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Vertu Motors plc ("Vertu" or "Group")

Final results for the year ended 28 February 2017

Record profitability, excellent cash conversion and robust balance sheet to drive future growth

Vertu Motors plc, the UK automotive retailer with a network of 124 sales and aftersales outlets across the UK, announces its audited results for the year ended 28 February 2017.

Highlights:

Financial

	Year ended 28 February 2017	Year ended 29 February 2016	% Change
Revenue	£2,822.6m	£2,423.3m	16.5%
Adjusted profit before tax*	**£31.5m**	**£27.4m**	**15.0%**
Adjusted earnings per share*	6.54p	6.46p	1.2%
EBITDA	£41.4m	£34.5m	20.0%
Operating profit	£32.1m	£27.2m	18.0%
Profit before tax	**£29.8m**	**£26.0m**	**14.6%**
Earnings per share	**6.14p**	**6.06p**	**1.3%**
Operating cash inflow	**£58.1m**	**£65.8m**	**(11.7%)**
Net cash	£21.0m	£23.1m	(9.1%)
Net assets per share	62.3p	58.0p	7.4%
Tangible net assets per share	39.5p	38.3p	3.1%
Dividend per share	**1.4p**	**1.3p**	**7.7%**
Cash conversion**	181%	242%	(61.0%)

* adjusted for amortisation of intangible assets and share based payments charge.

** cash generated from operations divided by operating profit.

Operational

	Increase/(decrease) year-on-year		
Revenue:	**Total %**	**Like-for-Like %**	**SMMT Registrations %**
Group revenues	16.5	4.4	
Service revenues	22.5	5.8	
Volumes:			
Used retail vehicles	13.9	7.1	
New retail vehicles	4.4	(6.4)	(1.0)
Motability vehicles	(0.3)	(4.8)	(1.1)
Fleet new cars	0.0	(4.2)	5.1
Commercial new vehicles	2.7	1.6	1.2

- Record Group trading performance driven by improvement in recently acquired businesses, a strong used car performance and growth in higher margin service area
- Growth strategy progressed with greater premium mix, including the addition of the Mercedes-Benz franchise to the Group
- Strong balance sheet to fund future growth with net cash of £21.0m (2016 : £23.1m) and new five year acquisition banking facility signed in February of £40m, with the potential to add a further £30m
- Encouraging outlook with robust trading in March and April 2017 - Board remains confident about the Group's prospects for the year ahead

Robert Forrester, Chief Executive of Vertu said:

"Since our inception ten years ago, Vertu has remained focused on consolidating the UK automotive retail sector to grow a scaled and sustainable dealership business. Today's results, our fifth consecutive year of growth, evidences our continued delivery of this strategy. Significant acquisitions have been integrated through the year and have enriched the premium mix of the franchise portfolio. Record Profit before Tax of £29.8m represented a 14.6% increase for the Group, EBITDA rose to over £40m for the first time and cash conversion was excellent.

"Our strong balance sheet with net cash of £21.0m together with our unutilised debt facilities provide scope for further scaling-up in due course to drive value and further enhance shareholder returns.

"Trading up to the end of April 2017 has been strong giving the Board confidence for the future. The full year dividend has been increased by 7.7%."

Webcast details

Vertu management will host a webcast for analysts and investors at 9.30am (BST) this morning. Please click here to register.

http://webcasting.brrmedia.co.uk/broadcast/5909ca0043140725f4d1a6c8

A recording of the webcast will subsequently be uploaded to the Company's website.

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Notes to Editors

Vertu, the UK automotive retailer with a proven growth strategy, is the fifth largest automotive retailer in the UK with a network of 124 sales outlets across the UK. Its dealerships operate predominantly under the Bristol Street Motors, Vertu, Farnell and Macklin Motors brand names.

Vertu was established in November 2006 with the strategy to consolidate the UK automotive retail sector. It is intended that the Group will continue to acquire automotive retail operations to grow a scaled dealership group. The Group's acquisition strategy is supplemented by a focused organic growth strategy to drive operational efficiencies through its national dealership network. The Group currently operates 121 franchised sales outlets and 3 non-franchised sales operations from 104 locations across the UK.

Vertu's Mission Statement is to "deliver an outstanding customer motoring experience through honesty and trust".

Vertu Group websites - www.vertumotors.com / www.vertucareers.com

Vertu brand websites - www.bristolstreet.co.uk / www.macklinmotors.co.uk / www.vertuhonda.com / www.farnelllandrover.com / www.farnelljaguar.com / www.vertutoyota.com / www.vertuvolkswagen.com / www.vertumercedes-benz.com

Chairman's Statement

The Board is reporting a further year of strong growth, exhibiting record levels of revenue, operating profit, earnings per share and dividends.

These results demonstrate that the Group remains set for further growth, well positioned with Manufacturers and in a healthy financial position. I remain optimistic about the Group's growth prospects underpinned by a very strong balance sheet.

The Group's objective is to deliver long-term value for its owners through building a scaled, franchised dealership business generating significant, resilient and increasing cashflows. The Group seeks to do this by pursuing a consistent strategy with a well-established business model. This report will set out the strategy, explain the business model and describe how the Group has used the model to establish a robust competitive position from which to generate growth in cashflows over the long-term. Growing cashflow is a result of growing revenues, managing margins, operating costs and tax payments and managing working capital and capital expenditure within the framework of a suitable funding structure. This report will examine each of these areas. The record results announced for the year ended 28 February 2017 ("the Period") demonstrate further delivery against the Group's objective.

We have a very talented, stable operational team which is committed to delivering on the Group's strategy and I would like to take this opportunity to thank every colleague in the Group for their commitment and dedication during the year.

Board changes

Bill Teasdale, who served as Chairman of the Company when it was initially established then subsequently as a Non-Executive Director since March 2007, will retire from the Board at this year's Annual General Meeting on 26 July 2017. As one of the founders of Vertu Motors plc, Bill's role in supporting Robert both in the creation of the Group, and subsequently in its growth over the last 10 years, has been seminal. The entire Board will miss Bill's wise counsel and we all wish him the best in his forthcoming retirement which is well deserved.

Current Trading and Outlook

In March and April 2017 ("the post year-end period") the Group has continued to trade strongly, with profits ahead of the prior year on a like-for-like and total basis. Margins strengthened and operating expenses on a like-for-like basis were reduced as the cost base was flexed for lower new vehicle sales volumes and cost efficiency programmes delivered.

Used cars continued to see like-for-like volume growth and margin improvement. Service also witnessed growing revenues and stable margins on a like-for-like basis.

The March plate change month saw a record number of new vehicle registrations in the UK according to the SMMT. The 4.4% growth in March new retail UK registrations was aided by an element of pull forward of demand due to increasing vehicle excise duty from 1 April 2017 and the timing of Easter. April, as anticipated, saw a decline in SMMT new retail registrations of 28.4%. In the post year-end period SMMT new retail registrations declined by 3.5%. The Group saw significant growth in new retail vehicle profit contribution in the post year-end period despite a 9.7% decline in like-for-like new retail volumes. Pricing disciplines and cost control delivered higher margins and profits year on year in new vehicle sales.

The Board is also pleased to report an excellent contribution in the post year-end period from dealerships acquired in the previous financial year.

While the Board is aware of the wider reporting of the UK entering a more cautious consumer environment, trading in the post year-end period has been strong. The Board remains confident about the Group's prospects for the current financial year and in delivering further progress in enlarging the scale of the Group.

P Jones
Chairman

Strategic Report

Strategy and Portfolio Management

To deliver long-term value to the Group's owners, the Group's strategy is to grow a scaled UK automotive retail group through acquiring both volume and premium franchised dealerships. The Board believes that the benefits of scale in the sector are increasing over time. Scale benefits include: a national on-line and off-line co-ordinated marketing strategy to maximise the benefits of our unique national footprint, scaled contact centres, franchise management dedication, purchasing efficiencies and access to competitive consumer finance packages for the Group's customers. Further consolidation of the sector by large-scale national brands is likely to continue in the years ahead in what is still a sector with a fragmented ownership structure in the majority of franchises.

