8 May 2019

Vertu Motors plc ("Vertu", "Group")
Final results for the year ended 28 February 2019
Profit and cash generation ahead of expectations: dividend increased

Vertu Motors plc, the automotive retailer with a network of 123 sales and aftersales outlets across the UK, announces its final results for the year ended 28 February 2019

Commenting on the results, Robert Forrester, Chief Executive Officer, said:

"Our highly skilled, disciplined and motivated team offers our aftersales, used and new vehicle customers outstanding service. By executing the basic fundamentals well, and with our strong financial position, Vertu will continue to generate significant and growing levels of cash. Over the last three years, we have invested over £85.0m in our capex programme across our dealership estate. This programme is now coming to an end and we would expect to generate increased levels of cash which, through our disciplined capital allocation framework, we will invest in operations, acquisitions and dividends as well as share buybacks, where appropriate."

HIGHLIGHTS

Strategy

- Strong management and financial position enables growth of franchised businesses with major Manufacturer partners to deliver growth in value
- Leads the sector in on-line capability for omni-channel retailing. On-line retailing capability developed in used cars, parts and vans
- Delivery of market beating used car sales growth through use of technology in stock management and vehicle pricing together with cost-effective digital and TV marketing
- Growing high margin service revenues through expanded capacity, high penetration of retention products such as service plans and delivery of outstanding customer experiences
- Strong portfolio management including divestment of sub-scale and underperforming outlets/properties generating cash and reducing cost structures
- Continuing value enhancing acquisitions

Financial

- Profit before tax of £25.3m (2018: £30.4m)
- Adjusted[1] profit before tax of £23.7m ahead of market expectations (2018: £28.6m)
- Full year dividend of 1.6p per share, up 6.7% (2018: 1.5p per share)
- VAT income of £3.1m, in addition to Adjusted PBT, received following HMRC clarification of finance deposit allowance treatment
- Excellent cash conversion: Free Cash Flow of £21.2m delivered in the year (2018: £10.7m)

Operational

- £186m (6.7%) growth in revenues to £3bn, with like-for-like revenue growth of 5.1%
- Excellent aftersales performance with like-for-like revenue growth of 7.0% delivering a 6.4% growth in gross profit
- Like-for-like used vehicle revenue growth of 11.6% delivering £2.5m additional gross profit
- New retail volumes stable and ahead of the market trends

[1] Adjusted to remove non-underlying items

Capital Structure

- Adjusted[2] Net Cash of £22.9m (2018: £32.1m)
- Strong balance sheet to fund future growth: tangible net assets per share of 44.9p reflective of extensive freehold property base
- Major capital expenditure programme now largely complete aiding future Free Cash Flow generation
- Used car stocking funding utilised of £23.2m (cover of 4.6 times used car stock value) (2018: £12.8m). Substantially lower than industry peer group reflecting resilient balance sheet
- £3.6m of shares bought back in FY19 together with £5.7m of dividend payments
- Share Buyback Programme recommenced on this announcement with £3m allocated

[2] Adjusted to remove used car stocking loans

Outlook

- Group has traded in line with management's expectations in March and April 2019 with trading profit expected to be in line with prior year period

Webcast details

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

https://protect-eu.mimecast.com/s/vO8wC0YBQUmj3MwiwsVcB

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

This announcement contains inside information as defined in Article 7 of the Market Abuse Regulation No. 596/2014 and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

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CHAIRMAN'S STATEMENT

The Group has delivered underlying profits in excess of market expectations and the Group continues to trade in line with management expectations for the year ahead, which anticipates profit growth.

The automotive retail sector faced a number of challenges in the year to 28 February 2019 including disruption to new vehicle supply, driven by a weaker pound and EU Worldwide Harmonised Light Vehicle Test Procedure ("WLTP") regulations, political uncertainty impacting consumer confidence and significant cost pressures. Despite this, the Group delivered a credible result in profit terms and very strong cash generation. The Board proposes a final ordinary dividend of 1.05p per share taking the total ordinary dividend for the year to 1.60p per share, an increase of 6.7% on last year.

The Group generated Free Cash Flow of £21.2m and £9.3m was returned to shareholders through a combination of ordinary dividend payments (£5.7m) and share buybacks (£3.6m). During the year 8.3m shares were repurchased for cancellation reducing the number of shares in issue by 2.2%. The Share Buyback Programme will be recommenced following this announcement.

As anticipated, investment in the Group's property portfolio has continued, with a capital expenditure cash outflow of £33.7m before disposals. This spend included signigficant projects to increase the operating capacity of the Group and to ensure dealerships meet the latest in Manufacturer standards. The portfolio is now well invested, with reduced capital expenditure expected in the coming financial year. Adjusted Net Cash reduced to £22.9m from £32.1m, with £31.5m spent on acquisitions completed in the year. Net debt, inclusive of used vehicle stocking facilities is negligible at just £0.3m at the balance sheet date and this means the Group has considerable firepower for future investment.

There were a number of Board changes in the year. David Crane was appointed as an Executive Director of the Company on 26 July 2018. David joined Vertu at its inception and has been instrumental in its subsequent growth and success. Nigel Stead, who had been a Non-executive Director of the Group for 7 years, retired from the Board on 31 December 2018. Andrew Goss joined the Group on 3 September 2018 as a Non-executive Director and brings 39 years' experience in the automotive sector to the Board, having held very senior roles in a number of Manufacturers including Porsche and Jaguar Land Rover. Michael Sherwin retired from his position as CFO on 1 March 2019. Karen Anderson, who has been with Vertu since its incorporation in November 2006 succeeded Michael as CFO in a very smooth transition.

I have been in place as Chairman since 1 January 2015 and now consider it is time to step down in the coming months, having overseen a number of Board changes in the last 18 months and with the Group in an excellent position and poised for further growth. A process has commenced to find a new Non-executive Chairman for the Group and further announcements are expected in the coming months.

The automotive retail sector is set to remain challenging for the year ahead notably due to political uncertainty and increased regulatory attention. It is likely that over time there will continue to be a reduction in the number of franchise dealer outlets in the UK and drive further network consolidation. The Group's core strategy remains unchanged, which is to grow a scaled franchised automotive retail group, working in conjunction with chosen Manufacturer partners. Our aim is to deliver outstanding customer service and to build long term value through the delivery of sustainable growth in cash flows and earnings per share.

I would like to take this opportunity to thank the Board, management and, above all, the incredible colleagues in the Group for their passion, commitment and hard work. This Group was founded in late 2006 and is now a significant player in the UK automotive retail sector with an excellent, exciting future ahead of it.

Peter Jones
Chairman

CHIEF EXECUTIVE'S REVIEW

The purpose of this report is to inform all stakeholders on how the Group has performed in the year to 28 February 2019, through the provision of a detailed analysis of financial performance. It also appraises the challenges the Group faces, the opportunities available to exploit and explains how the Board plan to manage the business going forward.

Strategic Overview

Economic Backdrop

Economic indicators for the UK consumer are positive. In March 2019 the UK employment rate was estimated at 76.1%, higher than the previous year and the highest figure on record. In addition, those in employment have seen a 1.2% growth in wages, adjusted for inflation, compared with 2017. Despite these positive trends, the consumer confidence index for the United Kingdom averaged minus 9 for the first half of the Year, declining to an average of minus 13 from October 2018, as the strong labour market was offset by ongoing Brexit uncertainty and concerns over global growth prospects. There is a proven long-term link between consumer confidence and UK new vehicle registrations, which were weaker in the second half of the financial year.

Movements in the sterling exchange rate also tend to impact on UK new vehicle registrations. Weaker sterling discourages Manufacturers bringing vehicles into the UK due to resultant margin pressures.

Reductions in registrations of new vehicles in the UK leads to reduced availability of used vehicles for sale, which tends to underpin used vehicle values aiding Group used vehicle performance. Rising new car prices also tends to result in some customers switching from new cars to used cars due to affordability. A slowdown in the change cycle of vehicles also tends to increase the demand for the aftersales services and parts supplied by the Group.

Network Change - physical dealerships in an on-line world

The impact of the growth in on-line shopping on the general retail sector has been well documented with increased on-line sales driving reduced physical retail transactions and resulting in considerable dislocation on the High Street. Whilst the pace of consumer change from physical to on-line has been fast in the general retail sector, the relative complexity of a vehicle purchase has, thus far, led to a much lower adoption of 'purely' on-line transactions within automotive retail. Customers are increasingly using the internet to research prior to purchase and to initiate contact with dealerships, however, a recent ICDP survey found less than 10% of consumers ideally wanted to finalise the deal on-line. Customer requirements are likely to evolve over time and the Group needs to adapt to meet them.

Vertu was the first dealer group in the UK to develop the technology for customers to choose a used vehicle, finance its purchase and trade in their existing vehicle purely on-line. This was launched in May 2017 and has been successful, with many customers starting their purchasing journey on the platform and in some cases completing the entire process on-line. The relatively low volumes of purely on-line sales relate directly to the relative complexity of a vehicle purchase transaction, which potentially includes financing, warranty and other products, as well as a vehicle to trade in. The vast majority of customers also prefer to test drive their chosen new vehicle, to ensure that it will meet their needs, before committing to a purchase. The Group continues to invest in on-line sales capability since this channel is likely to grow over time and provides the Group with significant learnings on evolving customer digital buying behaviour.

