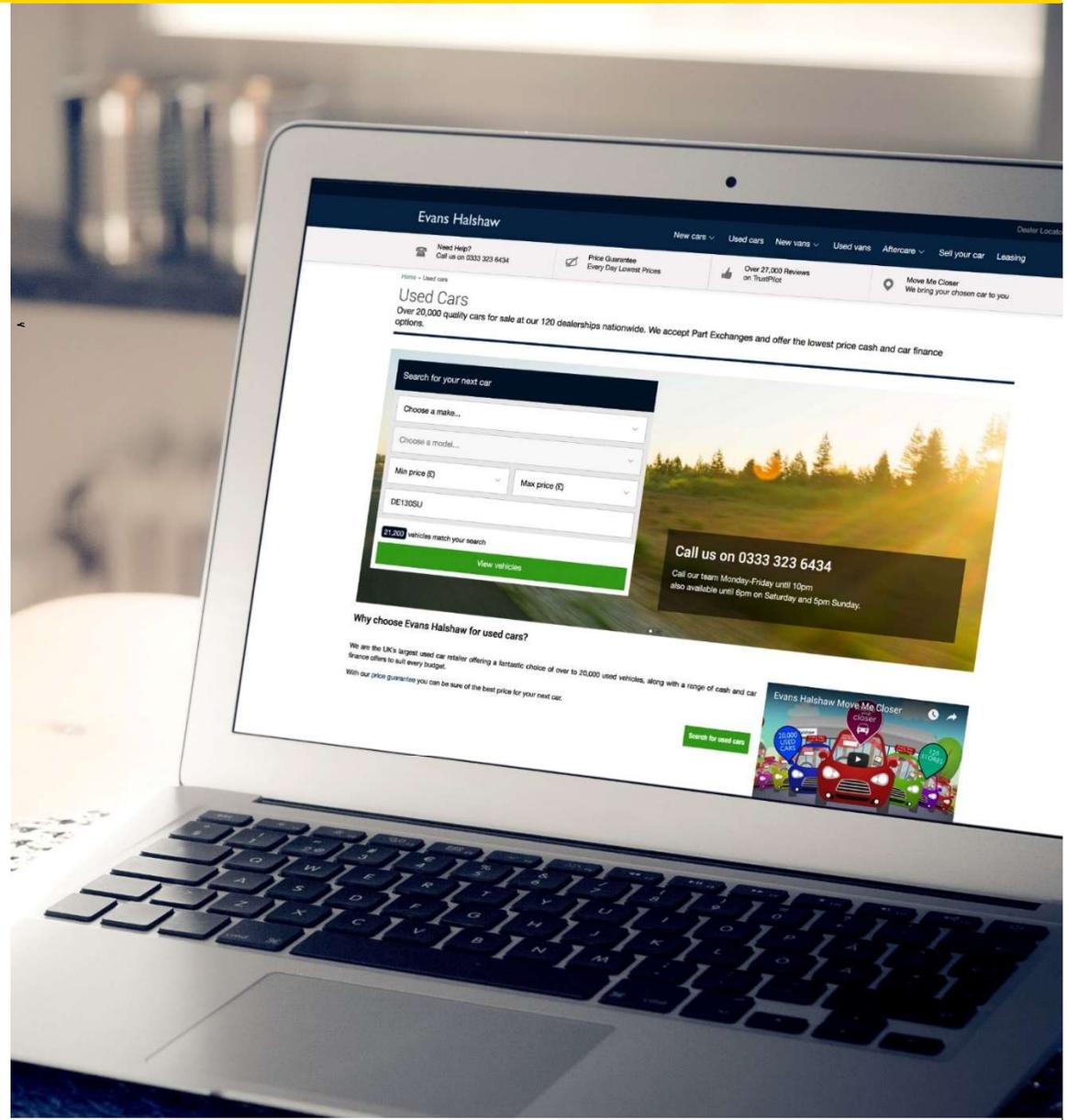


Pendragon | PLC



# 2017 Full Year Results



THE LEADING AUTOMOTIVE ONLINE RETAILER

# Strategy Highlights

- **Software and Online Technologies** - Online and technology at the heart of our business transformation, providing the online platform for our customers and team members. Software global opportunity with deployment in Europe, Africa and Asia Pacific.
- **Reshaping of the Business** – Acceleration of the transformation of the business, to deliver a market leading share in used vehicle and aftersales activity.
- **Double Used Vehicle Revenue** - Double our used vehicle revenue over the five years to 2021 with investment in capacity in the UK.
- **Capital Allocation Focus** - Disposal process underway to achieve a reduction in our UK Premium franchise locations and the US disposal.

# Operating Highlights

- **Used Revenue Up 15.3% (L4L)** – Further strong growth against a backdrop of a challenging economic environment and lower consumer confidence.
- **Aftersales Revenue Up 6.9% (L4L)** – Continuing growth due to own initiatives and favourable market conditions.
- **New Revenue Down 4.9% (L4L)** – Reduction in new revenue, particularly in the third quarter. UK retail registrations in our brands fell by 8.0% in the year.
- **Gross Margin Movement in Third Quarter** – Gross margin fell by 80 basis points over the prior year quarter, due to a reduction in new and nearly new vehicle margin primarily in the premium sector in the third quarter, which also impacted used vehicle margin in the same period.
- **Gross Margin Recovered in the Fourth Quarter** – Gross margin in new and used vehicle margins recovered to more normal seasonal levels in the fourth quarter.
- **Software Revenue Up 9.7%** - Double digit growth in gross profit and operating profit up £0.9m.
- **Leasing Revenue Up 39.0%** - Double digit growth in gross profit and operating profit up £4.8m.
- **Underlying profit £60.4m** – Reduction of £15.0m due to the reduction in revenue in the year and the margin impacts in the third quarter.
- **Robust Balance Sheet** – strong balance sheet and still trading below the Net Debt: EBITDA target of 1 to 1.5.

