and accident repair	86.5	(5.5)	(0.1)	80.9
Service	68.8	(4.2)	(0.1)	64.5
Total revenue [10]	**155.3**	**(9.7)**	**(0.2)**	**145.4**

2018	2018 H1 Group revenue £'m	Acquisitions revenue £'m	Disposals revenue £'m	Ford Parts revenue £'m	2018 H1 Like-for-like revenue £'m
Parts	90.6	(1.7)	(0.3)	(9.8)	78.8
Accident repair	3.0	(0.1)	-	-	2.9
Parts and accident repair	93.6	(1.8)	(0.3)	(9.8)	81.7
Service	61.3	(1.5)	(0.3)	-	59.5
Total revenue [10]	**154.9**	**(3.3)**	**(0.6)**	**(9.8)**	**141.2**

[10] Inclusive of both internal and external revenue

Gross profit by department

2019	2019 H1 Group gross profit £'m	Acquisitions gross profit £'m	Disposals gross profit £'m	Ford Parts gross profit £'m	2019 H1 Like-for-like gross profit £'m
New car retail and Motability	33.7	(1.2)	-	-	32.5
New fleet and commercial	13.1	(2.1)	-	-	11.0
Used cars	52.8	(1.4)	-	-	51.4
Aftersales	73.1	(4.4)	(0.1)	(0.3)	68.3
Total gross profit	**172.7**	**(9.1)**	**(0.1)**	**(0.3)**	**163.2**

ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

2018	2018 H1 Group gross profit £'m	Acquisitions gross profit £'m	Disposals gross profit £'m	Ford Parts gross profit £'m	2018 H1 Like-for-like gross profit £'m
New car retail and Motability	34.7	(0.2)	(0.1)	-	34.4
New fleet and commercial	9.8	-	-	-	9.8
Used cars	54.0	(0.5)	(0.2)	-	53.3
Aftersales	67.5	(1.4)	(0.3)	(2.1)	63.7
Total gross profit	**166.0**	**(2.1)**	**(0.6)**	**(2.1)**	**161.2**

Aftersales gross profit by department

2019	2019 H1 Group gross profit £'m	Acquisitions gross profit £'m	Disposals Gross profit £'m	Ford Parts gross profit £'m	2019 H1 Like-for-like gross profit £'m
Parts	18.3	(1.1)	-	(0.3)	16.9
Accident repair	2.1	(0.4)	-	-	1.7
Parts and accident repair	20.4	(1.5)	-	(0.3)	18.6
Service	52.7	(2.9)	(0.1)	-	49.7
Total gross profit	**73.1**	**(4.4)**	**(0.1)**	**(0.3)**	**68.3**

2018	2018 H1 Group gross profit £'m	Acquisitions gross profit £'m	Disposals Gross profit £'m	Ford Parts gross profit £'m	2018 H1 Like-for-like gross profit £'m
Parts	19.1	(0.3)	-	(2.1)	16.7
Accident repair	2.0	(0.1)	-	-	1.9
Parts and accident repair	21.1	(0.4)	-	(2.1)	18.6
Service	46.3	(1.0)	(0.2)	-	45.1
Total gross profit	**67.4**	**(1.4)**	**(0.2)**	**(2.1)**	**63.7**

Number of units sold by department

2019	2019 H1 Group	Acquisitions	Disposals	2019 H1 Like-for-like
New car retail	18,343	(584)	(41)	17,718
New car Motability	5,196	(142)	(8)	5,046
New fleet[11]	11,419	(555)	(2)	10,862
New commercial[11]	10,274	(1,326)	-	8,948
Used cars	45,036	(1,199)	(51)	43,786
Total units	**90,268**	**(3,806)**	**(102)**	**86,360**

2018	2018 H1 Group	Acquisitions	Disposals	2018 H1 Like-for-like
New car retail	19,908	(90)	(105)	19,713
New car Motability	5,321	(89)	(30)	5,202
New fleet[11]	9,546	-	(5)	9,541
New commercial[11]	8,922	(138)	(15)	8,769
Used cars	43,823	(490)	(241)	43,092
Total units	**87,520**	**(807)**	**(396)**	**86,317**

[11] Includes agency volumes.

ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

Average selling price by department

2019	2019 H1	Acquisitions	Disposals	2019 H1 Like-for-like
New car retail and Motability[12]	18,355	28,716	20,774	18,100
New fleet and commercial[12]	20,630	15,177	38,482	20,638
Used cars	14,517	28,235	13,780	14,184

2018	2018 H1	Acquisitions	Disposals	2018 H1 Like-for-like
New car retail and Motability[12]	16,829	29,143	13,925	16,808
New fleet and commercial[12]	19,901	8,219	17,125	19,997
Used cars	14,069	26,276	13,997	13,962

[12] Average selling price is stated inclusive of wholesale units

Average gross profit by department

2019	2019 H1	Acquisitions	Disposals	2019 H1 Like-for-like
New car retail and Motability[13]	1,418	1,780	972	1,410
New fleet and commercial[13]	603	1,157	(401)	551
Used cars	1,172	1,250	(376)	1,172

2018	2018 H1	Acquisitions	Disposals	2018 H1 Like-for-like
New car retail and Motability[13]	1,365	1,646	1,094	1,365
New fleet and commercial[13]	528	(136)	(55)	533
Used cars	1,233	1,446	605	1,235

[13] Average gross profit is stated inclusive of wholesale and agency units

Operating expenses

2019	2019 H1 £'m	Acquisitions £'m	Disposals £'m	2019 H1 Like-for-like £'m
Adjusted operating expenses	(153.1)	9.0	0.2	(143.9)

2018	2018 H1 £'m	Acquisitions £'m	Disposals £'m	Ford Parts £'m	2018 H1 Like-for-like £'m
Adjusted operating expenses	(146.6)	2.3	0.7	1.2	(142.4)

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