The Group will continue to acquire dealerships across the volume and premium spectrum as the Board currently believes that capital can continue to be invested in additional dealerships to deliver significant return on investment to shareholders in the short and medium term. The fragmented nature of the UK automotive retail sector means that significant growth potential remains and crucially, the Group has substantial headroom for further growth with the vast majority of its Manufacturer partners, particularly in the Premium space. Following this strategy, the Group undertook a number of further significant acquisitions in the first quarter of the financial year.

The Board adopts a rigorous process in deciding whether to pursue an acquisition. Six-monthly we assess our strategic position with each Manufacturer to confirm the Board's standpoint on future investment in the franchise. This leads to an Add, Hold, Reduce or Avoid conclusion which underpins the Group's strategic portfolio management. Investment evaluations for specific opportunities involve detailed three-year investment appraisals, utilising set return on investment hurdle rates, to ensure appropriate capital allocation.

Since the first quarter of the financial year, the Board has continued to assess several further acquisition opportunities, rigorously applying consistent valuation criteria. For those opportunities, the valuations sought by the vendors have not met the Board's investment return criteria and therefore have not been progressed. Further opportunities continue to be assessed. The addition of further dealerships and new franchise partners to the Group's portfolio will enable the Board to deliver its goal of creating a balanced and diversified portfolio of franchised businesses, so reducing the Group's exposure to variations in individual Manufacturers' performance. Such growth, however, can only be undertaken at appropriate valuations to ensure future returns are acceptable.

Modern automotive retailing is undergoing substantial changes and these changes are likely to accelerate in the years ahead. The rise of digital sales channels, CASE (Connected, Autonomous, Sharing and Electric) developments and Manufacturer investment and scale requirements are likely to have an impact on franchised networks and the locations which the Group will want to operate from in the future. These trends represent an opportunity for scaled franchised dealer groups and are likely to drive further consolidation in the sector. We are mindful of these changes when considering the current portfolio and how it will evolve and the following trends are considered particularly pertinent:

- There will be a trend away from rural, smaller franchise points and greater investment in larger, urban representation points. Acquisitions and disposals must reflect this trend.
- Property flexibility may have increasing importance, resulting in lease length and structure being important as the Group manages its portfolio. Freehold ownership is preferred by the Board given the greater flexibility this affords.

The Board performs a detailed review of underperforming dealerships within the portfolio on a regular basis. Underperformance can stem from local management issues, franchise performance variability or more long-seated factors. Where the latter prevail and the Board considers long term appropriate returns may not be achievable, then action is taken such as refranchising, disposal or closure. Manufacturer capital expenditure requirements are often a key factor in crystallising such decisions based on an assessment of future returns.

The Board notes the prospective acquisition of Vauxhall/Opel by PSA. The combined PSA business will be a very important, scaled Manufacturer partner to the Group. PSA has undergone a major turnaround in its profitability in recent years which contrasts with the losses made by Opel/Vauxhall over a long period. The proposed acquisition is viewed positively by the Board in increasing the ability of the enlarged PSA business to invest in new products and technologies which are so vital to the long-term success of franchised retailers. The Group operates 14 Vauxhall dealerships together with nine PSA dealerships.

Portfolio Changes

Portfolio changes have been made reflective of the principles and trends outlined above:

- A number of smaller franchise outlets were exited in the Period, including Barnsley SEAT and Worksop Peugeot.
- Steps were taken to exit the Fiat, Jeep and Alfa Romeo franchises. This included the disposal of the Newcastle Fiat brand centre in September 2016 and the closure of Fiat sales outlets in Cheltenham and Derby in January 2017. The Group's one remaining Fiat/Alfa sales outlet will cease operations in Worcester by the end of 2017.
- On 31st March 2017 the Group disposed of its loss-making Chesterfield Peugeot dealership to Stoneacre. This reduces the Peugeot representation held by the Group to five dealerships and no further reduction is planned.
- Two accident repair centres located within Group dealerships were closed in the Period. These operations were marginal and sub-scale. Post year end, the closure of a further two accident repair centres was announced to allow for the space utilised to be allocated to increase capacity in more profitable activities as part of dealership redevelopments. This will leave the Group with six accident repair centres.
- Hyundai was introduced to the Group's existing dealership in Bristol and in May 2017 the Mazda operations at this dealership ceased to allow single franchise focus on Hyundai.
- The Group entered the Mercedes-Benz franchise in March 2016 with the acquisition of the Greenoaks dealerships in Reading, Slough and Ascot. The franchise is currently the top rated franchise in the UK by retailers in the latest NFDA survey.
- The Gordon Lamb acquisition in June 2016 brought the Toyota franchise to the Group for the first time and further enhanced representation with Land Rover, Nissan and Skoda.
- Leeds Jaguar was acquired in May 2016 from Inchcape.

Dealerships acquired in the year ended 29 February 2016 made a profit before interest and tax contribution of £2.1m in the Period, and those acquired in the Period contributed a further £1.5m. These businesses have been successfully integrated into the Group and are performing in line with their acquisition business plans. The sites closed or disposed of during the Period lost £0.7m (2016: £0.7m) hence these actions will enhance future returns of the Group.

As a consequence of the above changes, the Group now operates 124 franchised sales outlets, and 3 non-franchised sales outlets, from 104 locations.

Business Model and Competitive Positioning

The Group's business model has remained consistent for the ten years the Group has operated and enables the successful delivery of enhanced business performance from acquired dealerships, through the implementation of the Group's brand model, business processes and systems. This is delivered by a senior management team that is very stable and highly experienced. Many of the Group's acquisitions are turnaround opportunities and a number are new start-up dealerships sharing similar characteristics, including a weak customer database and consequently an aftersales business performing below its potential. The aftersales activities have significantly higher margins compared to vehicle sales and the Group's business model works to improve and then maximise the aftersales performance and hence improve margins. Growing the aftersales potential is fundamentally a function of increasing the sale of new and used cars by the dealership in the locality and ensuring high levels of customer retention into service.

The success of the Group's strategy is evidenced by the rapid growth since the first acquisition in 2007 and the turnaround and integration of acquired dealerships to date. The Group has become the fifth largest automotive retailer in the UK by revenues from a standing start in 2007. Many of the acquisitions undertaken in recent periods have still to become fully established and this provides the Group with further opportunity to deliver improved margins and grow organic profit over the medium term.

The successful integration of acquisitions into the Group has to be one of our core competencies. Management has a significant amount of experience in this area. Key to successful integration are the following:

- Ensuring new colleagues (employees) understand the Vision, Values and Culture of the Group
- Transferring key managers from the core Group to the new businesses
- Implementation of the Group's single platform of systems and processes as soon as possible

- Leveraging the Group's key scaled brands and marketing power, including on-line assets, across the new businesses

The Group adopts a "Right People, Right Choice, Right Deal" brand model, centred on "Right Experience for You". The "Right Experience" applies equally to colleagues, customers, Manufacturer partners and indeed owners. This brand model is based on a fundamental premise that it is the colleagues in each business together with management who deliver on customer needs to create long-term value for the business. Ensuring that each business has the right Values and culture is of paramount importance to building both long-term relationships with loyal customers and a stable team of colleagues. In the July 2016 Colleague Satisfaction Survey over 98% of responding colleagues knew the Vertu Values and 91% thought the Directors actively practiced them. It is clear that the more the Core Values of Passion, Respect, Professionalism, Integrity, Recognition, Opportunity and Commitment are in place in the business, the stronger the business is and significant senior management time is spent promoting and reinforcing these Values. The brand model has a number of brand actions which are designed to guide colleagues and management into being customer-centric. For example, "effortless journeys, not complex processes" is an important mantra in assessing the effectiveness of both on-line and off-line processes and any proposed developments impacting customers. By building trust from customers for the business, the Group aims to build long term relationships through the lifecycle of buying, owning and selling vehicles. There is a clear correlation, in our view, between a high level of colleague satisfaction, great customer experiences and the generation of higher margins in the business.

