

27<sup>th</sup> February 2007

## **Vertu Motors plc**

### **Proposed acquisition of Bristol Street Group for a total consideration of £40m**

Vertu Motors (Property) Limited, a wholly owned subsidiary of Vertu Motors plc (“Vertu”), has conditionally agreed to acquire the entire issued share capital of Bristol Street Group Limited (“Bristol Street Group”) for a total consideration estimated at £31m in cash plus up to £9m in shares.

It is anticipated that the cash consideration will be paid from a combination of new bank facilities, existing cash reserves and the proceeds of a placing of new shares. Completion is expected to take place (subject, inter alia, to shareholder approval) on 27<sup>th</sup> March 2007.

In accordance with the AIM Rules, trading in the Existing Ordinary Shares of the Company on AIM remain suspended pending publication of the AIM admission document to Shareholders.

## **Highlights**

### **The Acquisition**

- Bristol Street Group was the 13th largest motor dealer group in the UK in 2005 (AM100: 2006).
- Bristol Street Group offers new and used car sales, commercial vehicle sales and aftersales services.
- 32 franchised sites and three used car hypermarkets are operated by Bristol Street Group across England.
- Marques offered by Bristol Street Group include Ford, Vauxhall, Citroen, Hyundai, Iveco, Peugeot and Renault.
- For the year ended 31 December 2006 Bristol Street Group made an operating profit of £5.1 million on a turnover of £576.7 million.
- The Directors believe that the acquisition of Bristol Street Group fits well with the original Vertu strategy through:
  - the business opportunities it presents;
  - the potential for performance improvement it provides;
  - the property portfolio it owns; and
  - the platform it delivers in terms of brand and infrastructure from which Vertu Motors can pursue further acquisitions.
- It is intended that Paul Williams (CEO of Bristol Street Group) will become a Director and Non-Executive Chairman of Vertu on Completion. William Teasdale will step down as Chairman but will remain on the Board as a Non-Executive Director.

### **The Opportunity**

- The acquisition of Bristol Street Group represents a significant step in Vertu’s strategy of acquiring and consolidating UK motor retail businesses.
- Vertu intends to pursue a strategy of organic growth of Bristol Street Group, identifying and capitalising upon performance improvement opportunities. Opportunities include

increasing used car sales, development of fleet and contract hire businesses, further development of the Bristol Street Group internet retail presence and centralisation of procurement and marketing.

- Vertu will continue to focus on identifying and acquiring additional UK motor retail businesses in order to benefit from additional economies of scale and to achieve further geographical concentration.
- The £40.3bn UK motor retail sector is fragmented; in 2005 there were over 5,400 motor dealerships in the UK, of which the ten largest motor retail groups represented less than 19 per cent. (Source: AM100, 2006)

## **The Placing**

- It is anticipated that the cash consideration for the Acquisition will be funded through a combination of new bank facilities, existing cash reserves and the proceeds of a placing of new ordinary shares. Vertu is currently engaged in a fundraising exercise and will update the market at a later stage.
- Completion of the acquisition is conditional, amongst other things, on the Placing, approval of shareholders at the EGM and re-admission of the Enlarged Group to AIM.
- Brewin Dolphin is the nominated advisor and broker to Vertu Motors plc and is conducting the fundraising.

Commenting on the acquisition, Robert Forrester, Chief Executive of Vertu Motors plc said:

“This is an excellent platform acquisition for Vertu which we have delivered to our shareholders within three months of IPO. Bristol Street is a great business and brand in the UK marketplace with strong manufacturer relationships and an excellent management team. It provides an ideal opportunity for growth both organically and through acquisition as we look to build Vertu within the UK motor retail marketplace.

“We are also delighted that Paul Williams will be joining the Board as our Non-Executive Chairman. He brings a wealth of experience in the motor industry and is a highly respected figure in the sector.”

**- Ends -**

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Certain definitions apply throughout this announcement and your attention is drawn to the table at the end of this announcement where those definitions are set out.

## **INTRODUCTION**

On 26 February, Vertu Motors (Property) Limited, a wholly owned subsidiary of Vertu Motors, agreed conditionally to acquire the entire issued share capital of Bristol Street Group for a total consideration estimated at £31m in cash plus up to £9m in shares. In order to fund the Acquisition, which is payable in cash and Loan Notes on and after Completion, the Company is seeking to raise additional funds by way of a Placing by Brewin Dolphin. Some of the Loan Notes payable as part of the Consideration for Bristol Street Group will be acquired by Vertu Motors in consideration of the issue of New Ordinary Shares at 87.5p per share. The remainder of the cash consideration will be funded from the Company's other cash resources.

