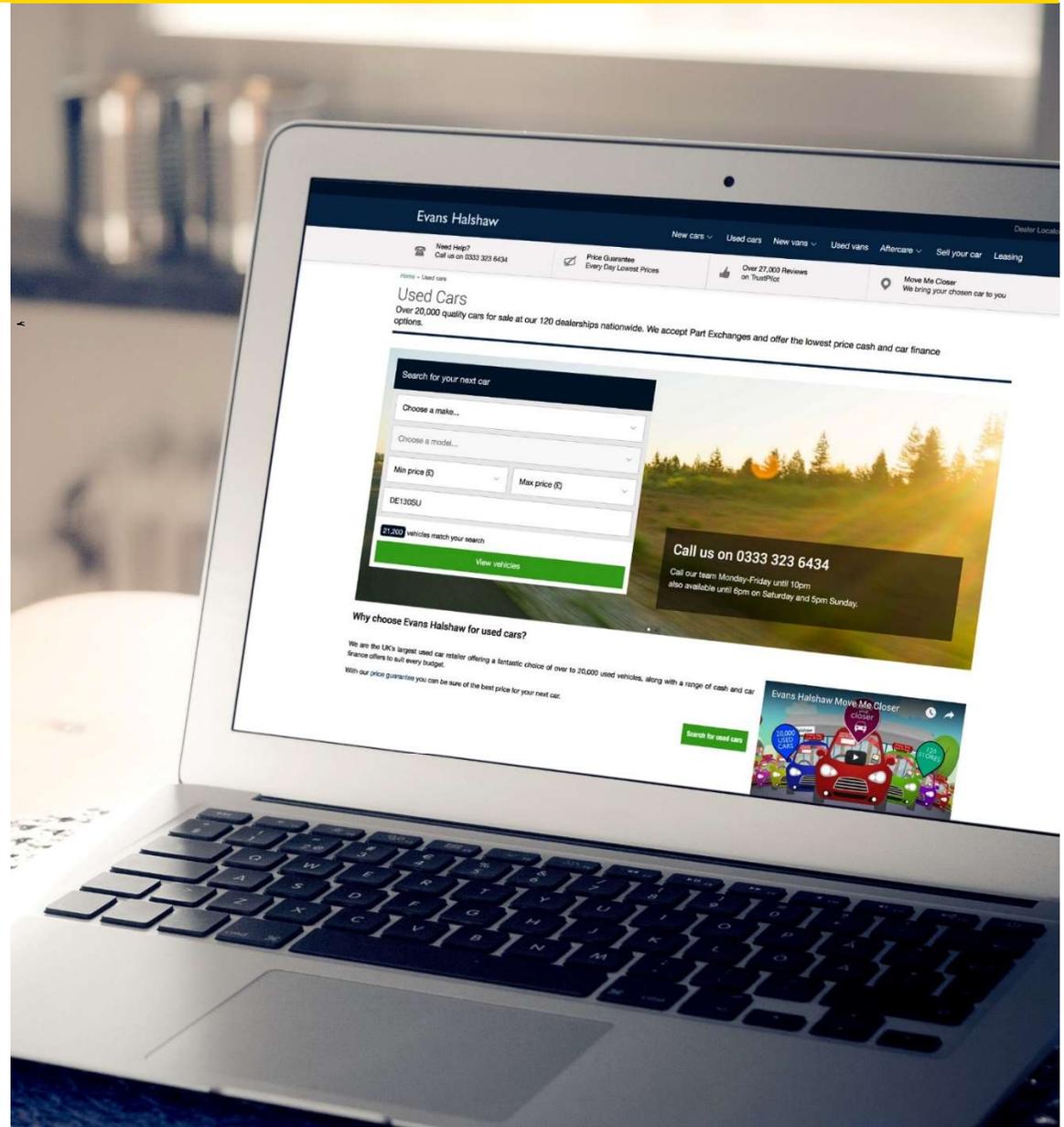


Pendragon | PLC



2018 Full Year Results



Strategy Highlights

- **Double used car revenue - by 2021**
 - Invested in and launched carstore.com website in December 2018.
 - Recruited a Used Car Director to manage the operation and roll out of used Car Stores.
 - Opened 3 purpose built Car Stores and converted 4 former new car franchised dealerships to Car Stores.
 - Opened four used car refurbishment factories to industrialise this process.
 - Strong used car profitability in the second half of 2018.