Whilst on-line purchase transactions remain negligible in the sector, the internet is of paramount importance in marketing and communicating with customers in their research phase of purchasing for both vehicles and aftersales products. It is therefore vital to have a multi-channel approach, which offers choice to customers between on-line and off-line channels and an omni-channel retail experience so transition from on-line to off-line is seamless. Today's customers utilise both on-line and off-line resources in complex ways during the buying cycle. Lack of on-line visibility or barriers to an effortless journey can lead to customers purchasing elsewhere so impacting sales levels. It is of the utmost importance that the Group further invests in its in-house digital development capability, its digital platforms and enhances its websites. This has been undertaken in the year significantly improving Group capabilities. For example, the Group purchased Vans Direct in January thus providing a dedicated channel in the increasingly important on-line van market. The Group has also delivered further enhancements to the functionality of the Group's existing websites including extending on-line vehicle purchase functionality across more websites and increasing funding options within this offering.

The substantial global network of Manufacturers, and their associated supply chains, are investing significantly in the technological development of vehicles to meet future customer needs and to comply with increasingly complex and stringent environmental regulations. These Manufacturers rely upon their retail franchise dealer network to deliver their products to end users and to provide essential aftersales care. There is very little sign that this will not continue long into the future primarily due to the capital investment required to have a necessary physical presence and the complexity of organising businesses across every geography across the globe. The Manufacturers appear to have enough challenges for investment and change without seeking revolutionary new distribution models.

Clearly, this does not mean that there will not be change in the composition and structure of the UK's franchise dealer networks. On-line retailing will continue to develop over time and cost and margin pressures will also result in a tendency for the number of UK franchised dealer outlets to continue to decline as it has in recent years. Manufacturers continue to seek simplification in their networks, choosing to work with fewer retail partners who best deliver on their objectives. The majority are now actively working on or are contemplating facilitating further reductions in sales outlets in the next few years to 'right size' their distribution networks to ensure these networks make an appropriate return through increasing sales per outlet. The positive relationships the Group has established with Manufacturer partners means it is well placed to take advantage of this ongoing consolidation. The

Group is also seeking to add additional Manufacturer partners, not currently represented in the portfolio, to facilitate additional growth opportunities. In addition, it is likely that dealership locations may see increased levels of multi-franchising, where two or more franchises are represented at one dealership location, to provide sales and service functions in a territory, but with a lower operating cost base. The Group continues to evaluate such opportunities in order to maximise profitability of each location. Increased flexibility of formats and Manufacturer requirements are likely to aid this process.

The Group's network of physical dealerships across the UK remains at the centre of its customer offering since most new and used purchases are undertaken following a visit and test drive. Dealership visits are actually increasing in each buying cycle at present in the UK and as powertrain and model complexity in vehicles increases, this is likely to continue. Moreover, the physical network is vital for the delivery of service and repair services to our customers. This local capacity remains an important factor in many customers' vehicle buying decisions and is reflected in the Group's strong service retention figures. 58% of the Group's new vehicle customers and 43% of used vehicle customers return to the Group to have their vehicle serviced after their first year of ownership. The continued improvement of customer retention is a key goal for the Group. Initiatives such as the sale of service plans aid service retention, but the delivery of excellent customer experience is the most important predictor of customer loyalty. It is often stated that while the sales department sell the first car, it is the service department which effectively sells the second.

The Board remains confident in the longer-term growth prospects for the Group. Freehold dealership locations are a valuable financial asset and their geographic spread is important to capitalise on a growth in on-line marketing and ultimately transactions. 53% of Group dealership locations are freehold or long leasehold. The average remaining life on the Group's leasehold locations is 7.5 years, with approximately one third of property leases having the benefit of tenant break clauses or lease end dates within the next three years. These property arrangements therefore provide the Group with flexibility to respond to the changing retail environment in the years ahead. The reduction in dealership retail outlets in the UK will increase market share for those retailers who deliver excellent customer service and work in partnership with their chosen Manufacturer partners. The Group operates franchises where a close relationship and partnership with Manufacturers is crucial. The Board believe Vertu is well-positioned from a relationship point of view with Manufacturers and that the Group's excellent financial strength will allow the right further investments to be made.

Technological Change – powertrain shift

Over 40% of the Group's gross profit arises from its aftersales operations, namely the provision of servicing and repairs and the retailing and wholesaling of parts.

The increasing technological complexity of newer internal combustion and electric vehicles has meant the barriers for new entrants into the vehicle servicing arena have, if anything, increased as the costs of specialist diagnostic equipment, tooling and training rise. Customers are more likely to trust Manuacturer franchise-holders to service a highly complex potentially electric, connected vehicle with increasing levels of autonomous driving functionality.

Electric vehicles require less mechanical service intervention than those with an internal combustion engine, however, latest research suggests that their complexity has the potential to increase or at least maintain service and repair revenues from such vehicles for the next decade and further into the future. Moreover, global growth in sales of pure electric vehicles is expected to be modest, with industry analysis providing forecasts of a 20%[3] global market share of electric vehicle registrations by

2030. Pure electric vehicle registrations in the UK in 2018 accounted for less than 1% of the total market. This leaves a very high proportion of registrations of vehicles with an internal combustion engine component and these vehicles will dominate the vehicle parc well into the 2030s and even beyond. The ICDP forecast the internal combustion engine will be fitted to the majority of cars sold in 2030 and that UK service and repair market revenues will continue to increase as a consequence. This provides a major growth opportunity in aftersales for the Group, especially given that developments in the connected vehicle area are likely to increase service retention of vehicles into franchised networks.

The cost of investment in research and development required by Manufacturers in order to develop new engine technology is leading to some choosing to combine resources and share know-how, either through formal ownership change or joint venture arrangements. The continued high cash cost of such development activity may result in Manufacturer consolidation or ownership change and clearly this may have a potential knock on impact on future automotive retailing networks.

[3] Source: New Market, New Entrants, New Challenges: Battery Electric Vehicles: Deloitte.

Importance of Management, Colleagues and Culture

The Group has over 5,500 colleagues and its success is predicated not only on having the right strategy but in the day-to-day delivery of operational excellence to meet customers' needs at over 100 UK locations. The calibre, skills and motivation of management and colleagues is therefore vital to delivering the objectives of the Group. This comes down to consistently delivering the basics within the business.

The Group has a very stable team of senior executives and General Managers in each dealership. Training is seen as a vital part of the Group with extensive leadership development paths in place from sales executives and technicians all the way to executive level. These paths are combined with a formal talent strategy in each division to identify, develop and promote high potential colleagues and to provide opportunities so that the Group retains them. The HR Director and CEO undertake formal talent pool reviews with each Division on a six-monthly basis. E-learning and skills-based training is also provided for all colleagues to ensure consistency of culture and processes.

To ensure basic processes are in place to a high standard, the Group performs over 1,500 mystery shops each year on its sales activities across the Group. These highlight great performances by colleagues which are rewarded and also identify areas for improvement and the need for further training and coaching. Scores have improved year on year which points to enhanced execution. These mystery shops are alongside similar programmes in sales and aftersales conducted by the Manufacturers, where Group scores are well above average.

A sector leading management information system has also been developed to provide management (and colleagues) with real time data, in all aspects of the business from financial information, cost trends, colleague performance, customer experience data to complaints analysis. This provides benchmarking to promote greater consistency in performance across the business.

A key aspect of the Group, which the Board believe drives performance and consistency, is to have one, consistent Group culture. This is at the core of how we do business and includes the following:

- Values that are embedded in the business. 97% of colleagues in the annual colleague survey knew the Values and 87% considered that the Directors actively practice them.

- An annual Vision statement is produced setting out key goals to be achieved including operational KPI's which drive a balanced scorecard league of all dealerships each month.
- There is a focus on all senior management visiting dealerships and talking and listening to management and colleagues rather than sitting in meetings at "Head Office".
- Recognition is critical to colleagues so good work is rewarded and the Group has activities to promote this from its Masters annual awards evening to hand written letters from the Directors to colleagues who have excelled with customers.

To execute its strategies, the Group must have the right people in management and colleague positions and have a culture that promotes excellence and is intolerant of mediocrity. In this way, the basics of the business are executed and customers delighted.

Regulatory Change

Emissions

The development and sales growth of alternatively powered vehicles is being driven by environmental legislative change, as reductions in emissions are sought by governments rather than reflecting change in consumer demand patterns per se. Targeted European emissions reductions by 2021 represent a major challenge to Manufacturers who have to invest to significantly reduce the emissions levels on their vehicle sales or face penal EU fines.

New WLTP regulations, which changed the way in which vehicle emissions are tested, came into force for cars on 1 September 2018. These changes disrupted the supply of new vehicles into the UK in the year, as all new model vehicles had to be tested under the new regime or could not be sold. Many Manufacturers simply did not have enough time to get their many models through the WLTP testing routine in the finite number of facilities available to carry out such tests. WLTP applies to commercial vehicles from 1 September 2019 and, while some disruption is likely, the Manufacturers currently anticipate that they are better prepared as a whole than last year.

The next stage of these emissions testing changes for cars is the introduction of 'Real Driving Emissions' ("RDE") regulations. Stage one of RDE ("RDE1") will apply to all new vehicles registered on or after 1 September 2019 and as was the case with WLTP, vehicles which have not met the testing requirements by that date cannot be sold. An RDE test is a measure of how closely a vehicle achieves the emissions results generated from the WLTP laboratory test in a real-world driving scenario. The test is particularly concerned with Nitrogen Oxide (NOx) emissions, service conformity and evaporate testing. RDE1 requires vehicles to achieve results less than 2.2 times over the lab test results, whilst stage two ("RDE2"), applicable from January 2021 onwards requires that all new vehicles drive within 1.5 times the WLTP levels achieved in the laboratory.