The success of the business and the delivery of the brand model relies heavily on strong, high quality management teams to deliver the required returns over time. The recruitment, development and retention of high performing automotive retail professionals is of paramount importance, particularly in General Manager roles providing leadership in each dealership. The Group has developed a culture which seeks to attract and retain top performers.

The operations of the Group are overseen by a CEO Committee of the 12 most senior people in the Group. This cadre is very stable with four members in place since the Group started and an average tenure of seven years. This stability provides a consistency to Group management which helps to build a single Group culture. As the Group has expanded over a larger number of dealerships, maintaining focus and a consistency of culture remains paramount. We believe that multi-layering of management is best avoided since it elongates decision-making and can make senior management divorced from customers and the grass roots operations. Having the right people at a senior level in the Group who can positively influence large divisions is therefore vital and the Board believe this balance has been achieved to date. It is critical that the entrepreneurial culture that the business started with, remains in place and simplicity and lack of bureaucracy are crucial objectives applied to operational proposals and changes.

As the Group has expanded the senior team has been augmented over time through recruitment or via acquisition. In 2016 two key appointments were made:

- Tim Tozer, formerly of Inchcape, Autobinck and Chairman of Vauxhall Motors joined the Group as a new Operations Director responsible for a number of franchises
- Liz Cope, former Global Brand and Research Director of Dyson and VP Global Marketing for Vax, joined as Chief Marketing Officer

Both individuals have settled in well and have now been in place for over 12 months. They are having a positive impact on the business.

The Mission Statement of the Group is to "deliver an outstanding customer motoring experience through honesty and trust". Fundamentally it is the acquisition and retention of customers that drives the ultimate value of the Group in the long-term. Marketing is critical to both the acquisition and retention of customers. Following the appointment of Liz Cope substantial progress has been made to improve the quality, effectiveness and channel reach of the Group's marketing activities. Key achievements have been:

- Bringing social media activities in-house with a significant increase in engagement as a consequence
- Development of a new marketing campaign centred around "What's Yours Called"- what name do you give your car – which is consistently run across TV, digital and other off-line platforms for a number of the Group's core brands. Over one million people have been reached on Facebook by the campaign since 1 March 2017
- Capability has been increased with further investment in new divisional marketing roles, live chat and reputation management resource and bringing design in-house

- Media purchasing is now sourced through a single, external agency which is yielding purchasing and marketing deployment economies and efficiencies
- Full on-line retailing of used vehicles has been launched including part-exchange valuation and finance provision. Further digital initiatives (which are developed from a systems perspective in -house) are in progress to ensure the Group is at the forefront of the industry in this area.

The retention of customers is achieved by several Group strategies:

- Retention of sales customers into the higher margin aftersales channel is aided by the Group's centralised Business Development Centre which ensures contact is made to book relevant service work, in addition to on-line booking capabilities and secures the high sales penetration of service retention products such as three-year service plans. The Group now has over 100,000 customers paying monthly over a three-year period for services and MOT creating a highly resident, high margin service business.
- Customer experience is crucial for creating loyalty and the desire to return to the Group for future motoring needs. Customer experience is measured by the Group in several ways:
    - Manufacturers measure service and new car sales customer experience monthly for each dealership as well as undertaking mystery shops. The Group scores significantly ahead of national average scores on these measures and in addition undertakes its own mystery shopping programme.
    - On used cars, the Group measures customer experience using an external supplier. 96% of customers currently would recommend the Group following the purchase of a used car. This high level of customer advocacy is mirrored in high scores on the public review sites such as Trust Pilot.
    - Management at all levels, including the Executive Directors, are rewarded based on the above customer experience measures which the Board believe are fundamental to the future success of the Group in generating higher revenues, margins and cash returns.

The Board is cognisant of further EU regulations in relation to the use of personal data, ("GDPR"). In order to ensure customer contact post May 2018 can be undertaken by the Group in line with these regulations, the Group is currently undertaking a review of systems and processes.

United Kingdom's exit from the European Union

Brexit may impact the Group in the areas of changing regulation, currency fluctuations and terms of trade for new vehicle imports to the United Kingdom.

In the short term, the biggest impact of Brexit on the automotive retail sector is the weakening of Sterling which reduces the attractiveness of the UK as a market to EU producing vehicle Manufacturers. Vehicle price rises have been evident, along with reducing volumes in the new retail car sector over the last twelve months. Effects have been somewhat muted to date with March 2017, for example, delivering a record month overall for UK new vehicle registrations.

In the medium term there could be consequences for the UK automotive retail sector if tariffs were to be introduced on motor vehicles imported into the UK. This could further increase sales prices and potentially reduce consumer demand. The UK Government has a stated negotiating objective to avoid any such tariff barriers, and during the two year period of the negotiation of the future trade terms between the UK and the EU, tariffs on motor vehicles are likely to be a key point of discussion. Potential free trade agreements with Non-EU states may present UK opportunities for Manufacturers with Non-EU production capacity and the future franchising strategy of the Group will need to be cognisant of these developments.

The contractual relationships between Manufacturers and franchise partners are constructed within the framework of EU competition law. There is, therefore, the potential for the legal frameworks to evolve in a different direction once legal competency returns to the UK. The Board judge that it is unlikely to be a priority area for the UK Government in the short term and the status quo is likely to remain in place as a result. Franchise agreements are likely to evolve in any event as Manufacturers and retailers react to developments in technology and new revenue models emerge.

Growing Revenues and Margins

Year ended 28 February 2017

	Revenue £'m	Revenue Mix %	Gross Margin £'m	Gross Margin Mix %	Gross Margin %
Aftersales[1]	227.0	8.0	123.4	39.4	44.6
Used cars	1,037.5	36.8	100.7	32.1	9.7
New car retail and Motability	909.4	32.2	68.3	21.8	7.5
New fleet and commercial	648.7	23.0	21.1	6.7	3.3
	2,822.6	**100.0**	**313.5**	**100.0**	**11.1**

Year ended 29 February 2016

	Revenue £'m	Revenue Mix %	Gross Margin £'m	Gross Margin Mix %	Gross Margin %
Aftersales[1]	189.0	7.8	102.9	39.1	44.8
Used cars	850.2	35.1	83.5	31.7	9.8
New car retail and Motability	796.5	32.9	59.3	22.5	7.4
New fleet and commercial	587.6	24.2	17.6	6.7	3.0
	2,423.3	**100.0**	**263.3**	**100.0**	**10.9**

1. margin in aftersales expressed on internal and external turnover.

The results for the year ended 28 February 2017 record the fifth consecutive year of growth in Group revenues and profits.

Revenues in the Period increased by 16.5% (£399.3m) to £2,822.6m (2016: £2,423.3m). This included the impact of acquisitions made during the year (£179.7m) and the full year impact of prior year acquisitions (£140.7m). Like-for-like revenues grew by 4.4% (£99.4m) driven predominantly by higher volumes of used car sales. Closed operations resulted in a £20.5m year on year revenue reduction.

Overall vehicle revenues grew by 16.2% in the year and amounted to 92.0% of total revenues (2016: 92.2%), whereas total aftersales revenues grew by 20.1% and amounted to 8.0% of total revenues (2016: 7.8%). On a like-for-like basis and a total basis, gross margins strengthened from 10.9% to 11.1% aided, in part, by the enhanced mix of the business towards higher margin aftersales activities.