In accordance with the AIM Rules, trading in the Existing Ordinary Shares of the Company on AIM remain suspended pending publication of the circular (the AIM admission document) to Shareholders.

In view of the size of the Acquisition, which is classified as a reverse takeover under the AIM Rules, approval of Shareholders is needed and so an EGM of the Company is being convened for this purpose to be held on 26 March 2007. Shareholders will also be asked at the EGM, inter alia, to grant the appropriate authorities required to effect the Placing and to grant share issue authorisation to the Directors to enable them to react to further market opportunities. If the Resolution is passed by Shareholders, trading in the Existing Ordinary Shares of the Company will be cancelled. It is expected that Completion of the Acquisition and Admission of the Enlarged Group will take place and that trading in the New Ordinary Shares will commence and in the Existing Ordinary Shares will recommence on AIM on 27 March 2007.

Further details of the agreements relating to the Acquisition and the notice of the EGM will be set out in the circular (the AIM admission document) which will be issued in due course.

## **BACKGROUND TO AND REASONS FOR THE ACQUISITION AND PLACING**

Vertu Motors was admitted to AIM in December 2006 with the objective of acquiring and consolidating UK motor retail businesses with the potential for performance improvement and which may also contain freehold property portfolios. It was envisaged by the Directors that performance improvement opportunities would arise in acquired dealerships from increasing sales in new and used cars, improving aftersales services, through improving the efficiency of the business processes, introducing economies of scale and providing exceptional customer service. In seeking out opportunities to build shareholder value, the Directors entered into discussions with the management team of Bristol Street Group. Bristol Street Group was the 13th largest dealer group in the UK in 2005 (*Source: AM100, 2006*) with a nationwide network of branded franchised dealerships and car hypermarkets across England, offering new and used car sales, commercial vehicle sales and aftersales services.

The Directors believe that the acquisition of Bristol Street Group fits well with the original Vertu Motors strategy in terms of the business opportunities, the potential for performance improvement it represents, the property portfolio and the platform it provides from which Vertu Motors can pursue further acquisitions.

## **KEY TERMS OF THE ACQUISITION**

The consideration is estimated at £31m in cash plus up to £9m in shares. In order to fund the Acquisition, which is payable in cash and Loan Notes on and after Completion, the Company is seeking to raise additional funds by way of a Placing by Brewin Dolphin. Some of the Loan Notes payable as part of the Consideration for Bristol Street Group will be acquired by Vertu Motors in consideration of the issue of New Ordinary Shares at 87.5p per share. The remainder of the cash consideration will be funded from the Company's other cash resources. The Company will also assume Bristol Street Group's debt of c. £29 million, refinanced by a new group facility with Barclays Bank plc.

The Acquisition is conditional, inter alia, upon Shareholder approval at the EGM and upon the Placing. Subject to those conditions being satisfied, Completion will take effect on the Admission of the Enlarged Group to AIM, which is expected to take place on 27 March 2007.

## MARKET OVERVIEW

### *The UK market for motor vehicles*

The motor retail sector comprises mainly franchised and non-franchised dealerships selling new and used vehicles through retail and corporate fleet channels. In addition, aftersales services are also provided in the form of mechanical and body repairs through service outlets and bodyshops respectively and also the supply of parts to retail and trade customers. The UK market for cars in 2005 was estimated to be worth £40.3 billion. The performance of the UK motor retail sector is heavily dependent on the health of the UK economy. Key economic measures such as gross domestic product, inflation and employment all have an effect on the market, influencing consumer demand for vehicles. (Source: Key Note Limited)

### *New car market*

The 2003 new car market was the highest in the last ten years with 2.6 million new car registrations (Source: SMMT). Since then, the market has declined, in part due to growing pressure on consumer spending.