There is a risk that these new RDE regulations will again disrupt new vehicle supply in 2019 because of the testing requirements and potential non-conformity issues, however, this is currently expected to have less of an impact on supply than WLTP. It is expected that the number of model variants in vehicle ranges may reduce, as will the number of available accessory options, particularly those which have an impact on driving efficiency.

FCA

In recent months the FCA published its findings in connection with a review of motor finance and a further thematic review of general insurance product sales. The main areas of focus arising from the motor finance review, were around commission arrangements and the provision of timely and transparent information to consumers.

The Group has not utilised the difference in charges ("DIC") commission basis, highlighted negatively by the FCA, for over four years and has strong controls over the setting of interest rates for customers. Rate caps are in place and the Group's electronic showroom system provides control and visibility to Group management. The FCA has commenced a consultation process around commission arrangements. Whilst it is not known at this stage what, if any, changes will arise from the FCA's findings, the Group are working closely with its retail finance partners, the National Franchised Dealer Association ("NFDA") and Finance and Leasing Association ("FLA") within the consultation process.

The Group has strong compliance processes in place which include regular review of the finance explanations and information the Group gives to its customers during the sales process. A uniform electronic showroom system also ensures a consistency of approach in this important compliance area. The Group has revisited the explanations given, in the light of the FCA's findings, and is confident that sales teams have the right tools to ensure compliance with processes, and to provide customers with the right information to select the financial products which best suit their needs.

The thematic review on general insurance product sales includes a number of products sold by the Group, such as tyre and alloy insurance, and asset protection insurance. The review highlighted areas of interest principally around value for money for customers and the oversight insurance providers exert over the distribution and pricing of their products. Consultation has now commenced, which the Group will actively engage with.

UK withdrawal from the EU

At this stage, the UK's future relationship with the European Union remains unclear. The Group's vehicle and parts supply contracts are with the UK based sales companies of our Manufacturer partners, limiting the need for significant Brexit contingency planning. Manufacturer partners, however, have planned for a range of possible scenarios. Many Manufacturers have chosen to accelerate supply of vehicles and parts into the UK over the past few months, to limit the potential impact of short-term logistics dislocation. In the event the UK exits the Customs Union and Single Market, there is the possibility that import tariffs of 10% will apply to those vehicles which are imported into the UK, increasing the cost of such vehicles to consumers. This is likely to cause a fall in demand for new vehicles whilst leading to an underlying strength in used vehicle values.

A number of the Group's Manufacturer partners have also highlighted a change to the likely timing of new vehicle consignment stock invoicing to retailers. The Group currently receives invoices, on which it can reclaim input VAT, from a number of its Manufacturer partners when a vehicle leaves the assembly line following production regardless of where this may be located within the EU. The VAT is then reclaimed by the Group whilst the invoice is classified in trade creditors until the vehicle is sold or a prolonged period expires utilising Manufacturer funding lines. On leaving the EU and its VAT regime, invoicing to the Group may be delayed until the vehicle arrives in the UK. A delay in the timing of vehicle invoices to the date a vehicle arrives in the UK, will reduce the current VAT cash flow advantage currently afforded to the Group as a result of such invoicing arrangements.

Costs

The automotive retail sector has in recent years faced considerable cost headwinds from a number of directions. Some of these are now stabilising. Business rates continue to rise and have put pressure on physical retailing in general. Depreciation and rent levels have risen on the back of substantial investments in property capacity and Manufacturer standards. This is now set to stabilise as capital expenditure levels are reducing.

One of the major sources of cost increase has been in the area of employment costs. Labour markets are generally tight as employment levels have risen to historic high levels and this, combined with the National Minimum Wage increases, has put upward pressure on costs. 17% of the colleagues employed by the Group are paid at the National Minimum Wage level and this continues to rise. Pension costs have also risen due to auto-enrolment with the last in a number of staged increases effective on 1 April 2019.

The Group has had to work very hard to seek to mitigate these cost increases with a number of successful cost reduction initiatives implemented in the financial year. This will continue to be a key focus as cost pressures still remain a key factor in determining the Group's profitability.

Summary

There are a number of potential threats to the Group's business model set out above, however, there are also significant opportunities. The Group's future success is dependent upon its ability to continue to innovate in order to meet any changes in customers' needs and in response to regulatory change. The Board also needs to continue to ensure capital is allocated to those activities, locations and Manufacturer partners' franchises that are best placed to meet the competitive challenges arising. The Group's success will ultimately rely on leveraging its proven strengths, the quality of execution of business ideas, such as cost saving initiatives, enhancing operational efficiency, marketing campaign delivery and new business opportunities. The Group's management and financial strength means it is well positioned to take advantage of the opportunities arising.

We are proud of our Vision "to deliver an outstanding customer motoring experience through honesty and trust" and all our colleagues strive to achieve customer service excellence. The Group's business success is based on this the delivery of this premise.

Financial Overview

The Group delivered an adjusted profit before tax of £23.7m which is ahead of market expectations. Profit before tax was £25.3m including a receipt of £3.1m of VAT income, following HMRC's clarification of the treatment of dealer deposit allowances, which also benefits the wider automotive retail sector. This income has been treated as a non-underlying item.

The Group's income statement for the year is summarised below:

	FY19 £'000	Mix %	FY18 £'000	Mix %	% change	Like-for-like Change %
Revenue						
New	862,824	28.9	836,370	29.9	3.2	2.9
Fleet & Commercial	644,643	21.6	662,520	23.7	(2.7)	(3.9)
Used	1,217,596	40.9	1,068,931	38.2	13.9	11.6
Aftersales	257,137	8.6	228,247	8.2	12.7	8.8
Total Group Revenue	**2,982,200**	**100.0**	**2,796,068**	**100.0**	**6.7**	**5.1**

	FY19 £'000	Margin[4] %	FY18 £'000	Margin[4] %	Gross profit change £'000	Like-for-like Gross Profit change %
Gross profit						
New	63,832	7.4	64,068	7.7	(236)	(0.6)
Fleet & Commercial	20,217	3.1	21,429	3.2	(1,212)	(8.4)
Used	102,043	8.4	98,680	9.2	3,363	2.5
Aftersales	136,013	43.9	123,531	44.0	12,482	6.4
Total Gross profit	**322,105**	**10.8**	**307,708**	**11.0**	**14,397**	**2.7**
Operating expenses	(294,714)	9.9	(277,257)	9.9		
Operating Profit	**27,391**		**30,451**			
Net finance charges	(3,681)		(1,898)			
Adjusted PBT	**23,710**		**28,553**			
Non-underlying items	1,622		1,894			
Profit before tax	**25,332**		**30,447**			
Taxation	(4,796)		(5,766)			
Profit after tax	**20,536**		**24,681**			
Earnings per share	**5.45p**		**6.31p**			
Ordinary dividends per share	**1.60p**		**1.50p**			

[4] Margin in aftersales expressed on internal and external revenue

Total revenues in the year grew by 6.7% (£186.1m) and like-for-like revenues also grew by 5.1%. The Group saw growth in used vehicle selling prices and volumes and in aftersales revenues, increasing the proportion of total revenues and gross profits generated by these higher margin operations. These activities contributed 49.4% (2018: 46.4%) of total revenues and 73.9% (2018: 72.2%) of gross profit and reflects the fact that the business success of the Group is far more resilient than being solely linked to the new car market. The latter tends to be more volatile than the Group's other revenue streams.

Core Group gross profit increased by £8.1m (2.7%), whilst gross margins of 10.8% were achieved (2018: 11.0%). Margins reduced due to continued increases in vehicle selling prices, whilst profit per unit increased at a slower rate. Selling price rises were due to currency pressures in new vehicle channels but also the increasing premium mix of the Group which also tends to reduce gross margin percentages.

The increase in total gross profit of £14.4m was more than offset by operating expense increases of £17.4m. Although there were upward cost pressures, operating expenses as a percentage of revenue remained static at 9.9%. The Group acquired the Hughes business on 30 June 2018 and this increased operating expenses relative to gross profit since the trading period excluded the most profitable month of the year being March.

The table below shows the volume of vehicles sold by the Group:

	2019			**2018**		**Variance (%)**	
	Like-for-like	**Acquired**	**Total**	**Like-for-like**	**Total**	**Like-for-like**	**Total**
Used retail vehicles	**82,576**	**1,868**	**84,444**	**78,439**	**79,821**	**5.3**	**5.8**
New retail cars	34,711	701	35,412	34,694	35,412	-	-
Motability cars	9,521	275	9,796	10,477	10,770	(9.1)	(9.0)
Fleet and Commercial vehicles	31,584	264	31,848	34,636	34,852	(8.8)	(8.6)
Total New Vehicles	**75,816**	**1,240**	**77,056**	**79,807**	**81,034**	**(5.0)**	**(4.9)**
Grand Total	**158,392**	**3,108**	**161,500**	**158,246**	**160,855**	**0.1**	**0.4**

The volumes of vehicles retailed by the Group remained stable in the period with like-for-like volumes up 0.1%. New retail volumes were static on a like-for-like and total basis with declines exhibited in the Motability and Fleet car channels reflecting in part the strategies of certain manufacturers to reduce supply into the UK in these lower margin channels. These declines were offset by growth in used car volumes.