Aftersales

The Group's aftersales operations, which comprise servicing, supply of parts, accident repairs, smart repair and forecourt activity, represent a vital element of the Group's business model, since significantly higher returns are generated from these activities than those achieved in vehicle sales. While aftersales represents 8.0% of Group revenues, it accounts for 39.3% of gross margin, so management focus on maintaining and improving performance in this area is crucial to the Group's overall results. The market for service and repair, in particular, has expanded with the vehicle parc as new vehicle sales have grown over recent years and this parc growth is expected to continue for a period. The Group has substantial opportunities to grow the volume of the higher margin activities due to this parc growth and self-help strategies to increase customer retention.

The future development and growth of the service operations will also depend on addressing a number of key issues in recruiting, training and retaining more technicians. As a result, there is a significant increase planned in apprenticeship recruitment in the service operations. There is also likely to be a need to revise shift and resource patterns to make greater use of the physical capacity of the dealerships. Customers are seeking and expecting a more flexible “on demand” vehicle servicing experience, particularly at week-ends and potentially overnight, which is more convenient for them. In addition, fast while you wait servicing is also likely to increase in scope. While customers find franchised dealerships good value for money and expert on the product, leakage does occur to the independent aftermarket which can be more local and more convenient in terms of opening hours. Accordingly, to address the capacity and convenience points, the Group is experimenting with flexible working rotas, new shift patterns for service technicians and fast turnaround for waiting customers with two technicians per work station.

Overall aftersales revenues increased by 20.1% in the Period reflecting both acquisition and organic growth. Margins fell slightly from 44.8% to 44.6% due to reduced parts margins as bonus income from Manufacturers reduced in the period.

The Group saw like-for-like revenues in all aftersales activities increase by 5.1% and like-for-like gross profits grew by £4.6m (4.7%) in the period. Like-for-like aftersales margins were stable at 45.3%. Service revenues rose 5.8% on a like-for-like basis, representing the seventh successive year of growth in this key high margin area. Like-for-like service margins grew to 77.7% (2016: 76.8%). These trends are the result of the significant focus in the Group on driving operational excellence in service to enhance financial performance, the delivery of excellent customer experiences to increase customer loyalty and the success of the service plan retention strategy. The Group’s vehicle health check process has been further embedded into the business. This seeks to ensure that all customer vehicles visiting the Group’s dealerships are given a comprehensive mechanical health check to identify any service and repair work which may be required. The results are then presented to the customer with a clear and costed explanation of any such work identified, increasingly utilising video technology. The performance of this process is monitored daily to ensure that the Group’s customers are given the best opportunity to enjoy a trouble-free motoring experience following their visit.

The Group’s accident repair centre revenues grew 2.9% on a like-for-like basis and margins improved further to 66.4% (2016: 66.3%). Capacity continues to reduce in the market overall in this sector and consolidation continues.

Supply of Manufacturer parts continues to be a vital part of the franchised retailer model. Parts revenues rose 5.7% on a like-for-like basis while margins fell to 21.9% (2016: 23.2%) due to reduced Manufacturer rebates in several key franchises. Manufacturers are increasingly pursuing strategies to increase the efficiency of parts distribution networks and to reduce the supply push of parts into the network. Reduced rebates may arise from these changes, but benefits, such as a reduction in low margin sales, lower stockholding and obsolescence costs and reduced costs of funding working capital, also may accrue to the retailer.

Vehicle sales

Vehicle unit sales analysis

	2017 Core	2017 Acquired[2]	2017 Total	2016 Total[3]	Total % Variance	Like-for Like % Variance
Used retail vehicles	**74,385**	**7,251**	**81,636**	**71,702**	**13.9%**	**7.1%**
New retail cars	36,635	4,890	41,525	39,790	4.4%	(6.4%)
Motability cars	10,755	641	11,396	11,435	(0.3%)	(4.8%)
Fleet and commercial vehicles	34,194	1,383	35,577	35,123	1.3%	(1.5%)
Total New vehicles	**81,584**	**6,914**	**88,498**	**86,348**	**2.5%**	**(4.2%)**
	155,969	**14,165**	**170,134**	**158,050**	**7.6%**	**0.9%**

2. relates to businesses acquired or developed subsequent to 1 March 2016 with businesses included within core once they have been in the Group for over 12 months

3. 2016 volumes include businesses acquired in the year ended 29 February 2016

The Used vehicle market has remained stable during the year from a pricing perspective. Vehicle values have displayed the usual seasonal fluctuations driven primarily by the ebb and flow in supply created by new vehicle plate change months. Sales volumes in the market generally have increased around 6% augmented by increased nearly new product entering the market as self-registered vehicles.

The Group had a very successful year in the key area of used vehicle retailing. For the first time over 80,000 used vehicles were retailed and overall year-on-year volume growth was 13.9%. The strong like-for-like growth in used vehicle volumes of 7.1% in the period includes the Group's eleventh consecutive half year period of like-for-like used vehicle volume growth. Used car growth has been aided by the expertise of dealership management in their local area augmented by excellent sales and stock processes and internally developed systems. For example, the Group Sales Director, Steve Ferry, undertakes regular reviews of dealership used car sales and stock trends with Divisional Management to ensure improvements are identified and actioned. This drives both sales volumes and better margin through enhanced stock turn and the reinforcement of strong pricing disciplines. The Group has also benefitted from increased and, we believe, more effective used car marketing approaches in the period.

The Group's like-for-like used vehicle gross margin rose to 10.6% (2016: 10.1%), and gross profit per unit was £1,263 (2016: £1,185). As a result of these positive trends, the Group increased like-for-like used vehicle gross profits by £10.6m in the period representing an increase of 13.3%.

The UK new vehicle market reached a record level of 2.7 million registrations in the year ended 31 December 2016 (SMMT). Private new vehicle registrations, which had grown for over three years until March 2016, began to record year-on-year declines from April 2016, and during the Period, the SMMT private new vehicle registrations fell by 1.0%. As the private new retail market has softened, there have been higher levels of self-registration of vehicles by retailers to bridge the gap between genuine retail demand and the volume aspirations of Manufacturers. In these circumstances, the Group's new retail sales volume tends to lag the SMMT registration data. The Group's strategy during this period has been to work to achieve Manufacturer performance targets at high levels while also maintaining strong pricing disciplines. As a consequence of these trends, new vehicle car sales accounted for a declining percentage of Group revenues of 32.2% (2016: 32.9%).

The Group delivered over 41,000 new retail vehicles in the year. The Group's total new retail vehicle volumes grew by 4.4%, while like-for-like volumes fell by 6.4%. The decline accelerated in the second half of the financial year with like-for-like new retail sales volumes down 4.2% in H1 and down 8.9% in H2. This decline in volume reflected in the main, the impact of the fall of Sterling against the Euro and other currencies following the Referendum. Average sales prices rose for the Group, and in the market generally, and some Manufacturers started to reduce planned volumes into the UK, even with the prospect of losing market share. Like-for-like new vehicle gross margins were stable at 7.4% while gross profit per unit increased by 5.2% to £1,196 (2016: £1,137). The Group's like-for-like new vehicle gross profits declined by £1.0m and the Board is pleased to have maintained percentage margins in this context. Total margins rose slightly from 7.4% to 7.5% due to the Premium mix of recent acquisitions.

Volumes of sales on the Motability Scheme fell by 4.8% on a like-for-like basis against a 1.1% decline in UK Motability registrations. The Group delivered over 11,000 Motability vehicles and will benefit from the guaranteed service revenues on these vehicles over the next three years. The Group's under performance in the Motability channel versus the wider Motability market reflected franchise mix as Manufacturers reacted to Sterling's depreciation in different ways. The Motability market overall is seeing slight declines as a consequence of the replacement of the Disability Living Allowance by Personal Independence Payments as part of UK benefits reform. The Group was awarded Motability Dealer Group of the Year 2016 by Motability for the third year in a row. This reflects the Group's focus and success in this key channel of the UK car market.