- **US Motor Group - disposal**
 - Completed the first disposal of a franchise in the US. Further disposals are well progressed.

- **Premium Brand Franchises – investment discipline**
 - We have sold six premium brand franchises and agreed lower capital expenditure levels.
 - This has released £46.7 million of capital comprising consideration and capital expenditure avoided.

- **Software – global growth**
 - Good progress growing our Software as a Service ('SaaS') licences to international users.
 - In 2018 we have implemented the software into customers with a user base of over 1,600 (2017 : 729).
 - Our overseas activities now encompass twelve countries.
 - Germany, Norway, Sweden, Switzerland, Thailand and Philippines were added in 2018.

- **Board changes**
 - As previously announced, Trevor Finn, will retire from the role of Chief Executive of Pendragon on 31 March 2019. Mark Herbert joined Pendragon on 4 March 2019 as Chief Executive designate and will be appointed to the Board as Chief Executive on 1 April 2019.
 - As previously announced, Tim Holden, Finance Director, will step down on 31 March. His successor, Mark Willis, will take up the role of Chief Finance Officer on 8 April 2019.

Operating Highlights

- **Group Revenue -1.3% L4L (-2.4% total)** – Primarily the impact of a decline in premium new car sales
- **Used Revenue -0.3% L4L (-0.9% total)** – Used vehicle revenue, excluding nearly new vehicles, grew by 2.9% against a used car market that fell 2.2%. L4L used gross profit up 4.9%. Used gross profit increased by 27.6% (L4L) in the UK Motor division in H2 2018 driven by very strong margins in the second half of the year
- **New Revenue -2.2% L4L (-3.8% total)** – Outperformed the UK market which was down 6.8% in 2018 with UK new revenue down 5.2% L4L. Gross profit down 8.3% following continuing margin pressure in the Premium sector.
- **Aftersales Revenue -0.5% L4L (-1.8% total)** – Gross profit down 1.5%. Our retail aftersales revenue grew by 2.1% with margins reduced as a result of labour cost increases.
- **Software Revenue +7.0% L4L (+7.0% total)** - Gross profit up 8.0% in spite of investment in new product development for international markets.
- **Leasing Revenue -11.7% L4L (-11.7% total)** - Gross profit up 35.3% benefitting from utilising the factory refurbishment for end of contract disposals.
- **Operating Cost +2.5% L4L (+24.3% total)** – Includes transformation costs of the new preparation process offset by cost saving actions taken during the year.
- **Car Store** – Revenue up £83.6m (+38.5%), gross profit up 42.2%. Including the impact of start-up and transformation costs the operating loss for the business was £11.9m (2017 : £6.9m).
- **Underlying Profit Before Tax £47.8m** – Underlying PBT down £12.6 million due to decline in UK motor division new vehicle gross profit and the investment in new Car Store sites and refurbishment factories.
- **Non Underlying Charge of £92.2m** – includes £(95.8m) non-cash charge principally for impairment of goodwill and non-current assets in our UK Motor Group taking into account trading and market conditions.
- **Stable Balance Sheet** – Net Debt : Underlying EBITDA of 0.9.
- **Capital Allocation** – A final dividend of 0.7p is being proposed to maintain dividend earnings cover of approximately 2x. At this stage in the company's investment cycle our share buyback programme is paused