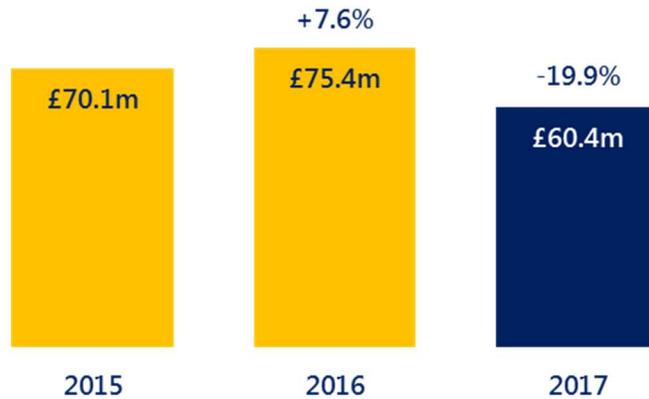
# Financial Summary



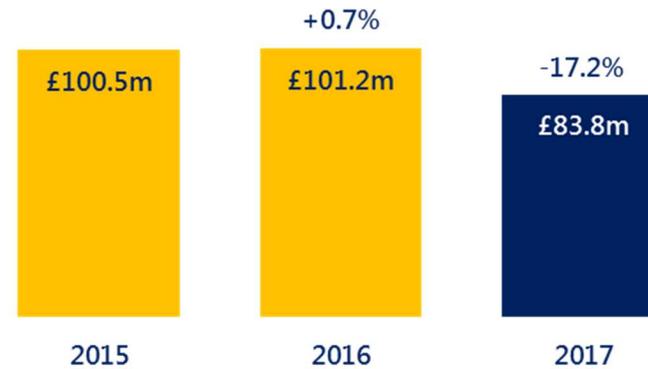
THE LEADING AUTOMOTIVE ONLINE RETAILER

# Financial Summary – 3 Year Summary

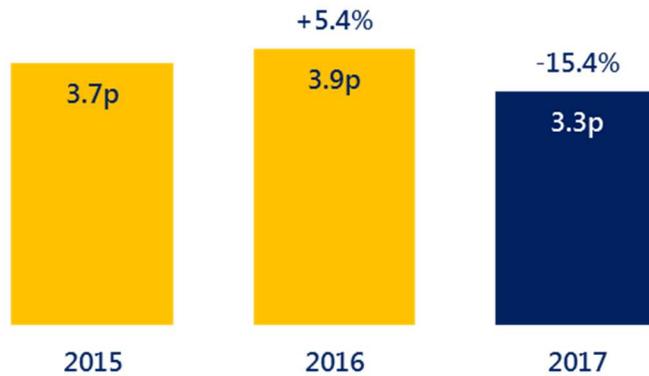
Underlying Profit Before Tax



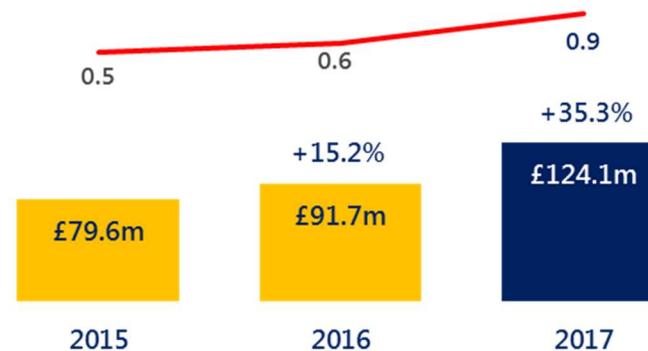
Underlying Operating Profit



Underlying Earnings Per Share



Net Debt and EBITDA Ratio



## Financial Summary – Profit and Loss

<b>Underlying Results (£m)</b>			
	<b>2017</b>	<b>2016</b>	<b>% Change</b>
<b>Revenue</b>	4,739.1	4,537.0	<b>+4.5%</b>
<b>Gross Profit</b>	552.9	559.6	<b>-1.2%</b>
<b>Gross Margin %</b>	<b>11.7%</b>	<b>12.3%</b>	<b>-0.6%</b>
<b>Operating Costs (SG&amp;A)</b>	<b>(469.1)</b>	<b>(458.4)</b>	<b>+2.3%</b>
<b>Operating costs as % of Gross Profit</b>	<b>84.8%</b>	<b>81.9%</b>	<b>+2.9%</b>
<b>Operating Profit</b>	<b>83.8</b>	<b>101.2</b>	<b>-17.2%</b>
<b>Operating Margin %</b>	<b>1.8%</b>	<b>2.2%</b>	<b>-0.4%</b>
<b>Interest</b>	<b>(23.4)</b>	<b>(25.8)</b>	<b>-9.3%</b>
<b>Underlying Profit Before tax</b>	<b>60.4</b>	<b>75.4</b>	<b>-19.9%</b>
<b>Non-underlying Items</b>	<b>4.9</b>	<b>(2.4)</b>	<b>-</b>
<b>Profit Before Tax</b>	<b>65.3</b>	<b>73.0</b>	<b>-10.5%</b>
<b>Underlying Earnings Per Share</b>	<b>3.3p</b>	<b>3.9p</b>	<b>-15.4%</b>
<b>Dividend Per Share</b>	<b>1.55p</b>	<b>1.45p</b>	<b>+6.9%</b>

### Summary

- Underlying revenue increased by 4.5% in the period and by 5.1% on a like for like basis due to increased levels of used and aftersales activity
- Underlying gross profit decreased by 1.2% due to impact of new car market
- Underlying interest costs decreased by £2.5m as a result of reduced rates on borrowings
- Main non-underlying items of income are £7.7m relating to a VAT settlement offset by pension interest of £2.7m

# Financial Summary – Cashflow

Summary Cashflow (£m)		
	2017	2016
<b>Underlying Operating Profit Before Other Income</b>	<b>83.8</b>	<b>101.2</b>
<b>Depreciation and Amortisation</b>	28.5	29.9
<b>Share Based Payments</b>	(1.7)	2.2
<b>Working Capital</b>	18.3	(30.7)
<b>Operating Cashflow</b>	<b>128.9</b>	<b>102.6</b>
<b>Tax Paid</b>	(16.1)	(17.3)
<b>Underlying Net Interest</b>	(20.0)	(25.2)
<b>Capital Expenditure – 40 Site Roll-Out</b>	(17.5)	(7.0)
<b>Capital Expenditure – Franchise</b>	(25.5)	(16.2)
<b>Capital Expenditure – Underlying Replacement</b>	(13.8)	(26.2)
<b>Capital Expenditure – Business Acquisitions</b>	(17.8)	(2.6)
<b>Capital Expenditure – Property</b>	(24.6)	(8.8)
<b>Business and Property Disposals</b>	2.5	17.0
<b>Net Capital Expenditure, Acquisitions and Disposals</b>	<b>(96.7)</b>	<b>(43.8)</b>
<b>Dividends</b>	(21.3)	(20.3)
<b>Share buyback</b>	(4.0)	(7.5)
<b>Other</b>	(3.2)	(0.6)
<b>(Increase) in Net Debt</b>	<b>(32.4)</b>	<b>(12.1)</b>
<b>Closing Net Debt</b>	<b>(124.1)</b>	<b>(91.7)</b>

## Summary

- £17.5m investment on 40 site roll-out in the period
- Property spend includes £15.6m of property leases and £9.0m of freehold property acquired
- Business acquisitions of £17.8m in the period

# Financial Summary – Capital Expenditure Expectations

Capital Expenditure 2016 to FY 2018 (£m)					
	2016	2017	H1 2018	H2 2018	FY 2018
40 Site Roll-Out	7.0	17.5	4.3	8.4	12.7
Franchise	16.2	25.5	5.0	7.5	12.8
Underlying Replacement	26.2	13.8	7.0	7.0	14.0
Business Acquisitions	2.6	17.8	-	-	-
Property	8.8	24.6	-	-	0 <sup>^</sup>
Business and property disposals	(17.0)	(2.5)	(6.6)	(12.7)	(19.6)*
<b>Total</b>	<b>43.8</b>	<b>96.7</b>	<b>9.7</b>	<b>10.2</b>	<b>19.9</b>

**£76.8 Reduction in Net Capital Expenditure**

## Summary

- Premium franchise locations to be reduced, releasing £100m capital through a mixture of disposal proceeds and investment not deployed over the next three years.
- US business to be disposed realising at least £100m before tax during 2018.

<sup>^</sup> Any purchases of property leases will be undertaken if a suitable opportunity arises

\* 2018 expectations only relate to property disposals.

# Financial Summary – Balance Sheet

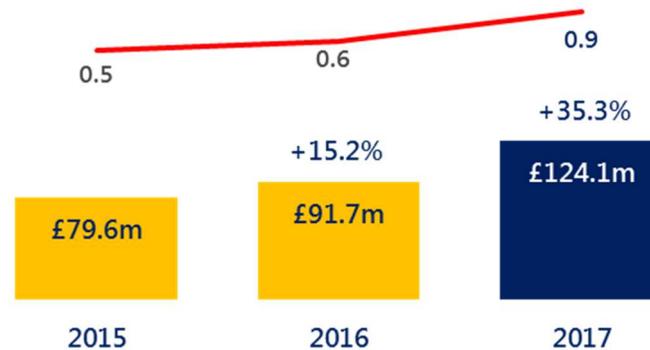
<b>Balance Sheet (£m)</b>		
	<b>2017</b>	<b>2016</b>
<b>Property</b>	261.2	199.3
<b>Plant &amp; Equipment</b>	218.7	206.0
<b>Goodwill &amp; Intangibles</b>	368.7	362.2
<b>Stock</b>	1,003.5	846.2
<b>Debtors</b>	132.8	153.1
<b>Assets Held For Resale</b>	11.0	6.6
<b>Creditors</b>	(1,446.4)	(1,308.9)
<b>Net Borrowings</b>	(124.1)	(91.7)
<b>Shareholders Funds</b>	<b>425.4</b>	<b>372.8</b>

## Summary

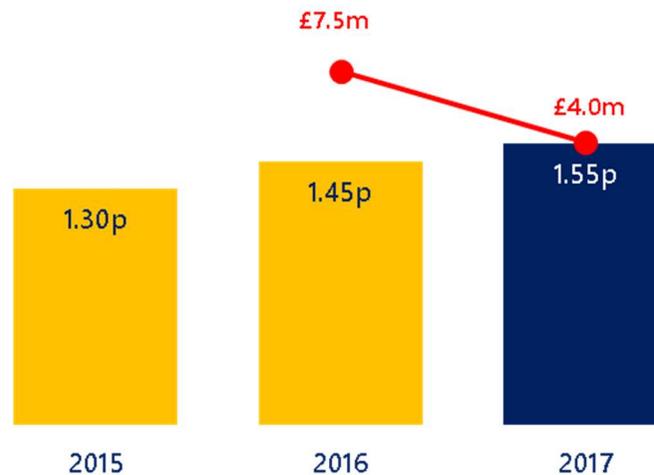
- Strong balance sheet and low debt level will allow the Group to continue to grow
- Cash and undrawn bank facilities of £177.6m and undrawn used stocking facility of £85m at year end

# Financial Summary – Capital Allocation

Net Debt and EBITDA Ratio



Dividend Per Share and Share Buyback

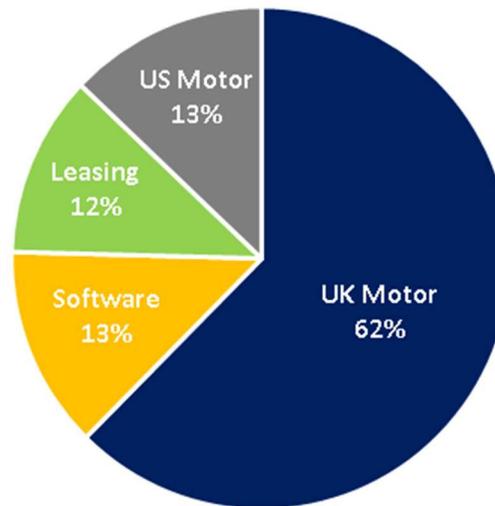


## Summary

- Strategic decision announced in December 2017 to:
  - Release £100m of capital over 3 years through a reduction in premium brand franchise locations
  - Sell the USA segment with proceeds anticipated being in excess of £100m before tax
- The Group is still trading below our target range of 1.0-1.5:1 for the net debt to underlying EBITDA ratio
- Share buyback £11.5m to date
- Expectation of continued strong cashflows