	2001	2002	2003	2004	2005	2006
Private	1,212,964	1,236,766	1,254,927	1,200,066	1,076,513	1,033,722
Fleet	1,031,429	1,090,448	1,068,174	1,093,494	1,184,874	1,156,274
Business	214,376	236,417	255,949	273,709	178,330	154,868
<b>Total</b>	<b>2,458,769</b>	<b>2,563,631</b>	<b>2,579,050</b>	<b>2,567,269</b>	<b>2,439,717</b>	<b>2,344,864</b>
Growth	11%	4%	1%	0%	-5%	-4%

Annual new car registrations for 2007 are forecast to be around 2.3 million, representing a year on year decline of 1.3 per cent. However, the rate of decline is forecast to reduce to 0.0 per cent. in 2008. (Source: SMMT)

The new car market can broadly be split into the 'volume' brands market (e.g. Ford, Vauxhall, Renault, Peugeot, Citroen and Volkswagen) and the 'prestige' brands market (e.g. BMW, Audi and Mercedes-Benz). Volume brands dominate new car sales with Ford, Vauxhall, Volkswagen and Peugeot together representing 42 per cent. of new car sales in 2006. The Ford Focus

represented the most popular new car registration in 2006, with 6 per cent. of the market. (Source: SMMT)

#### *Used car market*

The UK volume of used car sales is substantially higher than the new car market, representing 7.6 million vehicle sales in 2005, accounting for 76 per cent. of all cars sold. Used car sales to the end of September 2006 are in-line with the same period in 2005. (Source: SMMT)

	2001	2002	2003	2004	2005
Used Car Sales	6,747,419	7,142,779	7,527,176	7,731,609	7,576,724
Growth		6%	5%	3%	-2%

There has been a modest rise in rates of used car depreciation in 2005 and 2006, although at a reducing rate in 2006. This has partly arisen from a slowdown in sales of new and used cars, coupled with an increase in the supply of 'nearly new' vehicles entering the used market. The reduced supply of one to four year old used cars could reduce in-line with the fall in demand, making significant increases in rates of used car depreciation less likely. (Source: Glass) The decline in sales of new cars shown in 2006 and forecast for 2007, although slowing, is expected to have a negative impact on used car prices. Price falls are also expected as a result of the growing supply of nearly-new cars. (Source: Glass) This oversupply results in excess unsold stock being registered and then retailed as 'used' after three/six months, having been held in the interim by short cycle users, such as daily rental or credit hire operators.

#### *Aftersales and servicing market*

The UK aftersales and servicing market provides significant revenue to the motor retail industry. The market is fragmented with provision through franchised and non-franchised dealerships and specialist service centres. The market for servicing has remained relatively stable with increased vehicle service intervals being offset by an increase in the number of vehicles in use. The core market for franchised dealerships is for the servicing of vehicles under three years old which are still under manufacturer warranties.

The Directors believe that opportunities exist to focus on the retention of customers after expiration of their warranty and to increase the penetration of the used vehicle market.

#### *Market opportunities*

The UK motor retail sector is fragmented; in 2005 there were over 5,400 motor dealerships in the UK, of which the ten largest motor retail groups represented less than 19 per cent. (Source: AM100, 2006)

The period since 2000 has witnessed a series of acquisitions within the car dealership sector. (Source: Key Note Limited) Despite the consolidation in the market to date, the Directors are confident that there remain a significant number of attractive acquisition opportunities within the motor dealership network (both franchised and unfranchised).

## **INFORMATION ON BRISTOL STREET GROUP**

### *History and background*

Bristol Street Group has its origins in the early 1920s as a single Ford dealership located on Bristol Street in central Birmingham. Bristol Street Group was acquired through a management buy-out in 1997, which was led by Paul Williams, the chief executive officer of Bristol Street Group, amongst others. Bristol Street Group was the 13th largest dealer group in the UK in 2005 (*Source: AM100, 2006*) with a network of dealerships around England offering new and used car and commercial vehicle sales and aftersales services. In addition, Bristol Street Group operates three used car hypermarkets under the Motor Nation brand and a Ford parts wholesale business.

Bristol Street Group operates franchises from 32 sites under the Bristol Street Motors brand, currently representing seven marques: Ford, Vauxhall, Citroen, Hyundai, Iveco, Peugeot and Renault. The Bristol Street Group has also agreed recently to enter into a new franchise for Fiat Van sales. In addition there are three Motor Nation used car hypermarkets located in Widnes, Birmingham and Coventry.

Operationally, each market area is headed by a market area managing director, with an operational board. The market area managing directors report to two group managing directors who, in turn, report to the chief executive officer of Bristol Street Group, Paul Williams who also has the Commercial and Motor Nation divisions reporting to him directly. Certain functions are centralised in the Bristol Street Group head office in Droitwich, Worcestershire.

### **STRATEGY OF THE ENLARGED GROUP**

Vertu Motors was admitted to AIM with the objective of acquiring and consolidating UK motor retail businesses. The acquisition of Bristol Street Group represents a significant step in the Vertu Motors strategy.