New Vehicles

UK private new retail vehicle registrations during the year fell by 5.3% and fleet car registrations fell by 7.5%. The light commercial vehicle market saw UK registrations down slightly by 0.8% in the year.

The Group's changes in new vehicle sales volumes compared to the SMMT UK registration figures were as follows:

	Increase/(decrease) year-on-year		
	Total %	**Like-for-Like %**	**SMMT Registrations %**
Volumes:			
New retail vehicles	0.0	0.0	(5.3)
Motability vehicles	(9.0)	(9.1)	(3.1)
Fleet new cars	(17.3)	(17.5)	(7.5)
Commercial new vehicles	1.8	1.6	(0.8)

The Group saw new retail vehicle volumes level compared to a UK fall in registrations of 5.3%. This performance represented significant outperformance and the gaining of market share in the new retail channel.

The UK Motability new car market declined by 3.1% during the year, due to volume Manufacturers, in which the Group is heavily represented, reducing supply into this low margin channel on the back of currency pressures and supply constraints in general. The Group saw like-for-like Motability vehicle sales decline by 9.1%. Motability continues to be a major strength of the Group and a key driver of servicing demand since Motability-supplied vehicles have a three-year servicing plan that retains the vehicle to the supplying retailer for servicing.

New vehicle average selling prices continue to rise, driven by both Manufacturer price increases and a growth in the premium mix of the Group's sales. Selling prices averaged £17,286 in the year (2018: £16,534) representing a rise of 4.6%. The Group retained £1,398 of gross profit per new unit sold on a like-for-like basis (2018: £1,381) growing this measure by 1.2% and consequently gross margin percentages on new vehicle retail sales fell from 7.7% in 2018 to 7.4% in the year.

The Group's like-for-like fleet car sales volumes reduced by 17.5%, reflecting the reduced fleet appetite of certain of the Group's volume Manufacturers. The introduction of the WLTP regulations in the year also had a significant impact on the supply to corporate fleet customers particularly in the premium segment. Poor supply levels and uncertainty over the likely impact of revised emission figures under the new testing regime on company vehicle taxation for end users both impacted volumes.

Commercial vehicle sales represent a major strength of the Group and in the year, the Group delivered 16,115 commercial vehicles, representing 4.5% of the UK market. Volumes increased 1.6% on a like-for-like basis, ahead of the market which declined slightly but remained at historic high levels.

Overall in the fleet and commercial channel, gross profit per unit continue to strengthen from £582 to £612 per unit with margin percentages stable. This reflected the decline in lower margin car fleet activity. The Group has further increased its market share of the UK commercial vehicle market with its acquisition of Vans Direct in January 2019, which sells 3,500 vans annually.

Used Vehicles

During the year ended 31 December 2018, the used car market in the UK recorded marginally declining sales of 2.1%[5]. Lower supply, as a result of declining pre-registration volumes and a contracting daily rental market in the volume sector, kept wholesale used car market prices robust. Whilst the premium segment continued to witness high levels of nearly new cars through high pre-registration and demonstrator activity, residual values were more stable than the previous year.

During the year the Group increased total used vehicle revenues by 13.9% (like-for-like 11.6%). This was driven by a 5.8% increase in total used volume (like-for-like 5.3%) as well as an increase in like-for-like average used car selling prices in the year of 6.0% from £13,396 to £14,203. The Group took an increasing share of the used car market since the market overall witnessed slight declines in activity. The Group saw a continued enhanced performance from its Premium businesses with significant volume growth in used cars. For example, in the Group's Mercedes-Benz and Volkswagen businesses, like-for-like used car volumes rose 40.4% and 34.4% respectively. The overall used car performance has benefitted from the Group's increasing use of technology in stock management and vehicle pricing together with cost-effective digital and TV marketing.

Like-for-like gross profit generated from the sale of used vehicles increased by £2.5m in the period (2.5%), and on a per unit basis this equated to £1,213 (2018: £1,247). Margin percentages fell from 9.3% to 8.5% year-on-year due to a combination of being more price competitive and a growing mix of premium franchise volumes, which have an inherently lower gross margin percentage. The Group successfully grew like-for-like gross profit through a strategy of being price competitive to grow volumes in an uncertain environment with consumer confidence under pressure. Decisions around gross profit per unit are influenced by ensuring prices are competitive in the market and that total gross profit is optimised through a balance of margin and volume. Management flex this balance over time taking into account an assessment of market dynamics.

[5]Source: SMMT.

Aftersales

The Group's aftersales operations, which comprise servicing, supply of parts, accident repair, smart repair and forecourt activity, form 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 only 8.6% of Group revenues, it accounts for 42.2% of gross profit. The Group has substantial opportunities to grow the volume of these higher margin activities due to the growth in the UK vehicle parc since 2010, with almost 39m[5] cars and vans now on the road in the UK. Self-help strategies to increase customer retention, such as through the sale of service plans and the delivery of excellent customer experiences, aid aftersales performance. The increasing technological complexity of vehicles and innovation in engine and vehicle management systems, has contributed to an increase in the mix of warranty related work undertaken in the Group's service departments and reflects another strength of the franchise retailer business model.

Rising demand for aftersales has led to a trend for inflation in technician salaries over the past two years. Technician resource constraints within the Group have eased considerably as 2018 progressed with increased stability in the technician cohort returning. This in part reflects the enhanced packages offered but also implementation of improved recruitment and induction processes.

As part of the Group's ongoing programme of capital investment in its dealership infrastructure, each refurbishment or redevelopment project undertaken has sought to improve and maximise the productive capacity of the dealership's aftersales departments. Service departments have been extended and restructured to increase the number of ramps available and to enhance efficiency. The Group is now benefitting from this additional aftersales capacity and this is helping to drive aftersales profitability growth.

Manufacturers continue to pursue strategies to increase the efficiency of their parts distribution networks and to seek to reduce the supply push of parts into the retailer networks. Ford are in the process of changing their parts distribution model nationwide. The change transfers all stock and other working capital risk to Ford and away from the retailer. Ford cover the operating costs of running the parts distribution hub and pays tiered handling charges through an agency agreement to the retailer for operating the hub successfully. As a consequence of these changes, Group parts revenue in FY20 is expected to decline by £24.0m and related profitability is expected to decline by £0.8m. Return on investment will be enhanced due to the reduction in capital employed. Cash inflows of £3.0m were seen in FY19 and a £0.9m further cash inflow is expected in FY20 as a consequence of the reductions in working capital secured. Ford parts activity transitioning to the new model will be excluded from the analysis of like-for-like performance in the coming year.

[5]Source: SMMT.

The table below sets out the Group's like-for-like aftersales revenues and margins, including both internal and external revenue:

	2019 £'m	2018 £'m	Growth %
Service revenue	118.5	110.2	7.6
Parts and other revenue	178.1	167.0	6.6
Like-for-like aftersales revenue	**296.6**	**277.2**	**7.0**
Service gross margin	75.4%	75.8%	
Parts and other gross margin	22.9%	23.2%	
Like-for-like aftersales gross margin	**43.9%**	**44.1%**	

Like-for-like aftersales gross profits grew by a significant £7.8m (6.4%) in the year. Service revenues rose 7.6% on a like-for-like basis, representing the ninth successive year of growth in this key high margin area and representing a major strategic success achieved through strong execution. The Group has over 100,000 customers paying monthly for a three-year or five-year service plan on top of those customers with a Manufacturer service plan and these provide the bedrock for great retail retention levels. Success has also arisen from better execution of the vehicle health check process when vehicles are in for service or repair with resulting required work identified and sold. This has led to a continued increase in average invoice values in service so aiding revenue and profit growth.

Like-for-like margins were 43.9% (2018: 44.1%) due to the impact of higher salary levels for technicians and lower efficiency. Inefficient diagnostic and warranty work increased at a faster rate than more efficient, routine servicing revenues. Parts revenues rose 5.5% on a like-for-like basis with margins at 21.2% (2018: 21.4%), impacted by the higher mix of warranty work carried out in service which exhibits lower parts margins.

Strategy and Active 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 the Group's unique national footprint, on-line platforms, 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 driven by the trends outlined in earlier sections.

The Group has substantial headroom for further growth with the vast majority of its Manufacturer partners, particularly in the Premium space. The Board adopts a rigorous and disciplined capital allocation process in deciding whether to pursue an acquisition. Investment evaluations for specific opportunities involve detailed three-year investment appraisals and utilising set return on investment hurdle rates to ensure appropriate capital allocation.

During the year, the Board has continued to assess several further acquisition opportunities, rigorously applying the consistent valuation criteria outlined above. A number of these opportunities have not resulted in transactions as the valuations sought by the vendors have not met the Board's investment return criteria. 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, will only be undertaken at appropriate valuations to ensure future returns. Whilst further opportunities continue to be assessed, the Group will remain selective and disciplined in its approach, cognisant that the Board is trusted to spend shareholders' capital sensibly with the goal of creating and sustaining long term value.