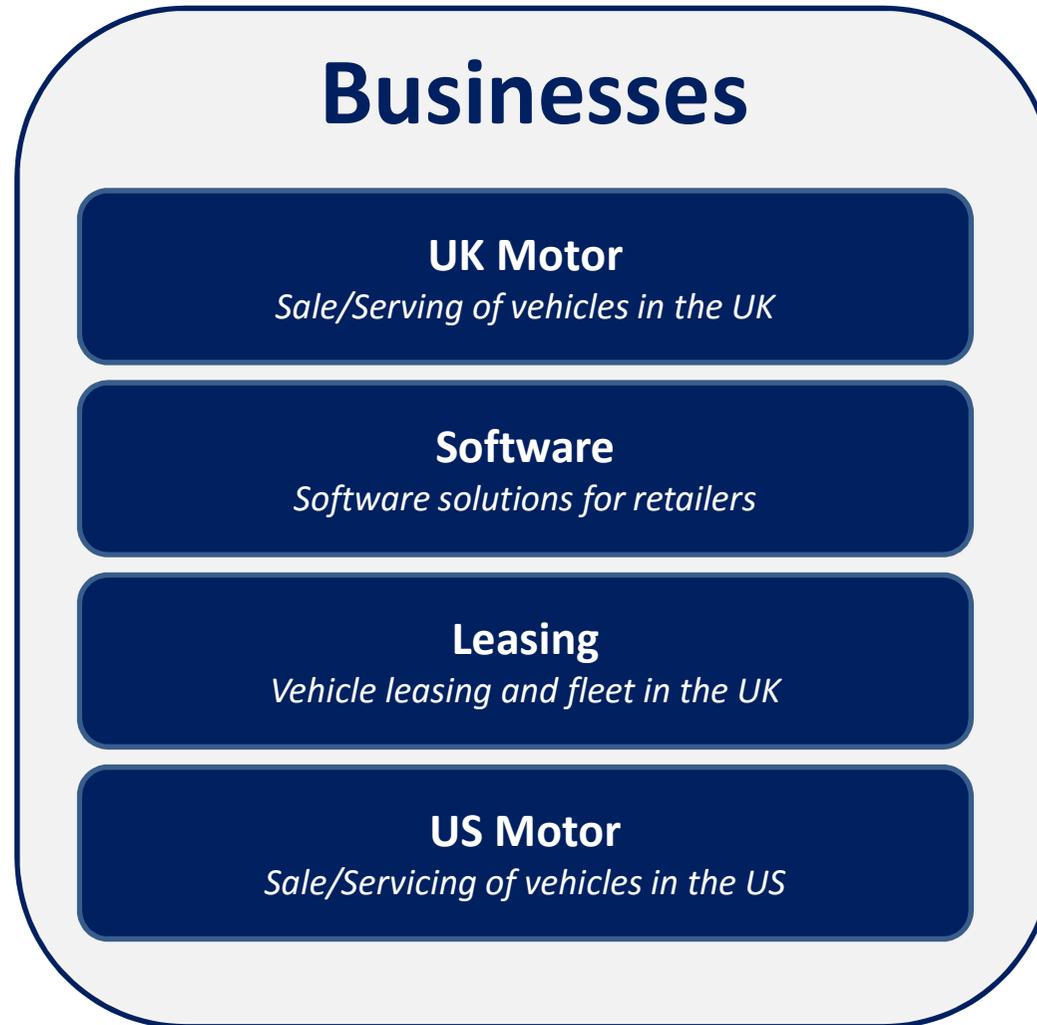
# Summary Operating Profit, Contribution and Return

Operating Profit (£m)				
	2017	2016	% Change	% Change L4L
<b>UK Motor</b>	52.3	74.0	<b>-29.3%</b>	<b>-27.3%</b>
<b>Software</b>	10.9	10.0	<b>+9.0%</b>	<b>+9.0%</b>
<b>Leasing</b>	9.8	5.0	<b>+96.0%</b>	<b>+96.0%</b>
<b>US Motor*</b>	10.8*	12.2	<b>-11.5%*</b>	<b>-13.9%*</b>
<b>TOTAL</b>	<b>83.8</b>	<b>101.2</b>	<b>-17.2%</b>	<b>-16.1%</b>

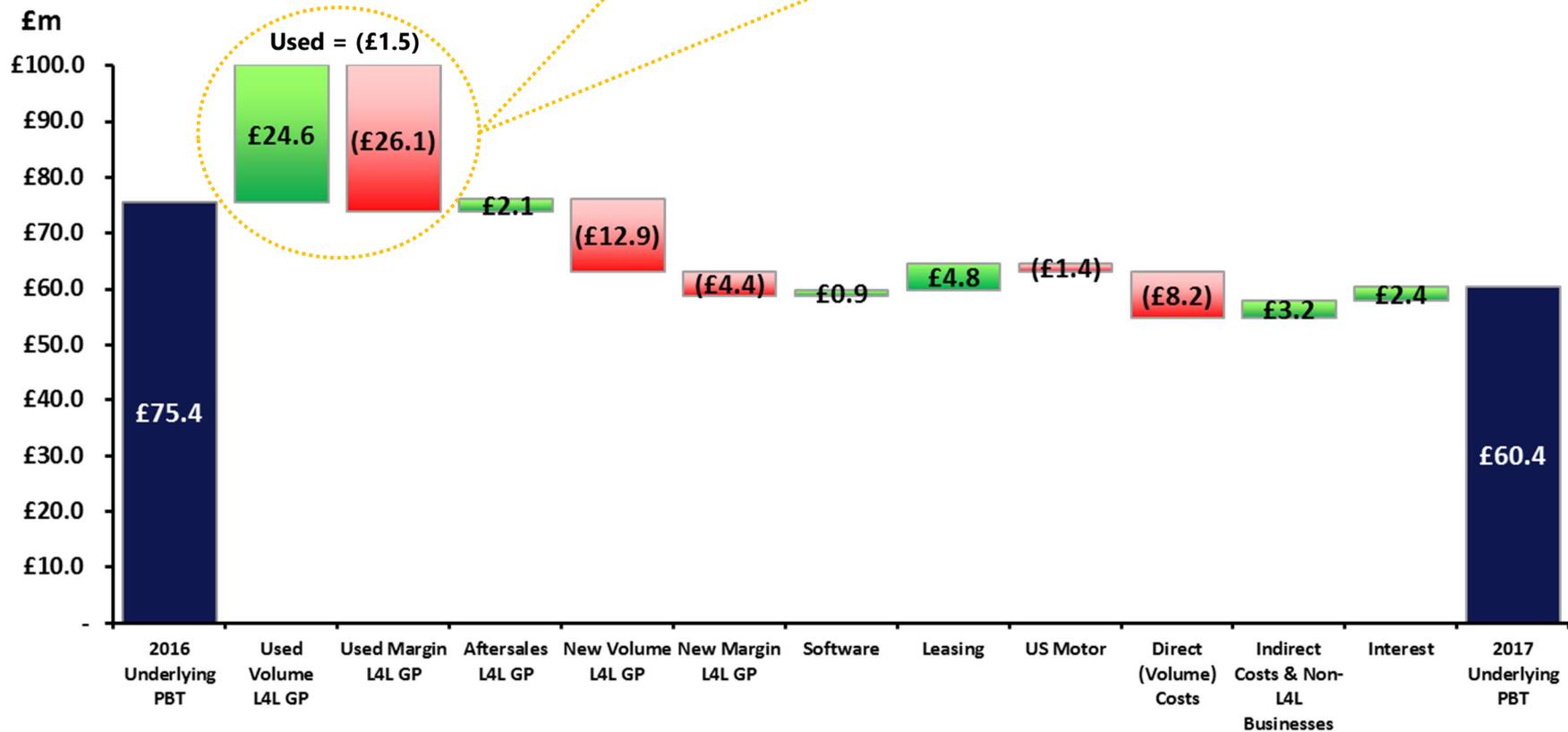
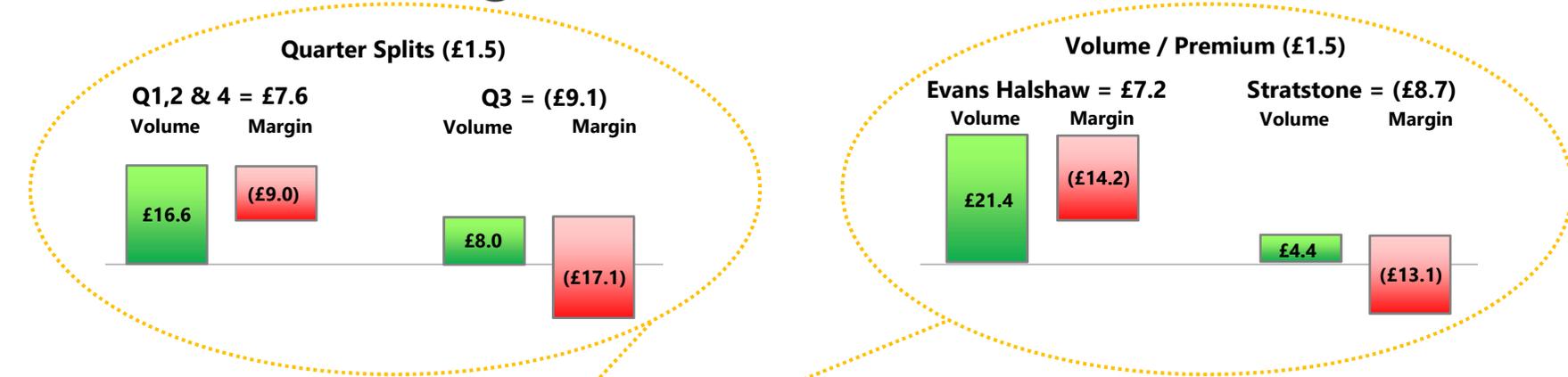


\* After charge for legal dispute settlement.