Fleet and Commercial vehicle sales represent a substantial part of the Group accounting for 23% of Group revenues and the delivery of over 35,000 vehicles. Total Fleet and Commercial volumes rose 1.3% with like-for-like volumes down 1.5%. The Commercial vehicle business continued to take market share with like-for-like volumes up 1.6% compared to a 1.2% increase in SMMT registration data. The growth was heavily skewed towards the first half with a slowdown in the second half. One of the key drivers of this was the change in diesel engine specification in June 2016 from Euro5 to Euro6. The Euro6 models are more expensive, so many fleet operators accelerated purchases prior to the change benefiting from advantageous pricing on the run out of Euro5 models. This has resulted in a market slow-down after June 2016. Fleet car supply saw declines in the first half of the period but returned to growth in the second half. Overall, like-for-like Fleet car volumes fell 4.2% in the Period as the Group maintained its pricing disciplines in this competitive, low margin channel. Total gross profit margins rose from 3.0% to 3.3% reflecting these disciplines together with enhanced Premium franchise mix and the growth in commercial van sales. Like-for-like margins rose 0.1%.

Managing operating expenses

As a sector consolidator, the Group aims to gain operational leverage benefits from spreading central operating expenses over a growing, enlarged group. Moreover, in an inherently low margin business, it is vital that a disciplined framework of cost control is in place and is a core competency for operational management. The Group's cost control framework is built around a highly detailed business planning approach which is undertaken annually for all dealerships, profit centres and cost centres. Once the business plans are established, costs are benchmarked on a monthly basis for every dealership against the business plans, prior year levels, internal benchmarks and recognised industry key performance indicators (Source: ASE) to maintain control and to identify opportunities for additional cost control. The Group's central purchasing function also pursues cost efficiencies and scale purchasing benefits in the procurement and monitoring of utilities and other goods not-for-resale.

The Group is also focussed on driving productivity and efficiency into the business to enhance cash profits and offset cost headwinds. A committee chaired by the CEO has been in place for over a year with a remit to identify and execute these productivity gains and these are now starting to bear fruit. Colleagues are incentivised to identify bureaucracy, costs and processes that do not add value via a "You Suggest" scheme, which has yielded some excellent areas for action. Several more medium term projects are also in place to increase operational efficiencies and to reduce costs. Projects are assessed to achieve a cash payback within two years.

Total operating expenses rose from £236.1m to £281.5m and like-for-like operating expenses grew by £14.5m. As a percentage of revenues, operating expenses increased to 10.0% (2016: 9.7%). Following four years of reduction from 11.1% in 2012, this ratio increased in the first half of the year due to:

- Increased investment in used car marketing to step change the effectiveness of the Group's on-line and off-line reach.
- Increased investment in customer facing colleagues, both in dealerships and centralised activities, following several years of growth in vehicle sales and reflecting higher activity levels, particularly in service.
- Increased property related costs such as increased depreciation on redeveloped and larger dealerships and higher business rates.

This key ratio improved year on year in the second half of the year and it is a key objective of management to ensure as much discipline is placed on controlling cost as effort placed on growing revenue and margin. This is particularly important given the ongoing cost pressures facing UK retailers from Government actions, including the apprenticeship levy, minimum wage increases and business rates re-valuations.

It is also self-evident that the Board's focus upon improving or removing poor performing dealerships outlined above also has the effect of improving the ratio of operating expenses to revenue and overall operating margins.

Interest charges

Net finance costs in the period increased to £2.3m (2016: £1.2m) due to higher stocking interest payable on new vehicle funding facilities. As the new retail market softened, the Group temporarily saw increased new vehicle inventory levels, both in interest-bearing consignment and fully paid inventories funded by the Group. These trends in inventory have now reversed and new inventory levels were at reduced levels year on year at the year end. In addition, the growth of the Group has also resulted in more exposure to premium franchises where new vehicle funding costs are more prevalent as part of the business model.

	Year ended 28 February 2017	**Year ended 29 February 2016**
	£'m	**£'m**
Bank interest payable	0.9	0.6
Other finance costs	-	0.4
New vehicle stocking interest expense	1.6	0.4
Pension fund: net interest income	(0.2)	(0.2)
	2.3	**1.2**

Managing Pension Costs

The Bristol Street defined benefit pension scheme has been operated by the Group for several years. This scheme is closed to future membership and accrual, and during the Period the Group made cash contributions of £0.4m (2016: £0.4m).

On 1 October 2015 the Group acquired the SHG Pension Scheme, also a defined benefit scheme, and on 27 February 2017 the two schemes were merged to reduce administration costs. The merged scheme showed a surplus as at 28 February 2017 of £1.9m (2016: combined surplus £6.1m). The fall in the surplus is largely due to the reduction in the discount rate applied to the scheme liabilities which has reduced by 115 basis points. During the current year the Group's cash contributions to the merged scheme will remain at £0.4m.

Managing Tax Payments

Taxation represents one of the single biggest costs to the Group. In the Period the Group paid £5.7m in corporation tax, £16.6m in Employers' National Insurance Contribution and £8.7m in business rates. These three taxes alone total £31.0m.

Through its tax strategy the Group seeks to pay its fair share of tax in compliance with UK legislation. The Group does not engage in any aggressive tax planning and the Group is classified by HMRC as 'low risk'. Within this context, the effective rate of tax for the year was 19.5% (2016: 20.3%). The current year rate is slightly below the standard UK corporation tax rate for the Period and the Board expects that the Group's tax rate should remain close to the headline UK Corporation Tax rate in the future as this rate declines to 17% by 2020.

Managing Working Capital

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. It is vital to maintain control of working capital in order to minimise potential write-offs and to allow the Group to deliver sustainable growth in cashflow. The Group has a major focus on managing working capital comprising daily reporting, weekly meetings at all dealerships and weekly group reporting and commentary to the CEO Committee. Finance teams are tasked on driving working capital down through process efficiency in areas such as invoicing and cash collection. Such process efficiency is monitored daily at dealership level.

The Group has continued to achieve a strong cash conversion, generating cash from operating activities of £58.1m from an operating profit of £32.1m. This represents an excellent cash conversion of 181%. This was supported by £16.0m generated from working capital, comprising lower inventories (£2m), lower receivables (£1m), higher warranty and service plan receipts (£3m), higher vehicle deposits (£4m), higher accruals (£3m) and lower VAT receivable (£3m).

Investing to Support Future Cash Generation

Since 1 March 2016, the Group has continued to invest in its growth strategy and has added 10 sales outlets including six representing Premium franchises. In the same period, the Group ceased operations in 11 sales outlets in line with the strategy to ensure the dealership portfolio maximises long run cash profits. At the date of this report the Group operates 124 sales outlets from 104 locations, highlighting an element of multi-franchising at several of the Group's locations.

The Group, in common with most sector participants, is in the process of a major programme of capital investment; developing new dealerships, increasing capacity in existing dealerships and responding to Manufacturer Partner-led refurbishments of the existing dealership portfolio to meet enhanced franchised standards. In particular, substantial sums are being invested in increasing capacity and enhancing the retail environment of the Jaguar Land Rover dealerships with the implementation of the 'Arch' concept.