The Directors and Proposed Director believe that the culture of Bristol Street Group fits closely with that of Vertu Motors and will seek to motivate and fully utilise the knowledge and experience of the employees within the Enlarged Group.

The Board intends to pursue a strategy of organic growth of Bristol Street Group and other businesses acquired in the future and will give focus, post-Completion, to identifying and capitalising upon:

- improvement of used car sales to improve the new to used car ratio
- development of fleet and contract hire opportunities
- further development of the internet retail presence
- centralisation of procurement and marketing

In addition, the Board will continue to focus on identifying and acquiring additional UK motor retail businesses in appropriate franchises and locations to complement the operations of the Enlarged Group and benefit from further cost synergies.

Vertu Motors has negotiated banking facilities totalling up to £41.9 million which, together with the funds raised in December last year and the proceeds of the Placing will be utilised to fund the Acquisition and to provide additional resources to enable further acquisitions. The Company is also negotiating appropriate hedging arrangements in order to minimise interest rate risk going forward. The Directors are currently in discussions with the owners of a number of motor retail businesses and are hopeful that this will lead to further acquisitions.

The Board intends that, following Completion the Bristol Street Group will continue to trade under its existing names “Bristol Street Motors” and “Motor Nation”.

## **DIRECTORS AND PROPOSED DIRECTOR**

It is intended that, following Completion, the Board of the Enlarged Group will comprise the Directors and Proposed Director as outlined below.

*William Teasdale, Non-Executive Chairman, proposed Non-Executive Director*

William (64) was appointed Non-Executive Chairman of Vertu Motors plc in December 2006. Prior to this he was non-executive director and chairman of the audit committee at Reg Vardy plc between 2002 and 2006. Prior to this he was the senior partner at the Newcastle upon Tyne office of PricewaterhouseCoopers. William has substantial experience of corporate transactions and within the quoted company environment. It is anticipated that upon Completion William will stand down as Chairman, remaining as a Non-Executive Director.

*Robert Forrester, Chief Executive Officer*

Robert (37) was appointed Chief Executive Officer of Vertu Motors plc in December 2006. Prior to this he was a director of Reg Vardy plc between 2001 and 2006, appointed as finance director in 2001 and managing director in 2005, until the sale of Reg Vardy plc to Pendragon plc in February 2006. During this time Reg Vardy plc moved from 65 to 100 car dealerships and provided a significant return to shareholders from the sale. Prior to this he was a director of Brookhouse Group Limited, a substantial private property investment company in the North West of England, where he was responsible for development, investment and financing of the portfolio. Robert qualified as a chartered accountant with Arthur Andersen. He is also a member of the Economic Affairs Committee of the Confederation of British Industry.

*Karen Anderson, Finance Director*

Karen (35) was appointed Finance Director of Vertu Motors plc in January 2007. Prior to this she joined Reg Vardy plc in 2002 and was appointed group financial controller in 2004. Karen was responsible for financial management issues and acquisition due diligence over this period. Following the sale of Reg Vardy plc to Pendragon plc, Karen was involved in forming the financial management structure of the enlarged group. Karen qualified as a chartered accountant with Arthur Andersen.

*Paul Williams, proposed Non-Executive Chairman*

It is intended that Paul (60) will become a Director and Non-Executive Chairman of Vertu Motors plc on Completion. Paul joined Bristol Street Group in 1970. In 1997 he led the successful management buy-out of Bristol Street Group from BSG Holdings Limited as joint chief executive

officer, assuming the position of sole chief executive officer in 2005. During 2006, Paul accepted the position of chairman of the National Franchised Dealer Association and became a board member of the Retail Motor Industry Federation.

The Board will look to appoint a further independent Non-Executive Director following Completion to strengthen the Board and to ensure sufficient corporate governance measures are in place. The Board is actively seeking to identify appropriate candidates with a view to making an appointment in due course.

## **SENIOR MANAGEMENT**

The strategy of the Board is to attract high quality, experienced directors and senior managers. To date the Board has appointed the following to the Vertu Motors' operational board.

### *Tom Fairgrieve, Operations Director*

Tom (54) was appointed operations director of Vertu Motors (Retail) Limited in February 2007. He has over 30 years industry experience and was regional operations director of Reg Vardy plc between 2004 and June 2006, responsible for over 20 dealer operations in the West of Scotland covering Ford, Vauxhall, Mercedes-Benz, Fiat and Alfa Romeo. Prior to this he was a franchise director at CD Bramall plc and Quicks plc with responsibility for the group's Ford dealerships in Scotland, the North West of England and the South East of England.