# Business Strategy and Review



# Sector Profit Bridge



## Businesses

### UK Motor

*Sale/Servicing of vehicles in the UK*

### Software

*Software solutions for retailers*

### Leasing

*Vehicle leasing and fleet in the UK*

### US Motor

*Sale/Servicing of vehicles in the US*



# UK Motor Strategy and Business Review

# UK Motor – Summary

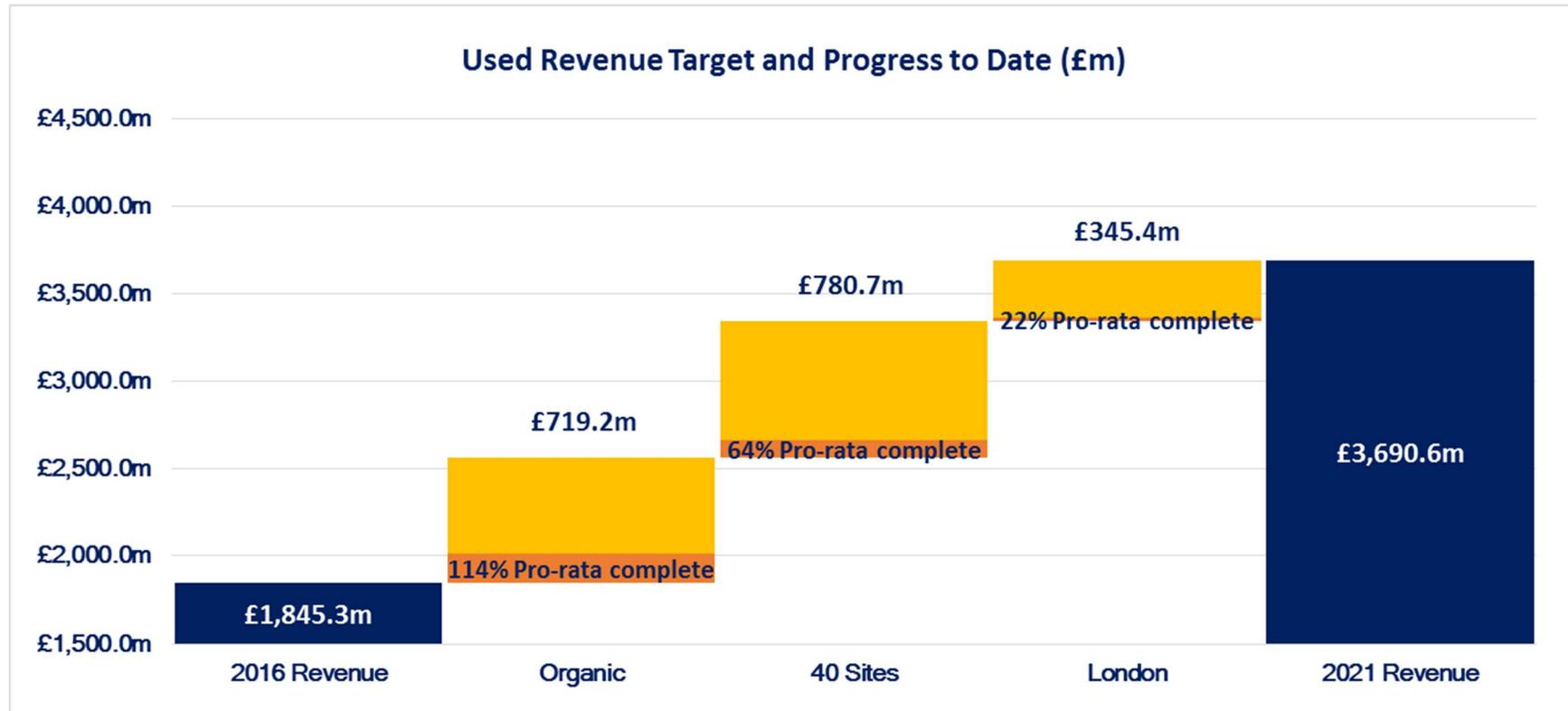
UK Motor (£m)				
	2017	2016	% Change	% Change L4L
<b>Revenue</b>	4,243.6	4,177.9	+3.1%	+4.0%
<b>Gross Profit</b>	471.0	490.7	-4.0%	-3.4%
<b>Operating Costs</b>	(418.7)	(416.7)	+0.5%	+1.0%
<b>Operating Profit</b>	52.3	74.0	-29.3%	-27.3%
<b>Gross Margin %</b>	11.1%	11.9%	-0.8%	-0.9%
<b>Operating Margin %</b>	1.2%	1.8%	-0.6%	-0.6%

- Overall revenue up 4.0%, used revenue up 15.3% like for like
- Operating profit declined, largely in quarter 3, due in particular to the impact premium new and nearly new activity
- Quarter 4 margins returned to more normalised levels

## Strategy

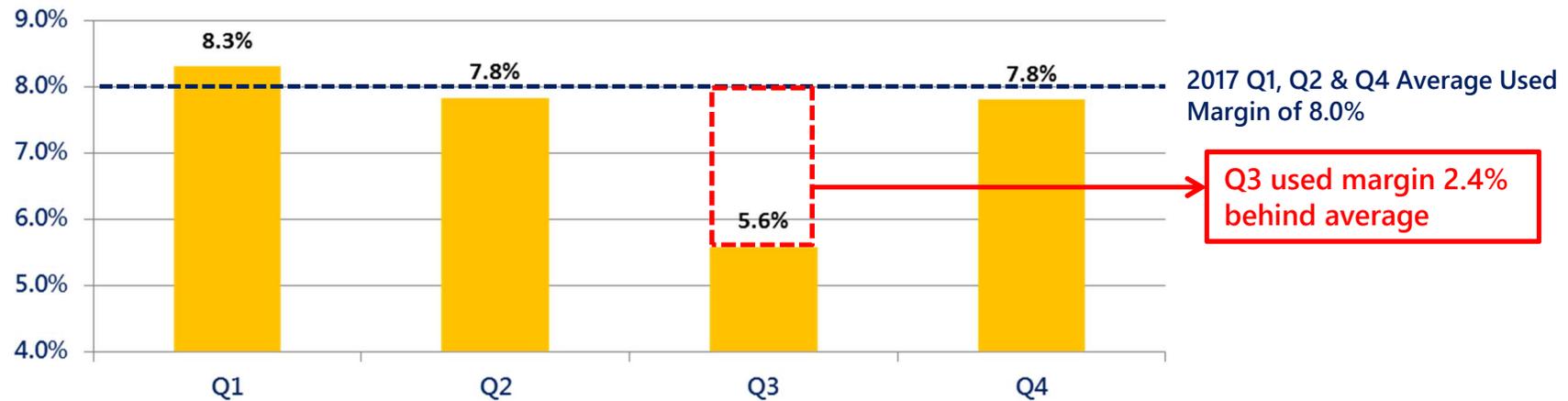
- Transform the business to deliver market leading shares in used vehicle and aftersales activity
- Double used revenue by 2021
- Review premium brand capital allocation to optimise returns

# UK Motor Strategy – Doubling Used Revenue and Progress



# UK Motor Business Review - Used Margin by Quarter

## 2017 Used Gross Margin by Quarter

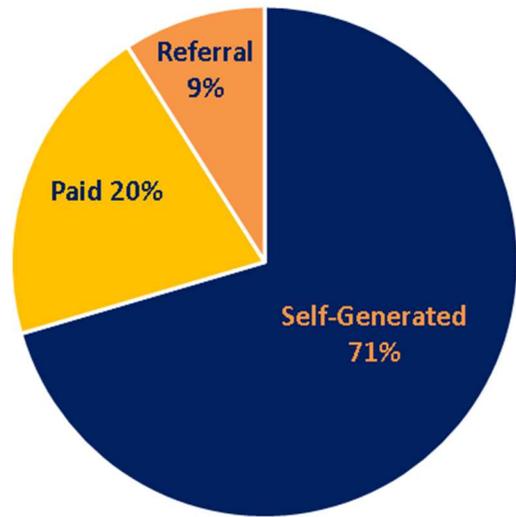


### Summary

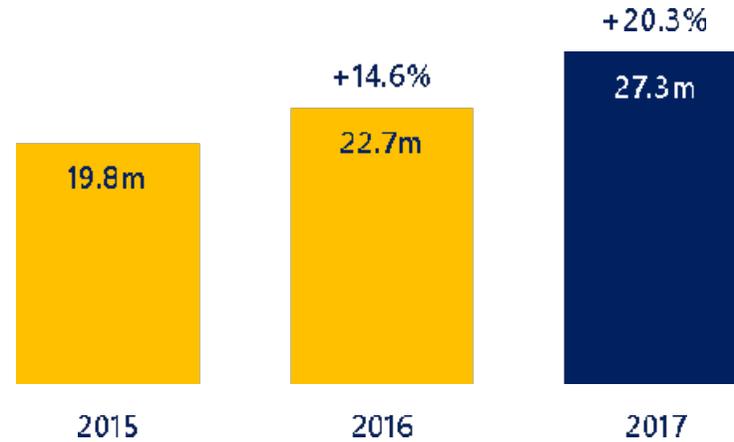
- Q3 used margin impacted by unusual market conditions which included unprecedented high levels of pre-registration activity
- In Q3, the used margin of 5.6% was 2.4% behind the 8.0% average used margin for the other quarters of 2017
- If a 8.0% used margin had been achieved in Q3, this would have improved used profitability by £13.9m in the quarter