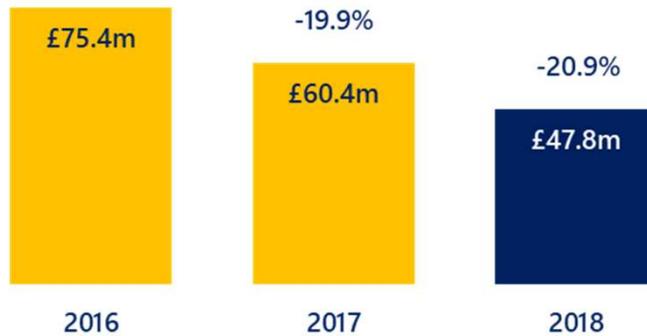
Financial Summary



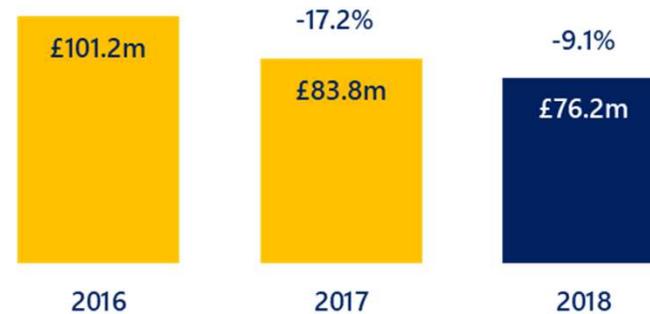
THE LEADING AUTOMOTIVE ONLINE RETAILER

Financial Summary – 3 Year Summary

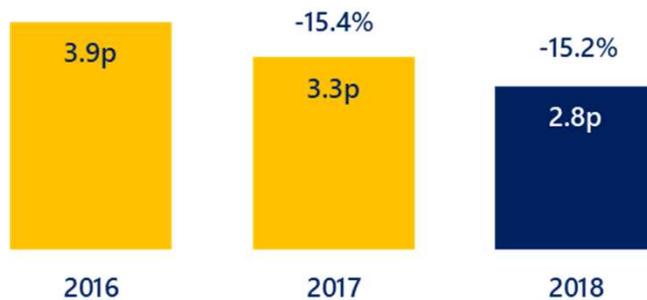
Underlying Profit Before Tax



Underlying Operating Profit



Underlying Earnings Per Share



Net Debt and EBITDA Ratio



Financial Summary – Profit and Loss

Underlying Results (£m)			
	2018	2017	% Change
Revenue	4,627.0	4,739.1	-2.4%
Gross Profit	550.5	552.9	-0.4%
Gross Margin %	11.9%	11.7%	0.2%
Operating Costs (SG&A)	(474.3)	(469.1)	+1.1%
Operating costs as % of Gross Profit	86.2%	84.8%	+1.4%
Operating Profit	76.2	83.8	-9.1%
Operating Margin %	1.6%	1.8%	-0.2%
Interest	(28.4)	(23.4)	+21.4%
Underlying Profit Before tax	47.8	60.4	-20.9%
Non-underlying Items	(92.2)	4.9	-
(Loss) / Profit Before Tax	(44.4)	65.3	-
Underlying Earnings Per Share	2.8p	3.3p	-15.2%
Dividend Per Share	1.50p	1.55p	-3.2%

Summary

- Underlying gross profit slightly back on prior year
- Uplift in used gross profit offset by reduction in new and aftersales gross profit
- 1.1% increase in operating costs
- Increase in interest due to increased stock funding costs

Financial Summary – Non-underlying Items

Non-underlying Items (£m)		
	2018	2017
Settlement of Historic VAT Issues	-	7.7
Impairment of goodwill, property, plant & equipment and assets held for sale	(95.8)	-
Gains / (Losses) on the Sale of Businesses & Property	15.7	(0.1)
Pension Costs	(12.1)	(2.7)
(Loss) / Profit Before Tax	(92.2)	4.9
Tax	3.0	0.8
(Loss) / Profit After Tax	(89.2)	5.7

Summary

- £88.8m goodwill impairment and £7.0m of other impairments following assessments of the asset carrying values. Calculated by taking into account trading and market conditions on future cash flows
- Pension costs comprise interest and for 2018 a £10.5m charge to re-align the pension liabilities to reflect the guaranteed minimum pensions for all pension members