### *David Crane, Commercial Director*

David (39) was appointed commercial director of Vertu Motors (Retail) Limited in February 2007. He joined Reg Vardy plc in 1999 and was commercial director of Reg Vardy plc between 2004 and 2006, until the sale of Reg Vardy plc to Pendragon plc in February 2006, at which point he was appointed group services director of Pendragon plc. During his time as commercial director, David was responsible for aftersales strategy, relationships with vehicle manufacturers and commercial relationships with key corporate customers. Prior to his employment with Reg Vardy plc he was aftersales operations manager at Renault UK between 1991 and 1999.

It is the current intention of the Board to appoint Nick Plevey and Mark Hamer, two group managing directors of Bristol Street Group to the Vertu Motors operational board on Completion. It is intended that the Board will look to appoint further senior managers to provide capacity to expand the Enlarged Group following the Acquisition.

## **BRISTOL STREET GROUP EMPLOYEES**

The existing rights of the Bristol Street Group employees will be fully safeguarded upon the completion of the Proposals.

## **DEFINITIONS**

"Acquisition"	the proposed acquisition of Bristol Street Group by Vertu Motors (Property) Limited pursuant to the Acquisition Agreement and the
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	Ancillary Acquisition Agreements
“Acquisition Agreement”	the conditional agreement dated 27 February 2007 and made between (i) Vertu Motors (Property) Limited (ii) the three principal Vendors and (iii) Vertu Motors
“Admission”	together the admission of the New Ordinary Shares and readmission of the Existing Ordinary Shares to trading on AIM and such admission becoming effective pursuant to paragraph 6 of the AIM Rules
“AIM”	a market operated by the London Stock Exchange
“AIM Rules”	the rules for AIM companies and their nominated advisers as issued by the London Stock Exchange, as amended from time to time
“Ancillary Acquisition Agreements”	the ancillary acquisition agreements on substantially the same terms as the Acquisition Agreement dated 23 February 2007 and made between Vertu Motors (Property) Limited, Vertu Motors and each of the Vendors not party to the Acquisition Agreement
“Board” or “Directors”	the directors of the Company from the date of this document, or a duly authorised committee thereof,
“Brewin Dolphin”	the corporate finance division of Brewin Dolphin Securities Limited
“Bristol Street Group”	Bristol Street Group Limited and its subsidiaries
“Circular”	the circular to shareholders including notice of the EGM and comprising an AIM admission document
“Company” or “Vertu Motors”	Vertu Motors plc, or the business of the Company as the context requires
“Completion”	completion of the Acquisition
“EGM”	the extraordinary general meeting of the Company expected to be held on 26 March 2007 at which the Resolution will be proposed
“Enlarged Group”	Vertu Motors as enlarged by the Acquisition
“Existing Ordinary Shares”	the 46,750,000 existing Ordinary Shares in issue at the date of this document
“Loan Notes”	the A, B, C, D and E loan notes that form part of the consideration payable by Vertu Motors (Property) Limited in respect of the purchase by it of the entire issued share capital of Bristol Street Group Limited from the Vendors
“London Stock Exchange”	London Stock Exchange plc
“New Ordinary Shares”	the new Ordinary Shares to be issued pursuant to the Placing and the Acquisition
“Ordinary Shares”	ordinary shares of 10 pence each in the capital

	of the Company (ISIN: GB00B1GK4645)
“Placing”	the conditional placing by Brewin Dolphin of the New Ordinary Shares pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement relating to the Placing proposed to be entered into between the Company, Brewin Dolphin and the Directors
“Proposals”	the Acquisition, the Admission, the Placing and the other proposals set out in this document
“Proposed Director”	the proposed director of the Company, Paul Williams
“Resolution”	the resolution to approve the Proposals be set out in the notice of EGM
“Shareholders”	holders of Existing Ordinary Shares
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“Vendors”	the shareholders of Bristol Street Group Limited

Copies of the circular (the AIM admission document) will be available free of charge to the public at the offices of Brewin Dolphin at 12 Smithfield Street, London EC2A 9BD and at Commercial Union House, 39 Pilgrim Street, Newcastle upon Tyne NE1 6RQ from the date of issue until one month from admission of the Enlarged Group to trading on AIM.