Six-monthly the Board assesses the Group's 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. Property flexibility will have increasing importance as network restructuring occurs and retail formats and requirements change for the reasons set out in an earlier section. The Board believes that there will be a trend away from smaller franchise points and greater concentration in larger, urban representation points. This will yield operational gearing benefits of increased sales per outlet. Lease length and structures will take on a greater importance as a result of these changes. Modelling has been undertaken to assess how network changes may impact the Group's dealerships going forward and the impact this may have from a property perspective around the freehold property portfolio and lease commitments. Clearly this is an important area to manage. Acquisitions and disposals must also reflect these trends and the Board are mindful of these potential changes when considering the current portfolio and how it will evolve. In addition, the Board performs a detailed review of underperforming dealerships within the portfolio on a continual basis, applying its strategy of "fix, re-franchise, sell or close". This is an important element of the capital allocation process providing cash for investment in higher return activities. The Group has seen the benefit of this during the year.

Portfolio Changes

Reflective of the capital allocation principles outlined above, a good example of the decision making process relates to the closure in April 2019 of the Group's Retford Honda dealership in Nottinghamshire. Three of the other Honda dealerships operated by the Group are within 25 miles of the Retford dealership and this featured in the Board's assessment regarding the closure of this profitable site. Modelling assumed that 40% of customers will travel to these neighbouring dealerships for servicing in future and the Group would retain significant amounts of the Honda new car business whilst reducing fixed operating costs. The process of securing the disposal of the now surplus freehold property is underway.

On 30 June 2018 the Group acquired Hughes Group Holdings Limited for total consideration of £24.0m, of which £1.5m was deferred for 12 months. The assets acquired include goodwill and other intangibles of £10.9m and freehold property of £6.3m. This acquisition added the Mercedes-Benz dealerships in Beaconsfield and Aylesbury to the Group's existing adjacent market area comprising Reading, Ascot and Slough, as well as introducing the Mercedes-Benz Commercial Van franchise to the Group's portfolio for the first time and a further Skoda outlet to the Group. This is a well-run business, and the Group has retained the operational management team. Integration into the Group has progressed well and is continuing.

On 31 March 2019 the Group sold its Peugeot business in High Wycombe, which had been acquired in June 2018 as part of the above Hughes acquisition. This was a sub-scale operation which was unlikely to make an appropriate return to the Group. Cash generated on the sale was £0.8m including the freehold property with further working capital savings anticipated. In addition, subsequent to the year end, the Group disposed of a further surplus freehold property arising from a previous dealership closure generating cash of £0.6m.

On 7 January 2019 the Group acquired the entire share capital of Vans Direct Ltd, which is a well-established on-line retailer of new vans (www.vansdirect.co.uk) based in Newport, South Wales. This acquisition of a successful on-line, van retailing business complements the Group's existing on-line capability. Total consideration of £9.6m includes £2.5m in respect of an earn-out arrangement that will be paid, subject to delivering two years on-target EBITDA performance. Net assets on acquisition were £1m (including £0.6m cash) with goodwill and other intangibles arising on the transaction of £8.6m. The business is now being integrated into the wider Group with significant van supply opportunities identified alongside opportunities for business, process and efficiency improvements.

Subsequent to these changes, the Group now operates 120 franchised sales outlets, and 3 non-franchised sales outlets, from 104 locations.

CHIEF FINANCIAL OFFICER'S REVIEW

Non-underlying Items

The Group delivered an Adjusted profit before tax of £23.7m. In addition, the following items have been treated as non-underlying in arriving at Adjusted profit before tax:

	Year ended 28 February 2019 £'m	Year ended 28 February 2018 £'m
Profit on sale of property	-	4.1
Loss on disposal of business	-	(0.6)
VAT receipt – deposit contributions	3.1	-
Share based payments charge	(0.9)	(1.0)
Amortisation	(0.5)	(0.6)
Total non-underlying items	**1.7**	**1.9**

The VAT receipt followed HMRC issuing a clarification over the treatment of deposit allowances to the industry. This clarification allows a dealer provided deposit allowance to be treated as a deduction from the vehicle selling price, thus reducing the output VAT on the sale. The Group had previously treated such allowances as a cost of sale. The £3.1m receipt relates to the recovery of overpaid VAT in previous years in respect of these deposit allowances and has been treated as non-underlying in nature.

Managing Operating Expenses

In an inherently low margin business, it is vital that a disciplined framework of cost control is in place and that this 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 and cost centres. Once the business plans are established, costs are benchmarked on a monthly basis. During the year, enhanced systems have been developed to improve this benchmarking and these have now been rolled out to allow graphical presentation of cost trends and detailed analysis to be quickly undertaken to improve cost control.

The Group is also focused 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 the last four years with a remit to identify and execute productivity gains and these have borne fruit. Several significant projects are in place to increase operational efficiencies and to reduce costs in the medium term.

Total operating expenses in the year totalled £294.7m (2018: £277.3m), with like-for-like operating expenses increasing £11.3m (4%). As a percentage of revenues, operating expenses remained at 9.9% (2018: 9.9%). This demonstrates the significant focus which the Group has continued to place upon cost control. The action taken to sell or close underperforming dealerships removes unproductive cost bases from the business, and the continued search for productivity improvements has partially mitigated the significant impact of increases in costs in the year.

The increase in like-for-like operating expenses includes:-

- higher (non-cash) depreciation of £0.7m as a consequence of increased capital investment levels over recent years
- £4.2m in respect of variable remuneration related to the increase in volumes and gross profit generated by the Group
- the recruitment of additional parts and service advisor apprentices, £0.3m
- the recruitment of additional service colleagues to serve the increasing number of service customers has increased costs by £2.8m
- higher vehicle cleaning costs of £1.0m reflecting increased resources required as service demand grew and increased pay rates following increases in the rate of National Minimum Wage

Interest charges

Net finance costs in the period totalled £3.7m (2018: £1.9m). Acquisitions in the year led to an increase in the utilisation of the Group's bank borrowings and as a consequence bank interest payable rose by £0.3m. Higher stocking interest payable on new vehicle consignment stock arose reflecting an increase in interest rates charged by Manufacturers, reduced free stocking periods offered by Manufacturers as well as significantly increased inventory levels as Manufacturers increased supply of new vehicles into the UK in advance of the UK leaving the EU (which was anticipated at the end of March 2019).

	Year ended 28 February 2019	**Year ended 28 February 2018**
	£'m	**£'m**
Bank interest payable	1.0	0.7
Vehicle stocking interest expense		
- manufacturer consignment funding	2.4	0.9
- used vehicle stocking loans	0.5	0.4
Pension fund: net interest income	(0.2)	(0.1)
	3.7	**1.9**

The Group makes limited use of used vehicle stocking facilities, which it classifies as debt. As at 28 February 2019 drawings on these facilities were £23.2m, representing just 21.9% of used vehicle stock value (2018: £12.8m, 14.5%). The utilisation of such facilities by the Group is at substantially lower levels than the industry peer group.

Managing Pension Costs

The Bristol Street defined benefit pension scheme is closed to future membership and accrual. During the year the Group cash contributions to the scheme ceased (2018: £0.4m) so enhancing Free Cash Flow.

This defined benefit scheme showed a surplus as at 28 February 2019 of £6.4m, having accounted for the estimated impact of Guaranteed Minimum Pension (GMP) equalisation within the Scheme, which is consistent with the 2018 surplus of £6.6m. The triennial valuation of the scheme at 5 April 2018 showed the scheme is fully funded on an actuarial basis.

Managing Tax Payments

Taxation represents one of the single biggest costs to the Group. In the year the Group expensed £4.8m in corporation tax, £18.7m in Employers' National Insurance Contributions, £10.2m in business rates and £0.8m in the apprenticeship levy. These four taxes alone total £34.5m (2018: £32.1m).

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 corporation tax for the year was 18.9% (2018: 18.9%). 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.

Lease Accounting

The Group will adopt the requirements of IFRS16 "Leases" for the first time in FY20. As a result, a balance sheet asset will be recognised together with a corresponding obligation, relating to the Group's use of properties and other assets leased under multi-year agreements.

Rental payments made under these leases will be accounted for as repayments of the balance sheet liability, which will include an implied interest element, and the asset recognised will be depreciated over the remaining lease term.

The balance sheet position for August 2019, the first reporting date after adoption, will be adjusted for right-of-use assets in the order of £69.5m, with corresponding lease liabilities of £78.7m. FY20 net profit before tax will decrease by an estimated £0.2m as the pre-IFRS 16 rental charge is replaced by higher depreciation and interest. The depreciation will be charged on a straight-line basis; whilst interest is charged on the outstanding lease liabilities and is therefore higher in earlier years and decreases over time. The anticipated impact on reported profit performance and balance sheet over the next three years is shown below:

	Aug'19	**FY20**	**FY21**	**FY22**
Income statement:	**£'000**	**£'000**	**£'000**	**£'000**
- **EBITDA**		**14,681**	**11,752**	**10,364**
- Depreciation		(11,731)	(8,944)	(7,631)
- Operating profit	-	2,950	2,808	2,733
- Finance expenses	-	(3,190)	(2,810)	(2,474)
- **(Decrease) increase in net profit before tax**	**-**	**(240)**	**(2)**	**259**
Balance Sheet				
- Right of use assets	69,517	63,907	54,963	47,310
- Lease liabilities (current)	(13,292)	(11,752)	(10,364)	(10,052)
- Lease liabilities (non-current)	(65,358)	(61,334)	(53,780)	(46,181)
- **Decrease in net assets**	**(9,133)**	**(9,179)**	**(9,181)**	**(8,923)**

The impact of transition to IFRS16 will have no impact on the Group's cash flows.