# UK Motor Business Review – Online

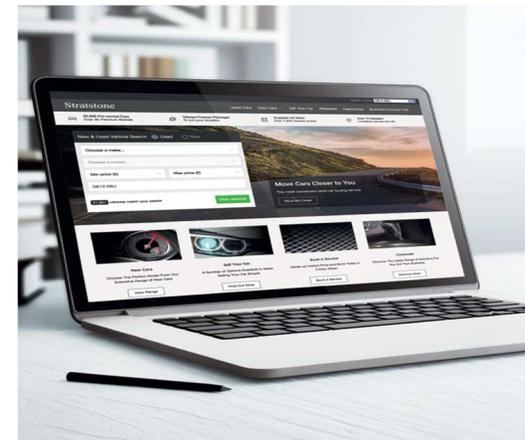


## Online Visits

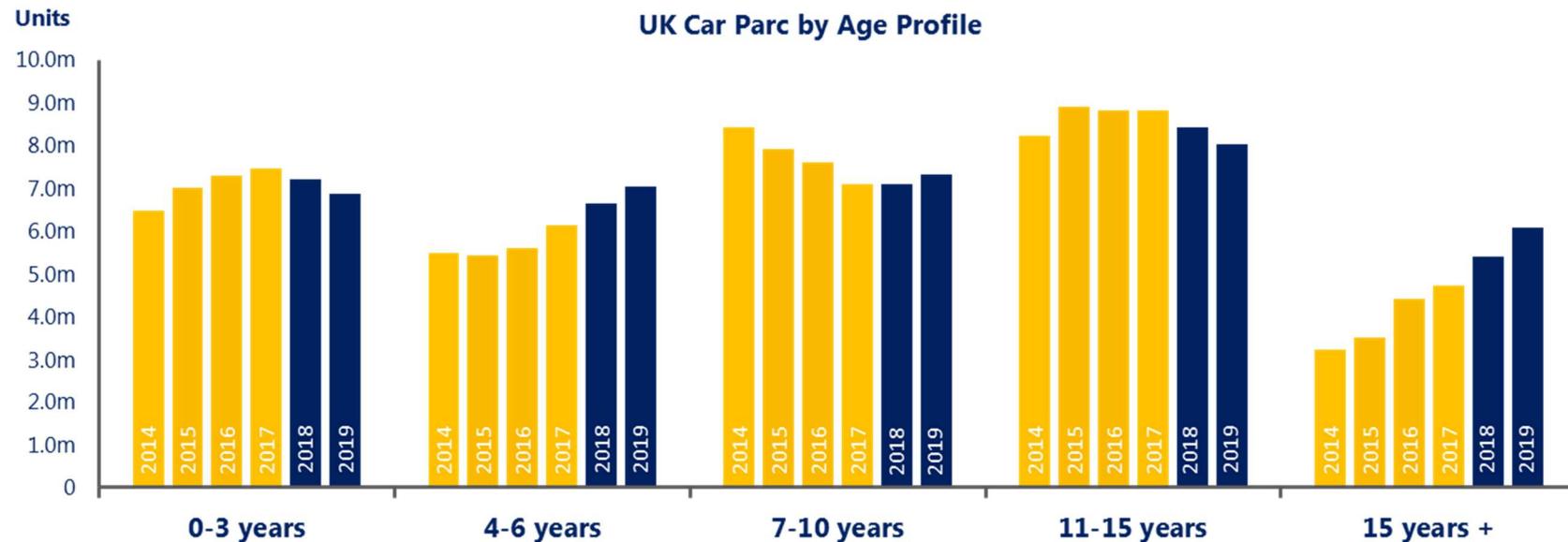


### Summary

- Online visits to Evanshalshaw.com and Stratstone.com increased by 20.3% in the period to 27.3m visits
- We continue to grow the brand awareness and online proposition and we are investing in online



# UK Motor Business Review - Aftersales



Source: Callcredit (2014 to 2017) and Pendragon (2018 to 2019)

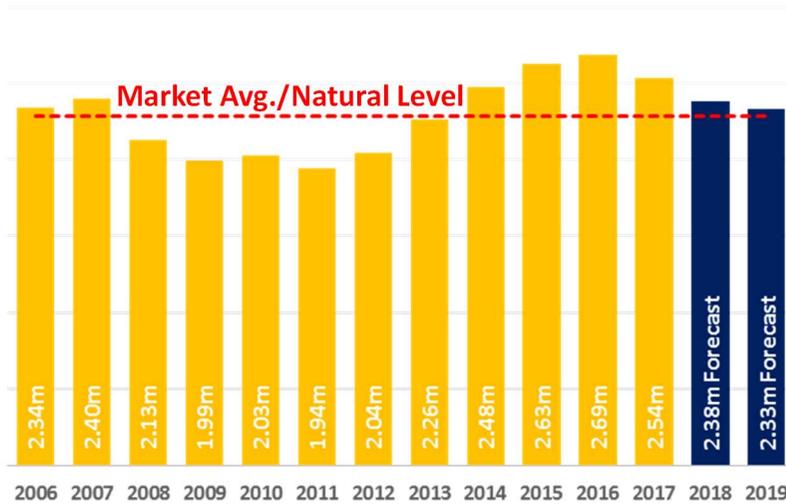
## Summary

- Aftersales revenue up 6.5% and gross profit up 1.1% like for like
- Retail labour sales up 3.4% on a like for like basis
- Investment in capacity in place for used vehicle preparation (the value added to acquired vehicles for retailing)

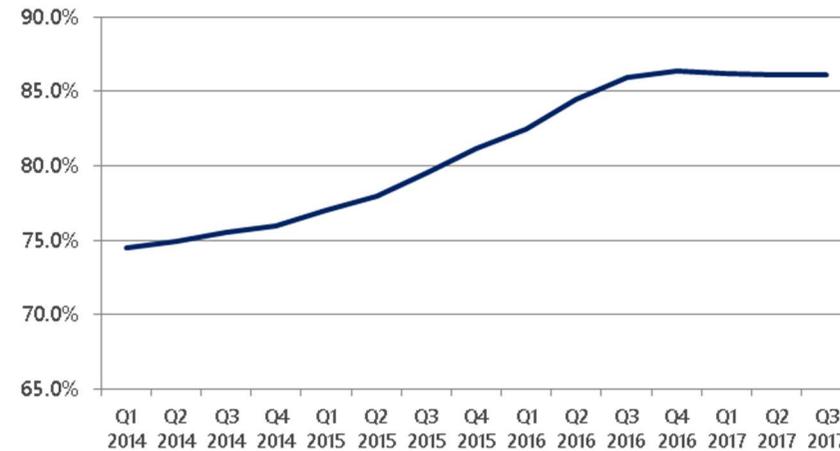


# UK Motor Business Review – New Activity

## New Vehicle Registrations



## % Finance Penetration on New Cars



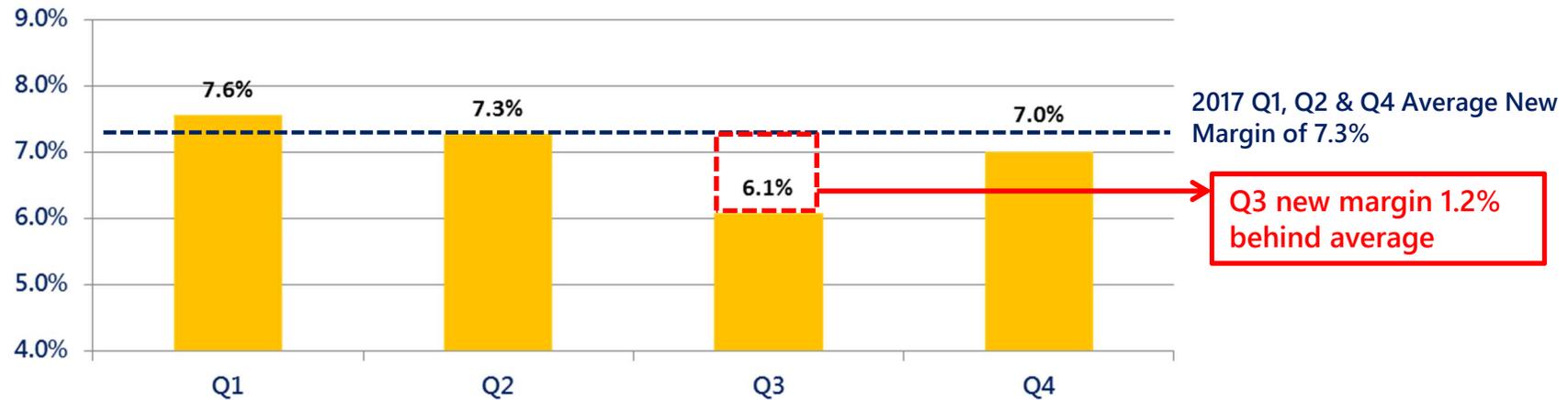
## Summary

- UK market should return to more natural levels in 2018 with a modest reduction in 2019
- Market average / natural level of market achieved by late 2018/2019
- Finance penetration on new cars plateauing which indicates natural level of market being reached