This programme of capital additions during the Period, along with the anticipated spend in future periods, is set out below:

	FY 2016 £m	**FY 2017 £m**	**FY 2018 £m**	**FY 2019 £m**
New dealership development projects				
– Purchase of land and buildings	6.3	2.2	2.2	-
– New dealership investment	1.8	10.4	6.5	4.0
Existing dealership capacity increases	4.5	5.9	18.9	10.3
Manufacturer-led refurbishment projects	3.2	2.4	5.2	1.7
IT and plant replacement	4.9	4.8	4.7	4.8
	20.7	25.7	37.5	20.8

During the Period the main projects in the new dealership investment category were the opening of major new city centre freehold dealerships for Jaguar Land Rover in Leeds and Nissan in Glasgow. These investments represent substantial increases in aftersales and sales capacity on the previous outlets. Both of these major projects, managed by the Group's in-house team of project managers and surveyors were delivered on time and on budget. In addition, major redevelopments were also completed at Hereford Audi, the creation of a Ford Store in Gloucester and the redevelopment of Nottingham Volkswagen North.

In the year ending 28 February 2018, major projects are anticipated to increase existing dealership capacity. These will include redevelopments of Reading Mercedes-Benz, Nelson Land Rover, Bradford Jaguar Land Rover, Guiseley

Land Rover, Shirley Ford and Bolton Ford. These developments will underpin the Group's future profitability and cash generation and all will represent operations with greater capacity for sales and service.

The Board is confident that the significant decline in future capital spend anticipated in FY2019 will drive enhanced free cash flow from the business from that point in time with the Group having a well-invested dealership estate including over 50% being freehold in nature.

The above table does not include any proceeds from the sale of property. As at the date of this report the Group is actively engaged in the marketing of freehold assets which are expected to realise at least £7 million in due course. The management of the Group's property portfolio to maximise cash returns from surplus assets is an important driver of both cash flows to the Group over time and ensuring appropriate capital allocation. The Board balance the need to recycle surplus assets into cash as quickly as possible with the requirement to maximise the ultimate cash generation from taking advantage of planning consents. Surplus assets arise from the 'pruning' of poor performing dealerships, the relocation of businesses and the sale of surplus land acquired in the development of new dealerships. The importance of property arrangements within an automotive retail business should not be understated. The Property Committee, chaired by the CEO and containing external advisors, meets monthly to formally review and manage the Group's property portfolio.

Capital Structure

The Group has an ungeared balance sheet with shareholders' funds of £246.4m (2016: £197.9m), representing net assets per share of 62.3p (2016: 58.0p) as at 28 February 2017. The Group has tangible net assets of £156.1m (2016: £130.6m) and the balance sheet is underpinned by a freehold and long leasehold property portfolio of £182.0m (2016: £137.7m). The Board believes that a strong balance sheet backed by property assets used in the business, and where debt taken on is long term in nature rather than short term, is in the interests of the owners. This approach reduces the Group's exposure to interest rate and rent increases and makes the business highly resilient in the event of a downturn in activity.

The Board continues to seek to balance those dealerships in freehold and leasehold premises and to adopt a conservative approach to the terms of any leases, favouring lease breaks to provide flexibility and open market value rent reviews to manage rent increase risks. As at 28 February 2017, freehold locations represented 53% of locations (2016: 51%).

The Group finances its operations by a mixture of shareholders' equity, bank borrowings and trade credit from suppliers and Manufacturer partners. On 31 March 2016, the Group undertook a £35m (gross) equity placing to provide funds for further acquisitions and the funds have been deployed as envisaged at the time of the Placing.

On 27 February 2017 the Group established a five year acquisition facility with Barclays Bank plc and Royal Bank of Scotland plc which provides the Group with £40m of committed borrowing capacity with the potential to add a further £30 million which is currently uncommitted. £10 million of this facility was drawn as at 28 February 2017. Interest is payable on this facility at LIBOR plus a rate between 1.3% and 2.1% depending upon the ratio of net debt to EBITDA. The Board believes that the current funding structure is highly conservative. The Board further believes that use of these additional debt facilities on appropriate acquisitions, which meet the required investment hurdles, would be beneficial in enhancing return on equity and increasing cash profits.

During the period, the Group comfortably complied with all of the financial covenants in respect of its borrowing facilities, which include net debt to EBITDA and interest and lease costs to EBITDAR.

The Group operated with cash balances for much of the year and additional facilities are utilised to fund significant peak working capital requirements following plate change months and quarter ends. The Group has £68m of overdraft and other money market facilities. On the overdraft, interest was paid on drawn amounts at 1.1% above Base Rate, and on the money market facilities interest was paid at 1.1% above LIBOR. As at 28 February 2017, the Group had cash balances of £39.8m (2016: £43.9m) and, as a consequence, net cash of £21.0m (2016: net cash £23.1m). The cash position at 28 February 2017 reflects the seasonal reduction in working capital, typical of the industry, which arises at the month end prior to a plate change month. Consequently, the year-end cash position is higher than the normalised cash balances throughout the remainder of the year by approximately £30m.

The net cash position shown above is stated net of £8.7m (2016: £6.8m) of utilised used car stocking loans. These loans with third party banks are subject to interest at 1.5% above LIBOR and are secured on the related vehicles. These facilities are short term in nature and can be called to be repaid on demand. As a consequence, these facilities are not extensively utilised to fund long term assets.

Dividends

Since the Group commenced payment of dividends to its owners in 2011, during that six year period, over £17.3m has been returned to the owners of the business, with the dividend per share increasing by 280% over the same period. While still maintaining one of the strongest balance sheets in the listed automotive retail sector, the dividend has been funded from cash generated from operations, without any negative impact to ongoing capital expenditure programme nor funding of suitable acquisitions.

Maintaining a strong balance sheet is a key element of the Board's approach to capital management, with a stated policy of moving dividend cover closer to four times. The Board has proposed an increase in the final dividend for 2017, payable on 31 July 2017, to 0.9 pence per share (2016: 0.85), which, when taken together with the interim dividend paid in January 2017 of 0.5 pence per share (2016: 0.45p), provides a total dividend for the year of 1.40 pence per share (2016: 1.30p). This represents an increase of 7.7% and a dividend cover of 4.7 times (2016: 4.9 times) based upon adjusted earnings per share. The ex-dividend date will be 29 June 2017 and the associated record date 30 June 2017.

The proposed full year dividend of 1.40 pence represents an annualised cash dividend of £5.5m (2016: £4.9m). The distributable reserves in the parent company balance sheet as at 28 February 2017 were £58.9m (2016: £43.8m). At this level of pay-out the Board does not consider there to be any significant risks to the Group's ability to continue to pay dividends in accordance with this pay-out strategy other than those risks listed in the annual report.

Return on equity

The Group's post-tax return on equity (measured as a 12 month average throughout the Period) was 10.8% (2016 : 11.4%). This dilution resulted from the use of the cash raised from the equity raise in March 2016 to fund the acquisition of the freehold property-rich premium dealerships. While these acquisitions have strengthened the Group's property and brand portfolios, the Board is cognisant of the impact of equity returns, and intends to utilise the new debt facilities to finance future acquisitions, hence improving equity returns.

Free cashflow to equity

The Board regularly measures the long term free cashflow (operating cashflow less interest, capital expenditure and tax, before acquisitions and dividends) as a return on the shareholders' cash invested capital (capital raised plus after-tax operating profits less dividends). This measure, when compared to the cost of capital, provides an indication of the extent to which cash, hence value, is being created in the long term. This measure stands at 12.1% over the 10 years since the Group's formation (2016: 12.7% over 9 years). This return compares favourably to the Group's weighted average cost of capital of 8%. The reduction in the recent Period indicated above is a result of the high level of cash deployed on capital investment in the Period. As set out above, we expect this level of capital investment to increase in the current financial year before declining in 2019, when the free cashflow to equity metric should begin to increase.