Capital Structure

The Group has a largely ungeared balance sheet with shareholders' funds of £276.6m (2018: £264.4m), representing net assets per share of 73.8p (2018: 68.9p) as at 28 February 2019. The Group has tangible net assets of £168.4m (2018: £174.3m) and the balance sheet is underpinned by a freehold and long leasehold property portfolio, including assets held for resale, of £209.1m (2018: £183.8m). The Group has a robust tangible net assets per share value of 44.9p. 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 business's owners. This approach reduces the Group's exposure to interest rate and rent increases and makes the business resilient in a cyclical sector.

The Group finances its operations by a mixture of shareholders' equity, bank borrowings and trade credit from suppliers and Manufacturer partners. On 28 February 2019, the Group extended its five-year acquisition facility with Barclays Bank plc and Royal Bank of Scotland plc for a further year. This facility, which now matures on 27 February 2024, provides the Group with £62.0m of committed borrowing capacity with the potential to add a further £15.0 million which is currently uncommitted. £44.1 million of this facility was drawn as at 28 February 2019. 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. In order to reduce the Group's exposure to interest rate risk, the Group uses interest rate swaps over £10.0m of drawings fixing the underlying LIBOR rate payable at 0.675%, maturing in July 2020 and in respect of £7.0m of drawings, fixing the underlying LIBOR rate payable at 1.424% maturing in February 2023. In April 2019 the Group entered into an additional interest rate swap, beginning on 31 July 2019, and covering the period to 27 February 2023, over £5,000,000 of the Group's borrowing, swapping LIBOR for a fixed rate of 1.214%. The notional principal amount covered by the interest rate swap increases to £15,000,000 on 31 July 2020 concurrent with the end of the Group's existing £10,000,000 interest rate swap.

In addition to conventional bank borrowing and as is common practice in the automotive retail sector, the Group also utilises 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. The utilisation of such facilities at 28 February 2019 represents less than 25% of the value of Group used vehicle inventories and is substantially lower than that of industry peers. Adjusted net cash, which excludes the balances drawn on these used car stocking loans, is £22.9m (2018: £32.1m).

The Group operated with positive cash balances for much of the year. Additional facilities are utilised to fund significant peak working capital requirements following registration plate change months and quarter ends. The Group has £73m of overdraft and other money market facilities. On the overdraft, interest is 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 2019, the Group had cash balances of £66.5m (2018: £41.7m) and, as a consequence, net debt of £0.3m (2018: net cash £19.3m). Net debt includes balances drawn on used vehicle stock facilities of £23.2m (cover of 5.8 times used vehicle stock) (2018: £12.8m).

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 cash position at 28 February 2019 reflects the seasonal reduction in working capital, typical of the industry, which arises at the month end prior to a plate change month. As a result of the normal seasonal movements in working capital, the year-end cash position is higher than the normalised cash balances throughout the remainder of the year by approximately £30m.

Capital Allocation

Consideration of capital allocation is central to the Board's decision making. The Board proactively believes that the Group's funding structure should remain conservative and that the application of the Group's debt facilities to fund activities or acquisitions which meet the Group's hurdle rates for investment, will enhance return on equity and increase cash profits in the future.

During the year, the Group continued its Share Buyback Programme. To date from 26 July 2017, 20.7m shares, representing 5.2% of the issued share capital, have been purchased for cancellation for a total of £8.9m. The Board believes that this is an appropriate use of capital and will continue this Buyback programme as a relevant element of returns to shareholders, alongside dividend payments. The Share Buyback Programme will therefore be recommenced with £3m of further capital allocated to this purpose. The Board will seek to renew approval to repurchase 10% of the issued share capital at the forthcoming Annual General Meeting. The Group has previously stated its dividend policy to seek cover of four times adjusted earnings per share. The Board has amended this policy to three to four times for FY2019 and future years.

During the year, the Group substantially completed a programme of major capital investment to increase the capacity in existing dealerships and to meet revised Manufacturer franchise standards, such spend being in common with most sector participants. The Group's allocation of capital to the existing dealership portfolio will significantly decrease in the coming financial year (see Capital Expenditure section below).

As at the date of this report, the Group is actively engaged in the marketing of a number of surplus freehold assets. The Group sold two freehold properties (including the freehold of High Wycombe Peugeot noted above) subsequent to 28 February 2019, generating cash proceeds of £1.3m. This was equivalent to the book value of these property assets.

Impairment Testing

The carrying amounts of the Group's goodwill and other indefinite life assets, property plant and equipment are required to be tested annually for indications of impairment. For the purposes of impairment testing, assets have been grouped together into the smallest group of assets that generate cash flows from continuing use, independent of cash flows from other groups of assets.

A number of key assumptions have been used within the assessment of value in use cash flows including prudent growth rate assumptions both for initial periods of up to five years, followed by a nil growth assumption into perpetuity. Derived cash flows have been discounted at the Group's Weighted Average Cost of Capital of 8%.

The calculations support the carrying value of assets as at 28 February 2019 and as such no impairment adjustments have been made. To give an indication of the sensitivity of the calculations to changes in assumptions, a change in growth rates to minus 1% would result in an impairment of £6.0m whilst an increase in the discount rate applied to 9% would give rise to an impairment of £5.3m.

Capital Expenditure

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

	Actual			Estimate	
	FY 2017 £'m	**FY 2018 £'m**	**FY 2019 £'m**	**FY 2020 £'m**	**FY 2021 £'m**
Purchase of property	5.3	4.3	9.0	1.2	1.0
New dealership build	10.4	4.3	6.7	3.1	-
Existing dealership capacity increases	5.9	8.2	11.9	10.2	4.5
Manufacturer-led refurbishment projects	2.4	3.0	1.0	0.1	4.5
IT and other ongoing capital expenditure	4.8	4.9	4.2	4.2	5.0
Movement on capital creditor	0.7	(0.6)	0.9	-	-
Cash outflow from capital expenditure	**29.5**	**24.1**	**33.7**	**18.8**	**15.0**
Proceeds from sale and leaseback and property sales	(1.0)	(14.3)	(4.0)	(1.3)	-
Net cashflow from capital investment	**28.5**	**9.8**	**29.7**	**17.5**	**15.0**

On 6 July 2018 the Group acquired the freehold of its Newcastle Vauxhall dealership, which the Group had previously operated under a lease, whose terms provided for significant future rental increases over its remaining 14 year term. The consideration for the purchase was £7.5m including costs and this transaction provides the Group with improved future flexibility for this property and removes the impact of further rent increases. On 6 April 2019, and subsequent to the balance sheet date, the Group purchased land and buildings adjacent to its existing Ford dealership in Shirley, Birmingham for £1m. This will improve the future operational capacity at this high performing Ford dealership through allowing a significant expansion in its used car capability.

In the year, major projects were undertaken to increase and improve existing dealership capacity. These include the ongoing redevelopment of Reading and Slough Mercedes-Benz dealerships, together with now completed projects at Chesterfield and Guiseley Land Rover. These developments deliver operations with greater capacity for sales and service and will underpin the Group's future profitability and cash generation. The Group capital expenditure budget for FY2020 also includes £0.8m of investment in electric vehicle charging infrastructure in the dealership network to meet the Manufacturers' latest requirements in preparation for the expansion of electric vehicle sales from 2020 onwards.

The Board is confident that the significant reduction in future capital spend anticipated in FY2020 will deliver enhanced Free Cash Flow for the business. A very significant proportion of the dealership estate has now been redeveloped or updated to the latest Manufacturer standards in recent years.

Managing Working Capital

The Group has generated cash from operating activities of £50.9m from an operating profit of £29.0m representing excellent cash conversion of profits. The Group saw cash generated from a reduction in working capital of £18.9m.

The Group has significant levels of working capital in the form of inventory, receivables and payables. These are subject to significant, yet predictable, seasonal fluctuations which coincide with plate change months and quarterly Manufacturer new car campaigns. In addition, Manufacturer new vehicle supply levels and financing changes can also impact working capital patterns over time. The Group benefits from VAT reclaimed on new vehicle inventory invoiced from the Manufacturer which has yet to be paid for in cash. As part of their planning for the UK's exit from the European Union, a number of Manufacturers have increased the level of new vehicle consignment stock since 1 January 2019, increasing the level of inventories invoiced to the Group on which input VAT has been, or will be, reclaimed (prior to the vehicle liabilities being settled).

New vehicle inventory grew by £39.1m as a consequence of these trends, with a corresponding £39.8m increase in trade creditors in the year. The Group reduced other working capital elements such as parts inventory by £4.2m, predominantly due to the change in the Ford parts distribution model. Trade receivables declined by £11.7m due to the reduction in fleet vehicle sales volumes and post-acquisition reductions in working capital in the Hughes businesses purchased on 30 June 2018. Used vehicle inventory declined by £2.3m as the Group reduced inventory levels in advance of the March plate change more aggressively than in the prior year.

Dividends

Cash returns to shareholders are an important part of the Company's capital allocation decision making process and are a priority for the Board. During the eight-year period since the Group commenced payment of dividends to its owners in 2011, over £28.7m has been returned to the owners of the business through dividends, with the dividend per share increasing by 320% over the same period. The dividend has been funded from cash generated from operations, without any negative impact on capital expenditure programmes or funding of suitable acquisitions.