Financial Summary – Cashflow

Summary Cashflow (£m)		
	2018	2017
Underlying Operating Profit Before Other Income	76.2	83.8
Depreciation and Amortisation	27.4	28.5
Share Based Payments	0.7	(1.7)
Working Capital	(16.2)	18.3
Operating Cashflow	88.1	128.9
Tax Paid	(10.9)	(16.1)
Underlying Net Interest	(24.8)	(20.0)
Capital Expenditure – Car Store	(6.8)	(17.5)
Capital Expenditure – Franchise	(12.6)	(25.5)
Capital Expenditure – Underlying Replacement	(30.6)	(13.8)
Capital Expenditure – Business Acquisitions	0.0	(17.8)
Capital Expenditure – Property	(6.5)	(24.6)
Business and Property Disposals	30.2	2.5
Net Capital Expenditure, Acquisitions and Disposals	(26.3)	(96.7)
Dividends	(22.5)	(21.3)
Share buyback	(6.7)	(4.0)
Other	(0.4)	(3.2)
Decrease / (Increase) in Net Debt	(3.5)	(32.4)
Closing Net Debt	(127.6)	(124.1)

Summary

- £6.8m investment on Car Store roll-out in the period
- Net reduction of £70.4m in capital expenditure
- Business and property disposals of £30.2m in the period

Financial Summary – Capital Expenditure Expectations

Capital Expenditure 2017 to FY 2019 (£m)					
	2017	2018	H1 2019	H2 2019	FY 2019
Car Store	17.5	6.8	<i>5.6</i>	-	5.6
Franchise	25.5	12.6	<i>27.6</i>	<i>9.8</i>	37.4
Underlying Replacement	13.8	30.6	<i>7.0</i>	<i>7.0</i>	14.0
Business Acquisitions	17.8	-	-	-	-
Property	24.6	6.5	-	-	-
Business and property disposals	(2.5)	(30.2)	<i>(3.5)</i>	<i>(4.5)</i>	(8.0)
Total	96.7	26.3	36.7	12.3	49.0

Summary

- US business disposals are well progressed – set to realise £100m (not included in the table above)
- £15.9m of the franchise capex relates to the US business – expected to be realised on sale

Financial Summary – Balance Sheet

Balance Sheet (£m)		
	2018	2017
Property	240.5	261.2
Plant & Equipment	223.4	218.7
Goodwill & Intangibles	274.1	368.7
Stock	959.6	1,003.5
Debtors	114.8	132.8
Assets Held For Resale	137.6	11.0
Creditors	(1,476.8)	(1,446.4)
Net Borrowings	(127.6)	(124.1)
Shareholders Funds	345.6	425.4

Summary

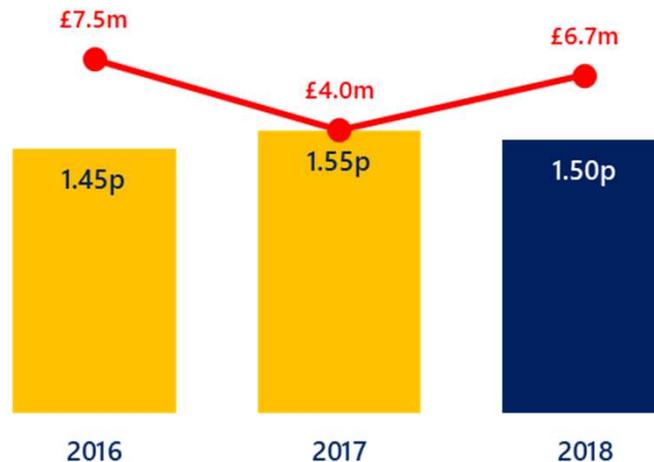
- Goodwill impairment of £88.8m in the year
- Cash and undrawn bank facilities of £174m at year end and undrawn used stocking facility of £22m at year end
- Stable balance sheet and low debt level will allow the Group to continue to grow