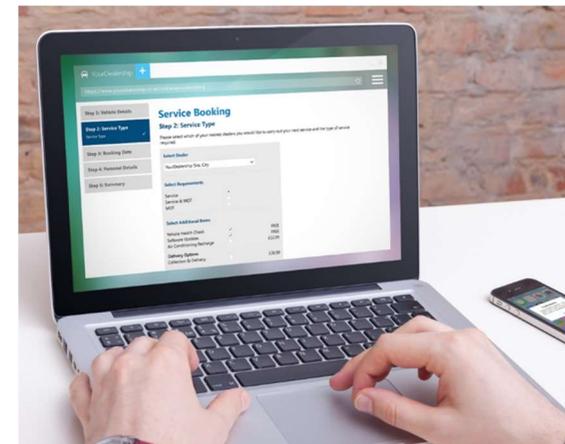
# UK Motor Business Review – New Margin

2017 New Gross Margin by Quarter



## Summary

- Q3 new margin impacted by unusual market conditions
- In Q3, the new margin of 6.1% was 1.2% behind the 7.3% average new margin for the other quarters of 2017
- If a 7.3% new margin had been achieved in Q3, this would have improved new profitability by £5.5m in the quarter



## Businesses

### UK Motor

*Sale/Servicing of vehicles in the UK*

### Software

*Software solutions for retailers*

### Leasing

*Vehicle leasing and fleet in the UK*

### US Motor

*Sale/Servicing of vehicles in the US*



# Software Strategy and Business Review

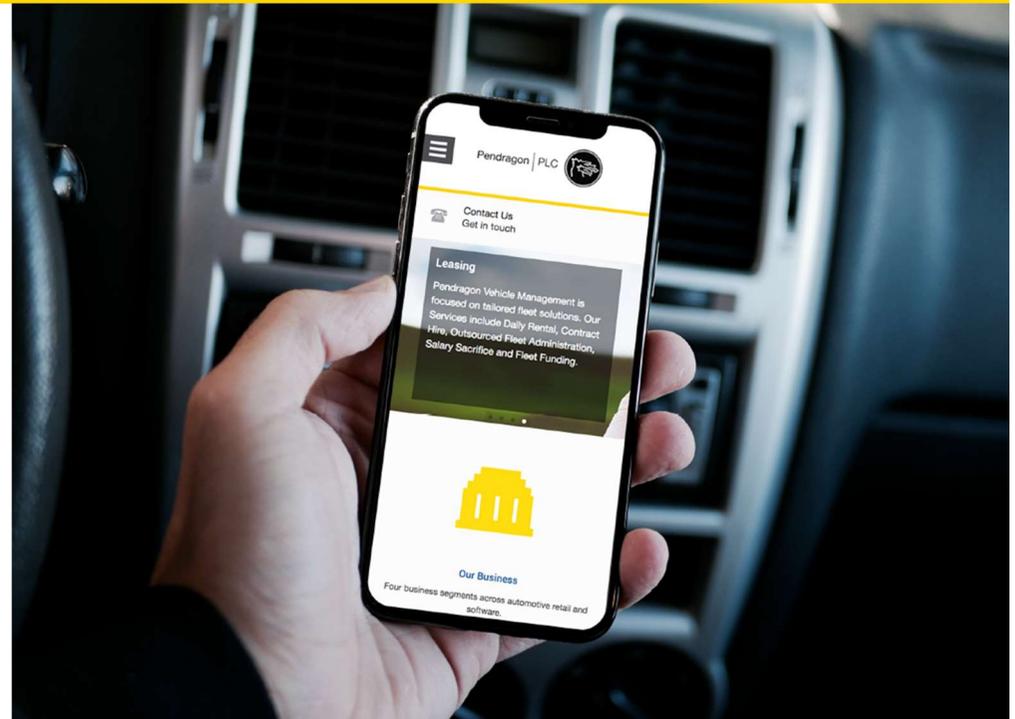
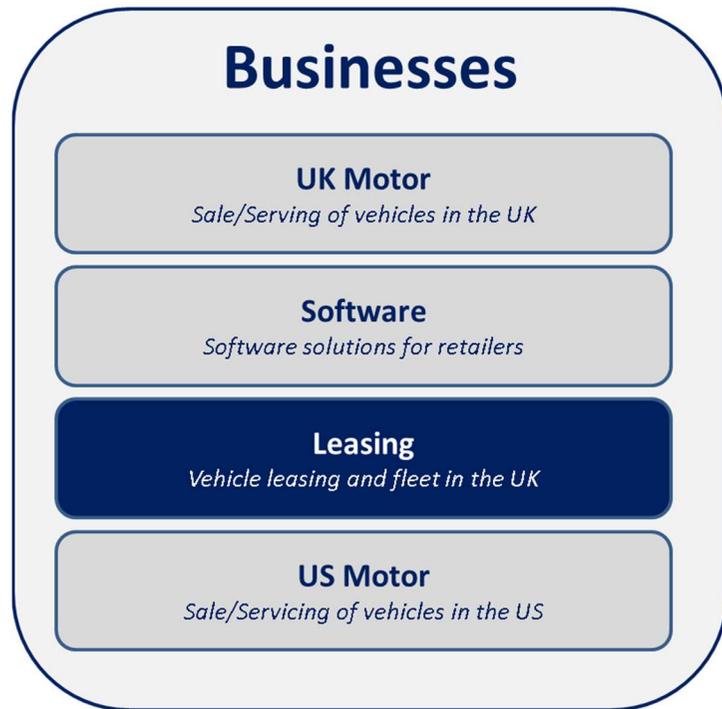
# Software – Summary

Software (£m)				
	2017	2016	% Change	% Change L4L
<b>Revenue</b>	15.8	14.4	+9.7%	+9.7%
<b>Gross Profit</b>	13.8	12.3	+12.2%	+12.2%
<b>Operating Costs</b>	(2.9)	(2.3)	+26.1%	+26.1%
<b>Operating Profit</b>	10.9	10.0	+9.0%	+9.0%
<b>Gross Margin %</b>	87.3%	85.4%	+1.9%	+1.9%
<b>Operating Margin %</b>	69.0%	69.4%	-0.4%	-0.4%

- Software and online technologies at the heart of our plan to revolutionise the business
- Nearly 10% growth achieved in the period
- Installations in UK, Switzerland, Netherlands, South Africa, Namibia, Zimbabwe, Hong Kong
- Representation in Asia Pacific, Europe and South Africa

## Strategy

- Achieve at least double digit growth in revenue
- Expansion globally



# Leasing Strategy and Business Review

# Leasing – Summary

Leasing (£m)				
	2017	2016	% Change	% Change L4L
<b>Revenue</b>	64.9	46.7	+39.0%	+39.0%
<b>Gross Profit</b>	13.9	9.0	+54.4%	+54.4%
<b>Operating Costs</b>	(4.1)	(4.0)	+2.5%	+2.5%
<b>Operating Profit</b>	9.8	5.0	+96.0%	+96.0%
<b>Gross Margin %</b>	21.4%	19.3%	+2.1%	+2.1%
<b>Operating Margin %</b>	15.1%	10.7%	+4.4%	+4.4%

- Significant growth achieved in the period, with revenue up 39.0%
- Operating profit doubled in the period with improvements in overall operating margin
- Strong used vehicle supply in the period to the UK Motor segment

## Strategy

- Maintain at least double digit growth in revenue and gross profit
- Provide a used vehicle supply to assist achieving the doubling of UK Motor used revenue

## Businesses

### UK Motor

*Sale/Servicing of vehicles in the UK*

### Software

*Software solutions for retailers*

### Leasing

*Vehicle leasing and fleet in the UK*

### US Motor

*Sale/Servicing of vehicles in the US*



# US Motor Strategy and Business Review

# US Motor – Summary

US Motor (£m)				
	2017	2016	% Change	% Change L4L
<b>Revenue</b>	414.8	358.0	+15.9%	+12.4%
<b>Gross Profit</b>	54.2	47.6	+13.9%	+9.9%
<b>Operating Costs</b>	(43.2)	(35.4)	+22.6%	+18.1%
<b>Operating Profit</b>	10.8	12.2	-11.5%	-13.9%
<b>Gross Margin %</b>	13.1%	13.3%	-0.2%	-0.3%
<b>Operating Margin %</b>	2.6%	3.4%	-0.8%	-0.8%

- Strong double digit growth in revenue and gross profit growth in the period. Strong aftersales performance in particular
- £1.3m legal dispute settlement in the period
- Strong operating margin of 2.6% achieved
- Peunte Hills Chevrolet earnings enhancing

## Strategy

- Selling the US Motor business in 2018
- Proceeds expected in excess of £100m before tax

# Strategy Highlights

- **Software and Online Technologies** - Online and technology at the heart of our business transformation, providing the online platform for our customers and team members. Software global opportunity with deployment in Europe, Africa and Asia Pacific.
- **Reshaping of the Business** – Acceleration of the transformation of the business, to deliver a market leading share in used vehicle and aftersales activity.
- **Double Used Vehicle Revenue** - Double our used vehicle revenue over the five years to 2021 with investment in capacity in the UK.
- **Capital Allocation Focus** - Disposal process underway to achieve a reduction in our UK Premium franchise locations and the US disposal.