The Board has proposed an increase in the final dividend for 2019, payable on 29 July 2019 subject to approval at the AGM, to 1.05 pence per share (2018: 0.95p), which, when taken together with the interim dividend paid in January 2019 of 0.55 pence per share (2018: 0.55p), provides a total dividend for the year of 1.60 pence per share (2018: 1.50p). This represents an increase of 6.7% and a dividend cover of 3.2 times (2018: 3.9 times) based upon adjusted earnings per share. The ex-dividend date will be 27 June 2019 and the associated record date 28 June 2019.

The proposed full year dividend of 1.60 pence represents an annualised cash dividend, based on the number of shares in issue at 28 February 2019, of £6.0m (2018: £5.7m). The implementation of the Share Buyback Programme has, of course, reduced the cash impact of dividend increases. The distributable reserves in the parent company balance sheet as at 28 February 2019 were £82.7m (2018: £72.2m). 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 other than those risks listed in the annual report.

Outlook and Priorities for the Year Ahead

In March and April 2019 (the "Period"), the Group has traded in line with management's expectations and trading profit is expected to be in line with the prior year period.

The Group delivered another very strong aftersales performance in the Period with like-for-like service revenues up 9.3% and high, stable margins generated. This reflects excellent execution of the Group in retaining customers and the impact of increased physical capacity and enhanced technical resource levels in the business.

The SMMT has reported a decline in UK private new retail vehicle registrations in the Period of 4.7%. The Group's like-for-like new retail volumes declined 13.1% reflecting above market declines in a number of the Group's volume Manufacturers. Margins remained stable, whilst like-for-like gross profit reduced on lower volumes.

March saw a record market for new commercial vehicle sales in the UK reflecting the underlying strength of the UK economy. UK commercial vehicle registrations were up 9.0% in the Period with the Group delivering volume growth of 9.6%. Fleet car volumes in the Group resumed growth being up 9.4% on a like-for-like basis, gaining share as UK fleet car registrations rose 1.0%. Margins improved and like-for-like gross profit generation moved forward year on year.

Like-for-like used vehicle volumes were flat in the Period with margins stabilising and showing an improvement on the preceding six months.

Operating expenses increased in the Period, but at a much reduced rate of growth compared to previous periods. This reflects strong cost control and actions taken by management. Stocking finance charges on new vehicles continued to rise in line with trends highlighted earlier.

There are a number of challenges and uncertainties facing the UK economy and the automotive retail sector at present and these are outlined in the preceding report. The priorities for the year ahead are:

- maintain excellent financial and capital allocation discipline to ensure that the Group delivers sustainable profitability, cash flow and returns for shareholders, including recommencing the Share Buyback Programme from today
- execute targeted growth of the dealership portfolio in collaboration with Manufacturer partners, taking advantage of network change opportunities as they arise
- continue investment to improve the Group's on-line capability, moving towards seamless, omni-channel sales functionality
- closely manage costs
- increase customer experience levels and productivity through continued investment in training, leadership programmes and initiatives to increase colleague retention levels

By executing the fundamentals well and with its strong management team and financial position, the Group is well placed. The significant investment in the Group's dealership portfolio has seen over £85.0m of capital expenditure over the last three years and is now largely complete. The Board looks to the future from a solid foundation and with cautious optimism.

CONSOLIDATED INCOME STATEMENT (AUDITED)
For the year ended 28 February 2019

	Note	Underlying items 2019	Non-underlying items 2019 (Note 2)	Total 2019	Underlying items 2018	Non-underlying items 2018 (Note 2)	Total 2018
		£'000	£'000	£'000	£'000	£'000	£'000
Revenue		2,982,200	-	2,982,200	2,796,068	-	2,796,068
Cost of sales		(2,660,095)	-	(2,660,095)	(2,488,360)	-	(2,488,360)
Gross profit		**322,105**	**-**	**322,105**	**307,708**	**-**	**307,708**
Operating expenses		(294,714)	1,622	(293,092)	(277,257)	1,894	(275,363)
Operating profit		**27,391**	**1,622**	**29,013**	**30,451**	**1,894**	**32,345**
Finance income	3	276	-	276	66	-	66
Finance costs	3	(3,957)	-	(3,957)	(1,964)	-	(1,964)
Profit before tax		**23,710**	**1,622**	**25,332**	**28,553**	**1,894**	**30,447**
Taxation	4	(4,470)	(326)	(4,796)	(5,885)	119	(5,766)
Profit for the year attributable to equity holders		**19,240**	**1,296**	**20,536**	**22,668**	**2,013**	**24,681**
Basic earnings per share (p)	5			**5.45**			**6.31**
Diluted earnings per share (p)	5			**5.37**			**6.21**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (AUDITED)

For the year ended 28 February 2019

	2019 £'000	2018 £'000
Profit for the year	**20,536**	**24,681**
Other comprehensive (expense) / income		
Items that will not be reclassified to profit or loss:		
Actuarial (losses) / gains on retirement benefit obligations	(269)	4,422
Deferred tax relating to actuarial losses / (gains) on retirement benefit obligations	46	(752)
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges	67	(93)
Deferred tax relating to cash flow hedges	(11)	18
Other comprehensive (expense) / income for the year, net of tax	**(167)**	**3,595**
Total comprehensive income for the year attributable to equity holders	**20,369**	**28,276**

CONSOLIDATED BALANCE SHEET (AUDITED)

As at 28 February 2019

	2019 £'000	2018 £'000
Non-current assets		
Goodwill and other indefinite life assets	112,182	94,381
Other intangible assets	2,599	1,316
Retirement benefit asset	6,430	6,551
Property, plant and equipment	224,818	198,004
Derivative financial instruments	44	-
Total non-current assets	**346,073**	**300,252**
Current assets		
Inventories	618,675	558,386
Trade and other receivables	62,940	66,272
Cash and cash equivalents	66,519	41,709
	748,134	666,367
Property assets held for sale	1,324	2,449
Total current assets	**749,458**	**668,816**
Total assets	**1,095,531**	**969,068**
Current liabilities		
Trade and other payables	(717,204)	(654,956)
Deferred consideration	(1,500)	-
Current tax liabilities	(3,742)	(3,304)
Contract liabilities	(9,590)	(8,448)
Borrowings	(23,166)	(12,811)
Total current liabilities	**(755,202)**	**(679,519)**
Non-current liabilities		
Borrowings	(43,600)	(9,585)
Derivative financial instruments	(69)	(92)
Deferred consideration	(2,600)	(100)
Deferred income tax liabilities	(7,594)	(6,477)
Contract liabilities	(9,823)	(8,877)
Total non-current liabilities	**(63,686)**	**(25,131)**
Total liabilities	**(818,888)**	**(704,650)**
Net assets	**276,643**	**264,418**
Capital and reserves attributable to equity holders of the Group		
Ordinary share capital	37,661	38,552
Share premium	124,939	124,934
Other reserve	10,645	10,645
Hedging reserve	(19)	(75)
Treasury share reserve	(602)	(690)
Capital redemption reserve	2,066	1,175
Retained earnings	101,953	89,877
Shareholders' equity	**276,643**	**264,418**

CONSOLIDATED CASH FLOW STATEMENT (AUDITED)
For the year ended 28 February 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Operating profit		29,013	32,345
Profit on sale of property, plant and equipment		(520)	(3,529)
Amortisation of other intangible assets		543	614
Depreciation of property, plant and equipment		10,722	9,714
Impairment charges		-	513
Movement in working capital		18,861	(13,332)
Share based payments charge		904	954
Cash generated from operations		59,523	**27,279**
Tax received		157	350
Tax paid		(4,860)	(6,468)
Finance income received		99	14
Finance costs paid		(3,953)	(2,321)
Net cash generated from operating activities		**50,966**	**18,854**
Cash flows from investing activities			
Acquisition of businesses, net of cash, overdrafts and borrowings acquired		(31,514)	(1,181)
Acquisition of freehold and long leasehold land and buildings		(9,008)	(4,346)
Purchases of intangible assets		(150)	(411)
Purchases of other property, plant and equipment		(24,681)	(19,802)
Proceeds from disposal of business (net of cash and overdrafts)		-	1,528
Proceeds from sale and leaseback transaction		-	14,150
Proceeds from disposal of property, plant and equipment		3,964	165
Net cash outflow from investing activities		**(61,389)**	**(9,897)**
Cash flows from financing activities			
Proceeds from borrowings	7	44,455	4,140
Repayment of borrowings	7	-	(166)
Sale of treasury shares		64	62
Repurchase of own shares		(3,629)	(5,451)
Dividends paid to equity holders	6	(5,657)	(5,678)
Net cash inflow / (outflow) from financing activities		**35,233**	**(7,093)**
Net increase in cash and cash equivalents		**24,810**	**1,864**
Cash and cash equivalents at beginning of year		41,709	39,845
Cash and cash equivalents at end of year		**66,519**	**41,709**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (AUDITED)
For the year ended 28 February 2019

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging Reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Shareholders' equity £'000
As at 1 March 2018	38,552	124,934	10,645	(75)	(690)	1,175	89,877	264,418
Profit for the year	-	-	-	-	-	-	20,536	20,536
Actuarial losses on retirement benefit obligations	-	-	-	-	-	-	(269)	(269)
Tax on items taken directly to equity	-	-	-	(11)	-	-	46	35
Fair value gains	-	-	-	67	-	-	-	67
Total comprehensive income for the year	-	-	-	56	-	-	20,313	20,369
Sale of treasury shares	-	5	-	-	88	-	(29)	64
Repurchase of own shares	-	-	-	-	-	-	(3,455)	(3,455)
Cancellation of repurchased shares	(891)	-	-	-	-	891	-	-
Dividend paid	-	-	-	-	-	-	(5,657)	(5,657)
Share based payments charge	-	-	-	-	-	-	904	904
As at 28 February 2019	**37,661**	**124,939**	**10,645**	**(19)**	**(602)**	**2,066**	**101,953**	**276,643**

The repurchase of own shares in the year was made pursuant to the share buyback programme announced on 26 July 2017 and under the authority renewed at the AGM on 25 July 2018.