Robert Forrester
Chief Executive Officer

Michael Sherwin
Chief Financial Officer

CONSOLIDATED INCOME STATEMENT (AUDITED)

For the year ended 28 February 2017

	Note	2017 £'000	2016 £'000
Revenue		2,822,589	2,423,279
Cost of sales		(2,509,049)	(2,160,000)
Gross profit		**313,540**	**263,279**
Operating expenses		(281,466)	(236,100)
Operating profit		**32,074**	**27,179**
Amortisation of intangible assets		614	558
Share based payments charge		1,082	911
Operating profit before amortisation and share based payments charge		**33,770**	**28,648**
Finance income	2	261	173
Finance costs	2	(2,515)	(1,390)
Profit before tax		**29,820**	**25,962**
Amortisation of intangible assets		614	558
Share based payments charge		1,082	911
Profit before tax, amortisation and share based payments charge		**31,516**	**27,431**
Taxation	3	(5,800)	(5,282)
Profit for the year attributable to equity holders		**24,020**	**20,680**
Basic earnings per share (p)	4	**6.14**	**6.06**
Diluted earnings per share (p)	4	**6.04**	**5.92**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (AUDITED)

For the year ended 28 February 2017

	Note	2017 £'000	2016 £'000
Profit for the year		**24,020**	**20,680**
Other comprehensive (expense) / income			
Items that will not be reclassified to profit or loss:			
Actuarial (losses) / gains on retirement benefit obligations		(4,687)	680
Deferred tax relating to actuarial losses / (gains) on retirement benefit obligations		937	(137)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		-	23
Deferred tax relating to cash flow hedges		-	(6)
Other comprehensive (expense) / income for the year, net of tax		**(3,750)**	**560**
Total comprehensive income for the year attributable to equity holders		**20,270**	**21,240**

CONSOLIDATED BALANCE SHEET (AUDITED)

As at 28 February 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Goodwill and other indefinite life assets		94,595	69,484
Other intangible assets		1,518	1,672
Retirement benefit asset		1,884	6,097
Property, plant and equipment		197,545	150,361
		295,542	**227,614**
Current assets			
Inventories		506,470	530,371
Trade and other receivables		52,545	63,412
Property assets held for sale		-	537
Cash and cash equivalents		39,845	43,915
Total current assets		**598,860**	**638,235**
Total assets		**894,402**	**865,849**
Current liabilities			
Trade and other payables		(610,317)	(631,148)
Deferred consideration		(1,572)	(241)
Current tax liabilities		(3,840)	(3,647)
Borrowings		(8,671)	(6,756)
Total current liabilities		**(624,400)**	**(641,792)**
Non-current liabilities			
Borrowings		(10,166)	(14,011)
Deferred consideration		(236)	(1,659)
Deferred income tax liabilities		(5,555)	(4,450)
Deferred income		(7,616)	(6,078)
		(23,573)	**(26,198)**
Total liabilities		**(647,973)**	**(667,990)**
Net assets		**246,429**	**197,859**
Capital and reserves attributable to equity holders of the Group			
Ordinary shares		39,727	34,127
Share premium		124,932	96,901
Other reserve		10,645	10,645
Treasury reserve		(756)	-
Retained earnings		71,881	56,186
Shareholders' equity		**246,429**	**197,859**

CONSOLIDATED CASH FLOW STATEMENT (AUDITED)

For the year ended 28 February 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Operating profit		32,074	27,179
Profit on sale of property, plant and equipment		(285)	(26)
Amortisation of other intangible assets		614	558
Depreciation of property, plant and equipment		8,665	6,803
Movement in working capital		16,040	30,515
Share based payments charge		1,015	781
Cash generated from operations		**58,123**	**65,810**
Tax received		359	4
Tax paid		(6,103)	(7,704)
Finance income received		34	36
Finance costs paid		(2,447)	(1,451)
Net cash generated from operating activities		**49,966**	**56,695**
Cash flows from investing activities			
Acquisition of businesses, net of cash and overdrafts acquired		(49,962)	(24,565)
Acquisition of freehold and long leasehold land and buildings		(4,456)	(6,475)
Purchases of intangible assets		(460)	(325)
Purchases of other property, plant and equipment		(25,092)	(13,977)
Proceeds from disposal of business (net of cash and overdrafts)		875	2,137
Proceeds from disposal of property, plant and equipment		950	1,120
Net cash outflow from investing activities		**(78,145)**	**(42,085)**
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares		33,631	127
Proceeds from borrowings	6	10,831	18,288
Repayment of borrowings	6	(14,000)	(4,441)
Purchase of treasury shares		(1,000)	-
Dividends paid to equity holders		(5,353)	(3,923)
Net cash inflow from financing Activities		**24,109**	**10,051**
Net (decrease) / increase in cash and cash equivalents		**(4,070)**	**24,661**
Cash and cash equivalents at beginning of year		43,915	19,254
Cash and cash equivalents at end of year		**39,845**	**43,915**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (AUDITED)

For the year ended 28 February 2017

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Treasury share reserve £'000	Retained Earnings £'000	Total Equity £'000
As at 1 March 2016	34,127	96,901	10,645	-	56,186	197,859
Profit for the year	-	-	-	-	24,020	24,020
Actuarial losses on retirement benefit obligations	-	-	-	-	(4,687)	(4,687)
Tax on items taken directly to equity	-	-	-	-	937	937
Total comprehensive income for the year	-	-	-	-	20,270	20,270
New ordinary shares issued	5,600	29,400	-	-	-	35,000
Cost of issuance of ordinary shares	-	(1,369)	-	-	-	(1,369)
Purchase of treasury shares	-	-	-	(1,000)	-	(1,000)
Treasury shares issued	-	-	-	244	(237)	7
Dividend paid	-	-	-	-	(5,353)	(5,353)
Share based payments charge	-	-	-	-	1,015	1,015
As at 28 February 2017	**39,727**	**124,932**	**10,645**	**(756)**	**71,881**	**246,429**

The purchase of treasury shares in the period relates to the acquisition of 2,635,687 shares by Estera Trust (Jersey) Limited, the Trustee of Vertu Motors plc's Employee Benefit Trust ("EBT"). The shares were purchased by the Trustee to be held for the purposes of the Employee Benefit Trust, and may be used to transfer shares to individuals when options are exercised. This could include the Company's Long Term Incentive Plan ("LTIP"), under which each of the executive directors of the Company, the Company's other PDMRs and certain other senior managers are potential participants, and is therefore regarded as having a notional interest in these shares.

During the year, 625,134 treasury shares were transferred or sold by the EBT on exercise of vested LTIP options, and 20,000 treasury shares were transferred or sold by the EBT on exercise of vested Company Share Options.

The other reserve is a merger reserve, arising from shares issued for shares as consideration to the former shareholders of acquired companies

For the year ended 29 February 2016

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total Equity £'000
As at 1 March 2015	**34,091**	**96,810**	**10,645**	**(17)**	**38,105**	**179,634**
Profit for the year	-	-	-	-	20,680	20,680
Actuarial gains on retirement benefit obligations	-	-	-	-	680	680
Tax on items taken directly to equity	-	-	-	(6)	(137)	(143)
Fair value gains	-	-	-	23	-	23
Total comprehensive income for the year	-	-	-	17	21,223	21,240
New ordinary shares issued	36	91	-	-	-	127
Dividend paid	-	-	-	-	(3,923)	(3,923)
Share based payments charge	-	-	-	-	781	781
As at 29 February 2016	**34,127**	**96,901**	**10,645**	**-**	**56,186**	**197,859**

NOTES

For the year ended 28 February 2017

1. Basis of Preparation

Vertu Motors plc is a Public Limited Company which is listed on the AiM market and is incorporated and domiciled in England. 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 Group prepares financial information under International Financial Reporting Standards (IFRS) issued by the IASB and as adopted by the European Union (EU) and on the same basis as in 2016. Further information in relation to the Standards adopted by the Group is available on the Group's website www.vertumotors.com.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards (IFRS's), this announcement does not itself contain sufficient information to comply with IFRS's. The Group published full financial statements that comply with IFRS's today and these are available on the Group's website, www.vertumotors.com.