# APPENDIX – Pendragon 2017 Full Year Results

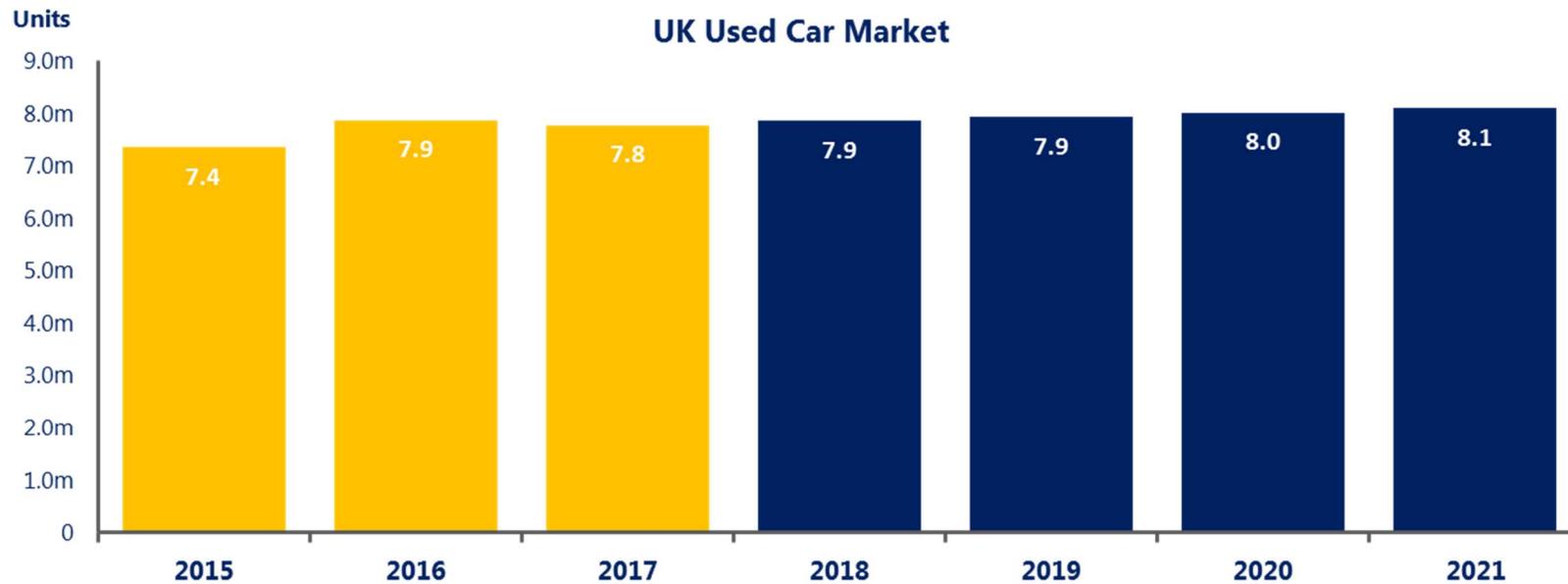
# Appendix - UK Motor

UK Motor (£m)				
	2017	2016	% Change	% Change L4L
<b>Used</b>	2,125.5	1,845.3	+15.2%	+15.8%
<b>Aftersales</b>	350.6	333.2	+5.2%	+6.5%
<b>New</b>	1,767.5	1,939.4	-8.9%	-7.5%
<b>Revenue</b>	<b>4,243.6</b>	<b>4,177.9</b>	<b>+3.1%</b>	<b>+4.0%</b>
<b>Used</b>	156.3	157.6	-0.8%	-1.0%
<b>Aftersales</b>	191.2	190.8	+0.2%	+1.1%
<b>New</b>	123.5	142.3	-13.2%	-12.3%
<b>Gross Profit</b>	<b>471.0</b>	<b>490.7</b>	<b>-4.0%</b>	<b>-3.4%</b>
<b>Operating Costs</b>	(418.7)	(416.7)	+0.5%	+1.0%
<b>Operating Profit</b>	<b>52.3</b>	<b>74.0</b>	<b>-29.3%</b>	<b>-27.3%</b>
<b>Gross Margin %</b>	11.1%	11.9%	-0.8%	-0.9%
<b>Operating Margin %</b>	1.2%	1.8%	-0.6%	-0.6%

## Summary

- Significant performance from Used revenue up 15.8% like for like
- Aftersales revenue up 6.5% like for like
- New revenue back 7.5% like for like largely in quarter three and as result of declines in the premium sector
- Gross profit declines largely as a result of margin in quarter 3, quarter 4 margin corrected to more normal levels
- Operating costs increased by 1.0% in the period

# Appendix – UK Used Market



Source: Callcredit (2015 to 2017) and Pendragon (2018 to 2021)

## Summary

- The latest available market data is for Q4 2017, which showed that the UK used market decreased by 5.4% in Q4 2017
- In 2017, the used vehicle market decreased by 1.2% to 7.8 million units, growing by 1.1% in H1 2017 and decreasing by 3.7% in H2 2017
- UK Motor grew used revenue by 15.2% in 2017 (15.8% L4L)



# Appendix – UK Used Performance

Used (£m)				
	Actual	Last Year	% Last Year	% Last Year L4L
<b>Revenue</b>	2,125.5	1,845.3	<b>+15.2%</b>	<b>+15.8%</b>
<b>Gross Profit</b>	156.3	157.6	<b>-0.8%</b>	<b>-1.0%</b>
<b>Gross Margin %</b>	<b>7.4%</b>	<b>8.5%</b>	<b>-1.1%</b>	<b>-1.3%</b>

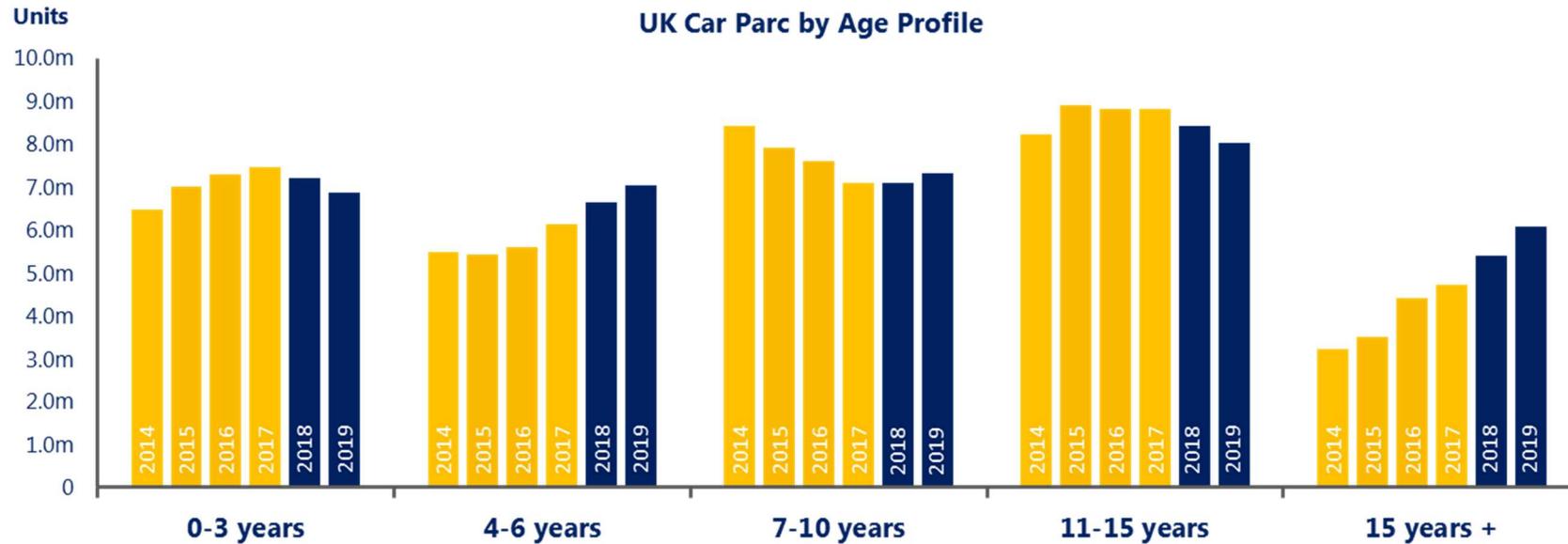
Car Store Gloucester – opened March 2017



## Summary

- Used revenue up by 15.8% on a like for like basis
- Growth significantly ahead of our double digit growth target
- Significant used margin impact in quarter 3 due to pre-registration activity.
- Some additional margin impact in the short term to ensure we gain market share
- We will continue to benefit from used vehicles sold today which lead to used and aftersales activity tomorrow

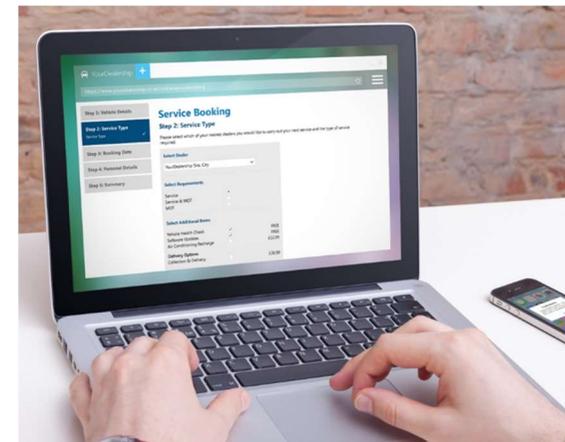
# Appendix – UK Aftersales Market



Source: Callcredit (2014 to 2017) and Pendragon (2018 to 2019)