Financial Summary – Capital Allocation

Net Debt and EBITDA Ratio



Dividend Per Share and Share Buyback

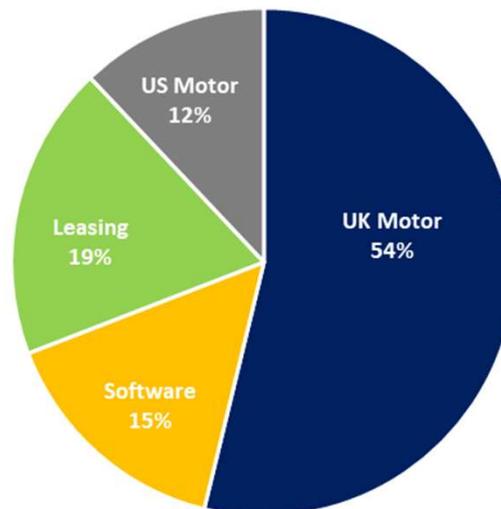


Summary

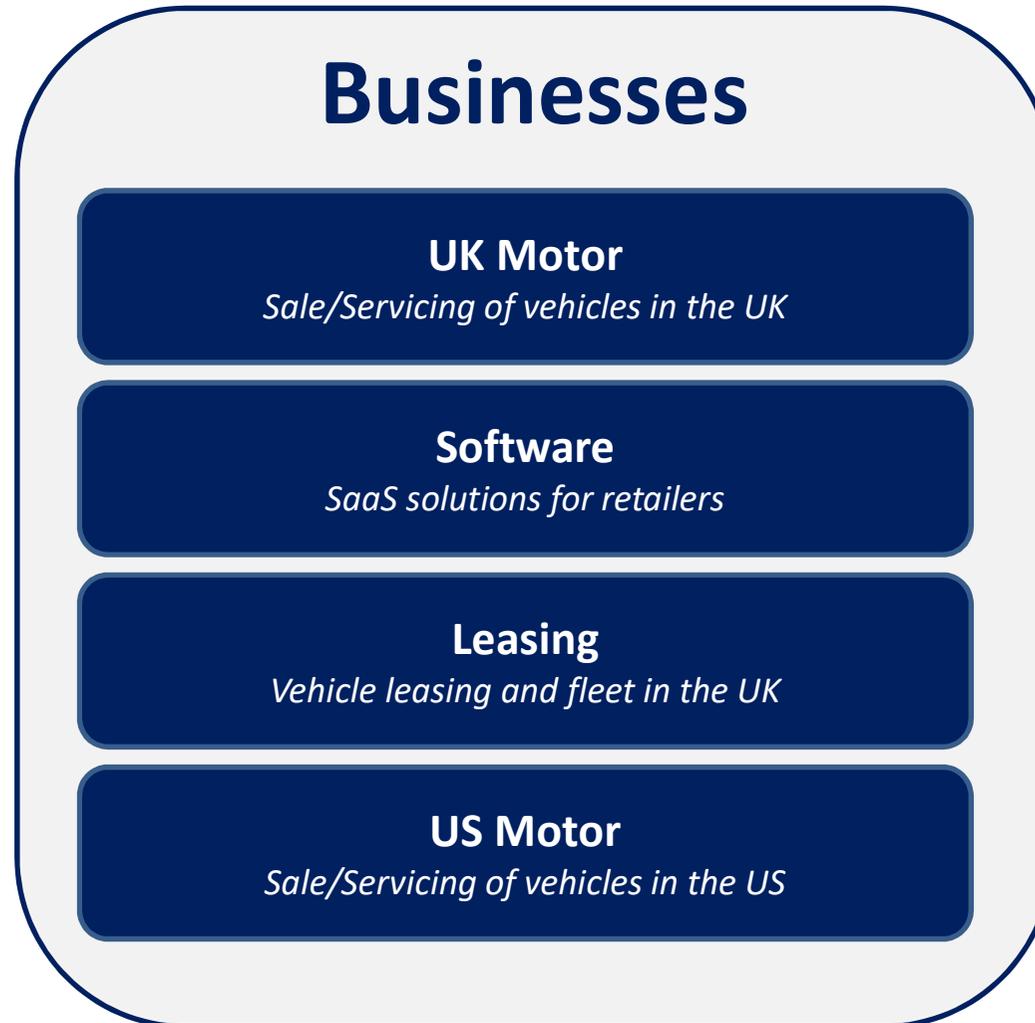
- We are expecting proceeds in excess of £100m from our US business disposal
- We plan to release £100m of capital over 3 years through a reduction in premium brand franchise locations (£46.7m released so far)
- The Group is still trading below our target range of 1.0-1.5:1 for the net debt to underlying EBITDA ratio
- The Board is continuing to evaluate the relative merits of freehold property ownership against operating leasehold premises.