The financial information presented for the years ended 28 February 2017 and 29 February 2016 does not constitute the Company's statutory accounts as defined in Section 434 of the Companies Act 2006, but is derived from those financial statements. The auditors' reports on the 2017 and 2016 financial statements were unqualified. A copy of the statutory accounts for 2016 has been delivered to the Registrar of Companies. Those for 2017 will be delivered following the Company's annual general meeting, which will be convened on 26 July 2017.

Accounting policies

The annual consolidated financial statements of Vertu Motors plc are prepared in accordance with IFRS's as adopted by the European Union. The annual report has been prepared on the going concern basis under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

The accounting policies adopted in this annual report can be found on our website, www.vertumotors.com, and are consistent with those of the Group's financial statements for the year ended 29 February 2016.

Segmental information

The Group adopts 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 Officer. There has been no change in the Group's one reportable business segment. Dealerships operate a number of different business streams such as new vehicle sales, used vehicle sales and after-sales operations. Management is organised based on the dealership operations as a whole rather than the specific business streams.

Dealerships are considered to have similar economic characteristics and offer similar products and services which appeal to a similar customer base. As such, the results of each dealership have been aggregated to form one reportable 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.

Year ended 28 February 2017

	Revenue £'m	Revenue Mix %	Gross Margin £'m	Gross Margin Mix %	Gross Margin %
Aftersales *	227.0	8.0	123.4	39.4	44.6
Used cars	1,037.5	36.8	100.7	32.1	9.7
New car retail and Motability	909.4	32.2	68.3	21.8	7.5
New fleet and commercial	648.7	23.0	21.1	6.7	3.3
	2,822.6	**100.0**	**313.5**	**100.0**	**11.1**

Year ended 29 February 2016

	Revenue £'m	Revenue Mix %	Gross Margin £'m	Gross Margin Mix %	Gross Margin %
Aftersales*	189.0	7.8	102.9	39.1	44.8
Used cars	850.2	35.1	83.5	31.7	9.8
New car retail and Motability	796.5	32.9	59.3	22.5	7.4
New fleet and commercial	587.6	24.2	17.6	6.7	3.0
	2,423.3	**100.0**	**263.3**	**100.0**	**10.9**

*margin in after-sales expressed on internal and external turnover

2. Finance income and costs

	2017 £'000	2016 £'000
Interest on short term bank deposits	34	36
Net finance income relating to defined benefit pension schemes	227	137
Finance income	**261**	**173**
Bank loans and overdrafts	(876)	(619)
Vehicle stocking interest	(1,639)	(572)
Other finance costs	-	(199)
Finance costs	**(2,515)**	**(1,390)**

3. Taxation

	2017 £'000	2016 £'000
Current tax		
Current tax charge	6,468	5,598
Adjustment in respect of prior years	(227)	(258)
Total current tax	**6,241**	**5,340**
Deferred tax		
Origination and reversal of temporary differences	(70)	395
Adjustment in respect of prior years	(112)	(145)
Rate differences	(259)	(308)
Total deferred tax	**(441)**	**(58)**
Income tax expense	**5,800**	**5,282**

	2017 £'000	2016 £'000
Profit before taxation from continuing operations	29,820	25,962
Profit before taxation multiplied by the rate of corporation tax in the UK of 20% (2016: 20.08%)	5,964	5,213
Non-qualifying depreciation	357	245
Non-deductible expenses	267	412
Effect on deferred tax balances due to rate change	(259)	(308)
Property adjustment	(168)	153
Permanent benefits	(22)	(30)
Adjustments in respect of prior years	(339)	(403)
Total tax expense included in the income statement	**5,800**	**5,282**

The standard rate of Corporation Tax in the UK is 20% with effect from 1 April 2015. Accordingly, the Group's profits for this accounting period are taxed at a rate of 20%. The standard rate of Corporation Tax in the UK will be 19% with effect from 1 April 2017.

4. 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 year or the diluted weighted average number of ordinary shares in issue in the year.

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 at 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 set out above, is compared with the number of shares that would have been issued assuming the exercise of the share options.

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

	2017	**2016**
	£'000	**£'000**
Profit attributable to equity shareholders	24,020	20,680
Amortisation of intangible assets	614	558
Share based payments charge	1,082	911
Tax effect of adjustments	(119)	(112)
Adjusted earnings attributable to equity shareholders	**25,597**	**22,037**
Weighted average number of shares in issue ('000s)	391,116	341,080
Potentially dilutive shares ('000s)	6,800	8,388
Diluted weighted average number of shares in issue ('000s)	**397,916**	**349,468**
Basic earnings per share	**6.14p**	**6.06p**
Diluted earnings per share	**6.04p**	**5.92p**
Basic adjusted earnings per share	**6.54p**	**6.46p**
Diluted adjusted earnings per share	**6.43p**	**6.31p**

5. Dividends per share

Dividends of £5,353,000 were paid in the year to 28 February 2017 (2016: £3,923,000), 1.35p per share (2016: 1.15p). A final dividend in respect of the year ended 28 February 2017 of 0.90p per share, is to be proposed at the annual general meeting on 26 July 2017. The ex-dividend date will be 29 June 2017 and the associated record date 30 June 2017. This dividend will be paid, subject to shareholder approval, on 31 July 2017 and these financial statements do not reflect this final dividend payable.

The last date for shareholders to elect for the Dividend Re-Investment Plan (DRIP) will be 6 July 2017 (or such other date as the Group may specify). A facility is provided by Capita IRG Trustees Limited in conjunction with the Group's registrars, Capita Asset Services, for any Group shareholders who wish to re-invest dividend payments in the Group. Under this facility, cash dividends may be used to purchase additional ordinary shares.

Any shareholder requiring further information should call Capita on 0871 664 0300 (*Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales.* Overseas shareholders are best to use: *+44 371 664 0300 Calls outside the United Kingdom will be charged at the applicable international rate)* or visit www.capitaassetservices.com.

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

	2017 £'000	2016 £'000
Net (decrease) increase in cash and cash equivalents	(4,070)	24,661
Cash inflow from proceeds of borrowings	(10,831)	(18,288)
Cash outflow from repayment of borrowings	14,000	4,441
Cash movement in net cash	**(901)**	**10,814**
Borrowings acquired	(1,085)	(3,409)
Capitalisation of loan arrangement fees	107	201
Amortisation of loan arrangement fees	(261)	(128)
Non-cash movement in net cash	**(1,239)**	**(3,336)**
Movement in net cash	**(2,140)**	**7,478**
Opening net cash	**23,148**	**15,670**
Closing net cash	**21,008**	**23,148**

7. Acquisitions

On 1 March 2016, the Group acquired the entire issued share capital of Sigma Holdings and its subsidiary Greenoaks (Maidenhead) Limited (together "Greenoaks") which operates three Mercedes-Benz outlets in Reading, Ascot and Slough. Total consideration amounted to £30,743,000 comprising initial consideration of £11,743,000 settled from the Group's existing cash resources, a £10,000,000 bank loan and vendor shareholder loans of £9,000,000 which were settled in cash on completion.

On 2 May 2016, the Group acquired the business and certain assets of Leeds Jaguar from a subsidiary of Inchcape Plc. The consideration for this acquisition was £592,000 and was settled in cash from the Group's existing resources.

On 1 June 2016, the Group acquired the entire issued share capital of Gordon Lamb Group Limited and its subsidiaries, including Gordon Lamb Limited (together "Gordon Lamb") which operates the Toyota, Land Rover, Skoda, and Nissan outlets in Chesterfield and the Skoda outlet in Derby. The estimated consideration amounted to £18,781,000 and was settled in cash from the Group's existing resources.

8. Post balance sheet events

On 31 March 2017, the Group disposed of the trade and certain assets of its Peugeot dealership in Chesterfield to Decidebloom Limited, trading as Stoneacre. The Group still owns the freehold property from which the dealership operates.