## Summary

- 3.4% reduction in 0-3 year car parc forecast in 2018
- 8.1% growth in 4-6 year car parc forecast in 2018
- 4-6 year car parc forecast to continue growing until 2020



# Appendix – UK Aftersales Performance

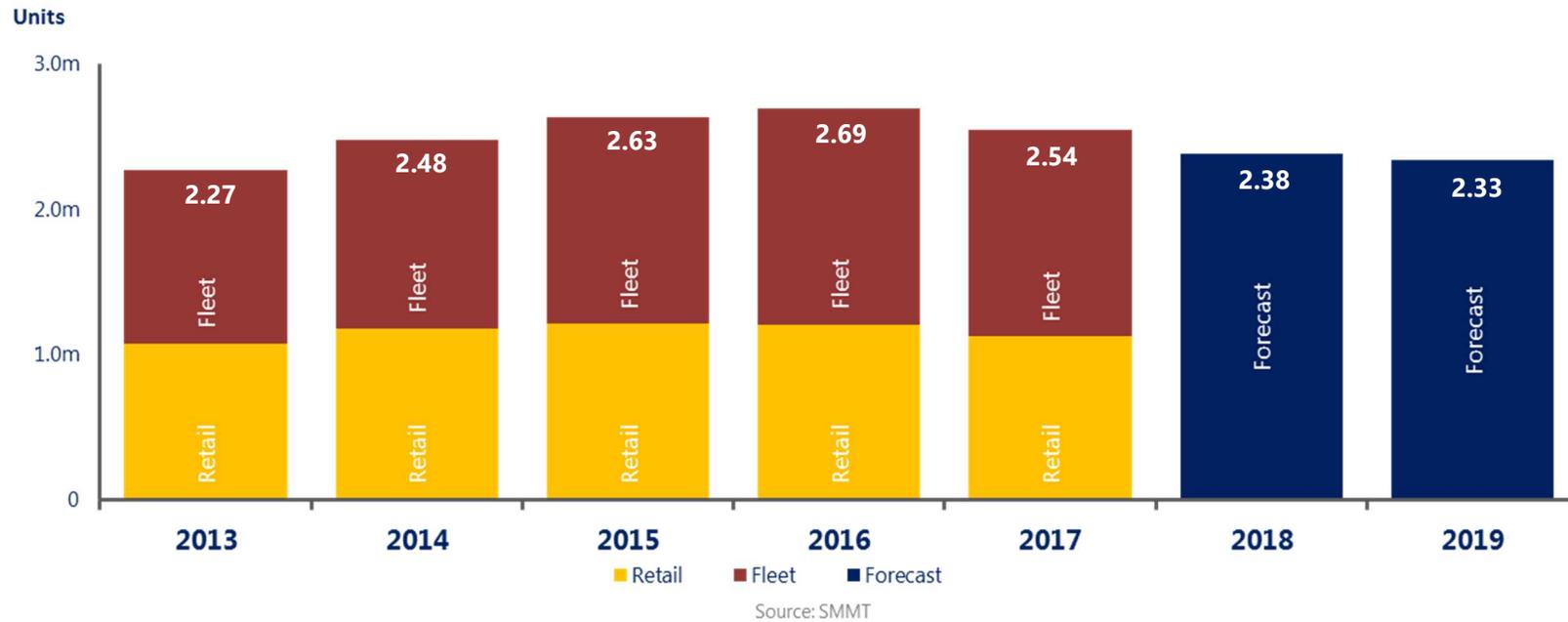
Aftersales (£m)				
	Actual	Last Year	% Last Year	% Last Year L4L
<b>Revenue</b>	350.6	333.2	<b>+5.2%</b>	<b>+6.5%</b>
<b>Gross Profit</b>	191.2	190.8	<b>+0.2%</b>	<b>+1.1%</b>
<b>Gross Margin %</b>	<b>54.5%</b>	<b>57.3%</b>	<b>-2.8%</b>	<b>-2.9%</b>



## Summary

- Aftersales contributes 40.6% of the gross profit of UK Motor and delivered a gross margin of 54.5%
- Opportunities to grow in markets that we trade in today and additional sites as part of used car rollout
- Underlying strong market dynamics underpin the performance

# Appendix – UK New Market



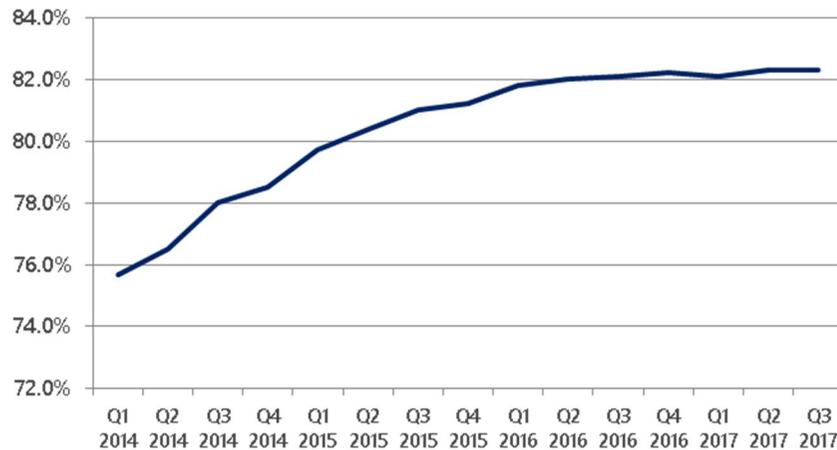
## Summary

- The UK new car market was down 5.6% in 2017
- In H1 2017 the retail market was down 4.8% and the fleet market was up 1.6% and in H2 2017 the retail market was down 9.2% and the fleet market was down 11.5%
- Forecast of 6.6% fall in new car market in 2018

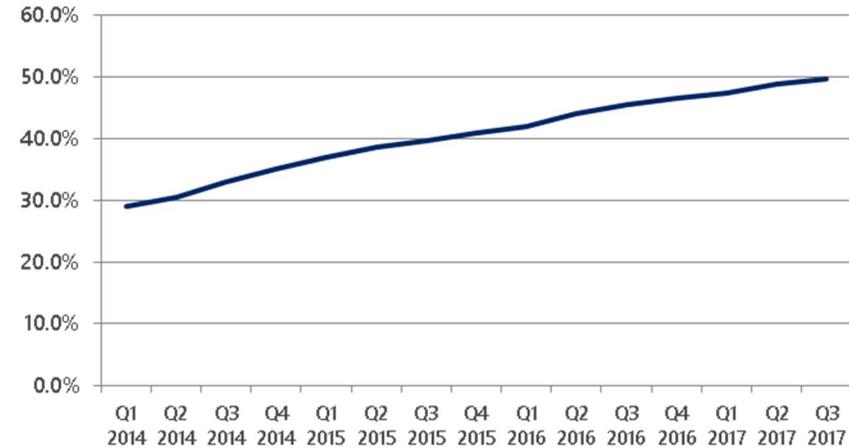


# Appendix – UK Market PCP Finance Penetration

## % PCP of New UK Cars Financed



## % PCP of Used UK Cars Financed



## Summary

- The percentage PCP on new cars financed has begun to plateau which helps new market dynamics
- The percentage PCP on used cars that are financed has been rising and provides a strong recycle flow for used revenue



# Appendix – UK New Performance

New (£m)				
	Actual	Last Year	% Last Year	% Last Year L4L
<b>Revenue</b>	1,767.5	1,939.4	<b>-8.9%</b>	<b>-7.5%</b>
<b>Gross Profit</b>	123.5	142.3	<b>-13.2%</b>	<b>-12.3%</b>
<b>Gross Margin %</b>	<b>7.0%</b>	<b>7.3%</b>	<b>-0.3%</b>	<b>-0.3%</b>



## Summary

- New revenue fell by 7.5% in the period on a like for like basis
- Gross profit fell by 12.3% in the period on a like for like basis
- The main reduction in new vehicle margin occurred in quarter 3 of the year within the premium sector
- New margin has subsequently recovered in quarter 4

# Appendix - US Motor

US Motor (£m)				
	2017	2016	% Change	% Change L4L
<b>Used</b>	85.7	78.3	+9.5%	+5.0%
<b>Aftersales</b>	37.0	32.6	+13.5%	+11.0%
<b>New</b>	292.1	247.1	+18.2%	+15.0%
<b>Revenue</b>	<b>414.8</b>	<b>358.0</b>	<b>+15.9%</b>	<b>+12.4%</b>
<b>Used</b>	4.8	4.4	+9.1%	+0.0%
<b>Aftersales</b>	19.6	17.1	+14.6%	+11.7%
<b>New</b>	29.8	26.1	+14.2%	+10.3%
<b>Gross Profit</b>	<b>54.2</b>	<b>47.6</b>	<b>+13.9%</b>	<b>+9.9%</b>
<b>Operating Costs</b>	(43.2)	(35.4)	+22.6%	+18.1%
<b>Operating Profit</b>	<b>10.8</b>	<b>12.2</b>	-11.5%	-13.9%
<b>Gross Margin %</b>	13.1%	13.3%	-0.2%	-0.3%
<b>Operating Margin %</b>	2.6%	3.4%	-0.8%	-0.8%

## Summary

- Strong revenue growth across all departments
- Really strong performance in aftersales with revenue up 11.0% and gross profit up 11.7% like for like
- New revenue up 15.0% and gross profit up 10.3% like for like as margins in new remained relatively stable
- Operating costs include a £1.3m legal settlement which is a one-off cost in 2017