Ordinary shares to the value of £3,455,000 had been repurchased in the year ended 28 February 2019 (2018: £5,441,000), of which £Nil was unpaid at 28 February 2019 (2018: £174,000). 8,918,549 of repurchased shares were cancelled in the year ended 28 February 2019 and accordingly, the nominal value of these shares has been transferred to the capital redemption reserve.

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

For the year ended 28 February 2018

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

NOTES

For the year ended 28 February 2019

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 2018, with the exception of the adoption of IFRS 9 and IFRS 15. 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 2019 and 28 February 2018 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 2019 and 2018 financial statements were unqualified. A copy of the statutory accounts for 2018 has been delivered to the Registrar of Companies. Those for 2019 will be delivered following the Company's annual general meeting, which will be convened on 24 July 2019.

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 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 28 February 2018.

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. The CODM receives information about the Group overall and therefore there is one operating segment.

The CODM assesses the performance of the operating segment based on a measure of both revenue and gross margin. However, 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 2019

	Revenue £'m	Revenue Mix %	Gross Margin £'m	Gross Margin Mix %	Gross Margin %
Aftersales *	257.1	8.6	136.0	42.2	43.9
Used cars	1,217.6	40.9	102.0	31.7	8.4
New car retail and Motability	862.8	28.9	63.9	19.8	7.4
New fleet and commercial	644.7	21.6	20.2	6.3	3.1
	2,982.2	**100.0**	**322.1**	**100.0**	**10.8**

Year ended 28 February 2018

	Revenue £'m	Revenue Mix %	Gross Margin** £'m	Gross Margin Mix %	Gross Margin %
Aftersales *	228.2	8.2	123.5	40.1	44.0
Used cars	1,068.9	38.2	98.7	32.1	9.2
New car retail and Motability	836.5	29.9	64.1	20.8	7.7
New fleet and commercial	662.5	23.7	21.4	7.0	3.2
	2,796.1	**100.0**	**307.7**	**100.0**	**11.0**

*margin in aftersales expressed on internal and external turnover. A significant part of the role of the service department is to support the vehicle sales department and therefore this is considered to be an important measure for the purpose of measuring the departmental performance.

**Following a growth in the Group's Smart Repair operations, the expense in respect of this department's productive colleague cost has been reclassified from operating expenses to cost of sales, in order to align the treatment with cost reporting throughout the rest of the Group's aftersales operations. The effect of this reclassification is a decrease in operating expenses and an increase in cost of sales of £1,184,000 for the year ended 28 February 2018.

2. Non-underlying items

	2019 £'000	2018 £'000
Share based payments charge	(904)	(1,031)
Amortisation	(543)	(614)
Profit on disposal of freehold property	-	4,149
Loss on disposal of Boston Volkswagen	-	(610)
VAT reclaim on dealer deposit contributions	3,069	-
	1,622	1,894
Tax on non-underlying items	(326)	119
	1,296	**2,013**

Non-underlying items are presented separately in the Income Statement to enhance comparability of trading performance between periods.

During the Period the Group received VAT repayment of £3.1m resulting from a retrospective claim following HMRC's clarification of the VAT treatment of dealer deposit contributions.

3. Finance income and costs

	2019 £'000	2018 £'000
Interest on short-term bank deposits	99	18
Net finance income relating to defined benefit pension schemes	177	48
Finance income	**276**	**66**
Bank loans and overdrafts	(1,063)	(673)
Vehicle stocking interest	(2,894)	(1,291)
Finance costs	**(3,957)**	**(1,964)**

4. Taxation

	2019 £'000	2018 £'000
Current tax		
Current tax charge	5,439	5,861
Adjustment in respect of prior years	(483)	(283)
Total current tax	**4,956**	**5,578**
Deferred tax		
Origination and reversal of temporary differences	(137)	512
Adjustment in respect of prior years	(12)	(254)
Rate differences	(11)	(70)
Total deferred tax	**(160)**	**188**
Income tax expense	**4,796**	**5,766**

	2019 £'000	2018 £'000
Profit before taxation from continuing operations	25,332	30,447
Profit before taxation multiplied by the rate of corporation tax in the UK of 19% (2018: 19.1%)	4,813	5,815
Non-qualifying depreciation	527	499
Non-deductible expenses	213	174
Effect on deferred tax balances due to rate change	(11)	(70)
Property adjustment	(146)	(63)
Permanent benefits	(105)	(52)
Adjustments in respect of prior years	(495)	(537)
Total tax expense included in the income statement	**4,796**	**5,766**

The Group's effective rate of tax is 18.93% (2018: 18.94%).

5. 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 underlying earnings attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year.

	2019	**2018**
	£'000	**£'000**
Profit attributable to equity shareholders	20,536	24,681
Non-underlying items (note 2)	(1,296)	(2,013)
Adjusted earnings attributable to equity shareholders	**19,240**	**22,668**
Weighted average number of shares in issue ('000s)	377,024	391,317
Potentially dilutive shares ('000s)	5,512	5,948
Diluted weighted average number of shares in issue ('000s)	**382,536**	**397,265**
Basic earnings per share	**5.45p**	**6.31p**
Diluted earnings per share	**5.37p**	**6.21p**
Basic adjusted earnings per share	**5.10p**	**5.79p**
Diluted adjusted earnings per share	**5.03p**	**5.71p**

6. Dividends per share

Dividends of £5,657,000 were paid in the year to 28 February 2019 (2018: £5,678,000), 1.50p per share (2018: 1.45p). A final dividend in respect of the year ended 28 February 2019 of 1.05p per share, is to be proposed at the annual general meeting on 24 July 2019. The ex-dividend date will be 27 June 2019 and the associated record date 28 June 2019. This dividend will be paid, subject to shareholder approval, on 29 July 2019 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 8 July 2019 (or such other date as the Group may specify). A facility is provided by Link Market Services Trustees Limited in conjunction with the Group's registrars, Link 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 Link Asset Services 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.linkassetservices.com.

7. Reconciliation of net cash flow to movement in net (debt) / cash

	2019 £'000	2018 £'000
Net increase in cash and cash equivalents	24,810	1,864
Cash inflow from proceeds of borrowings	(44,455)	(4,140)
Cash outflow from repayment of borrowings	-	166
Cash movement in net cash	**(19,645)**	**(2,110)**
Capitalisation of loan arrangement fees	214	501
Amortisation of loan arrangement fees	(129)	(86)
Non-cash movement in net cash	**85**	**415**
Movement in net cash	**(19,560)**	**(1,695)**
Opening net cash	**19,313**	**21,008**
Closing net (debt) / cash	**(247)**	**19,313**

8. Acquisitions

On 30 June 2018, the Group acquired the entire issued share capital of Hughes Group Holdings Limited ("Hughes Group") which operated Mercedes-Benz, Jeep, SKODA and Peugeot outlets in Buckinghamshire. The consideration payable on completion amounted to £22,452,000 and was settled by a £20,000,000 drawing on the Group's bank loan facility and the Group's existing cash resources. A further £1,500,000 deferred consideration is payable after one year.

On 4 January 2019, the Group acquired the entire issued share capital of Vans Direct Limited ("Vans Direct"), a well-established on-line retailer of new vans. The estimated consideration payable on completion amounted to £7,108,000 and was settled by a £7,100,000 drawing on the Group's bank loan facility and the Group's existing cash resources. A further amount of deferred consideration may be payable in two years as a result of an earn-out arrangement subject to Vans Direct achieving specific performance criteria over a period of two financial years following acquisition. The maximum payable under this arrangement, which has been recognised as deferred consideration at 28 February 2019, is £2,500,000.

9. Post balance sheet events

On 26 March 2019, the Group disposed of a dealership property, held in property assets held for resale at 28 February 2019, in Barnsley realising cash proceeds of £624,000 and a profit on disposal of £50,000.

On 31 March 2019, the Group sold its Peugeot business in High Wycombe, which had been acquired during the year ended 28 February 2019 as part of the Hughes acquisition. Included in the disposal was the sale of the freehold dealership property, held in property assets held for resale at 28 February 2019, realising cash proceeds equal to net book value and fair value of £750,000.

In April 2019 the Group ceased its Honda operation in Retford, Lincolnshire. A buyer for the now surplus freehold property in Retford has been identified, for alternative use subject to planning being approved.

In April 2019 the Group entered into an interest rate swap, beginning on 31 July 2019, and covering the period to 27 February 2023, over £5,000,000 of the Group's borrowing, swapping LIBOR for a fixed rate of 1.214%. The notional principal amount covered by the interest rate swap increases to £15,000,000 on 31 July 2020 concurrent with the end of the Group's existing £10,000,000 interest rate swap. This increased the Group's level of hedged borrowings to £22,000,000.