Summary Operating Profit

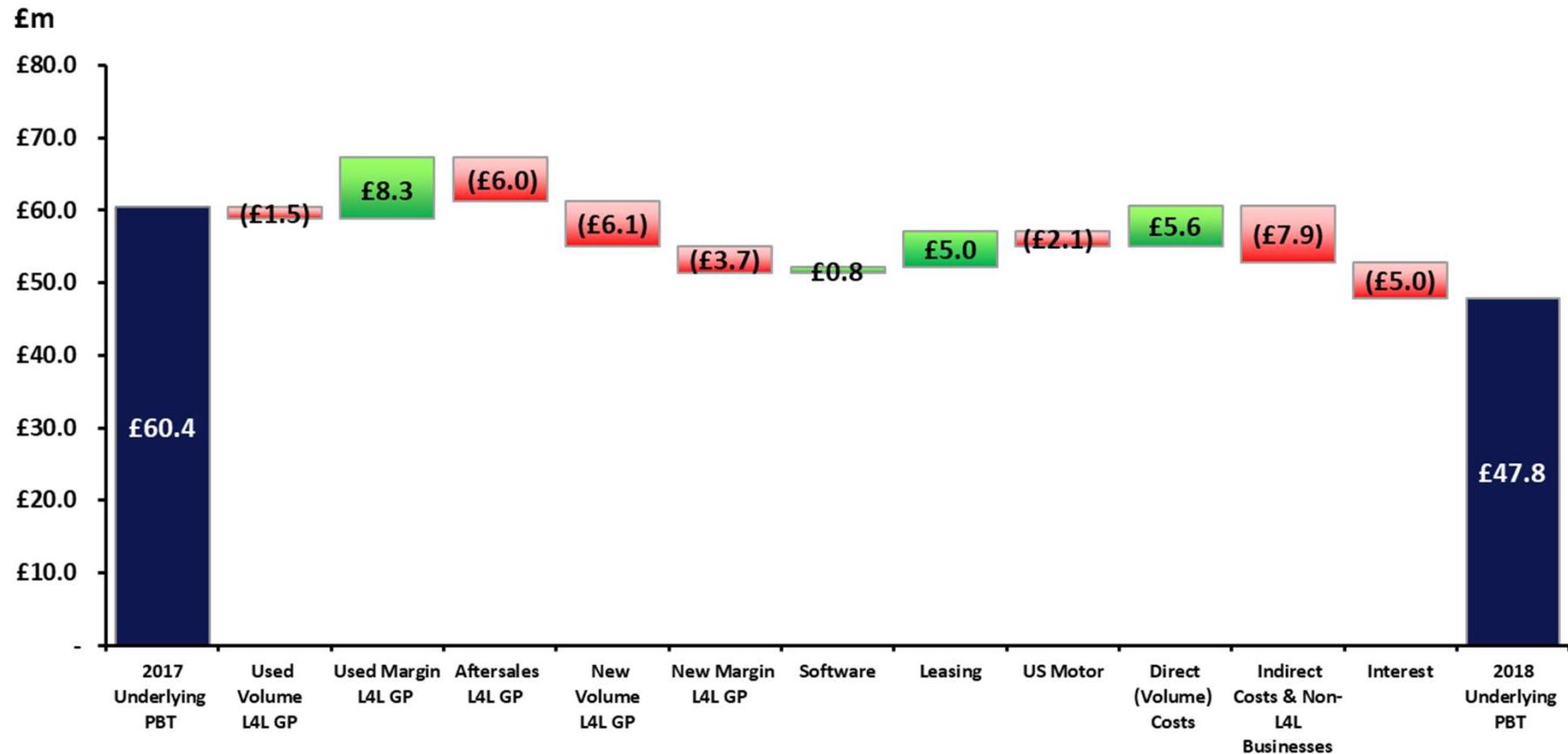
Operating Profit (£m)				
	2018	2017	% Change	% Change L4L
UK Motor	41.1	52.3	-21.4%	-21.0%
Software	11.7	10.9	+7.3%	+7.3%
Leasing	14.8	9.8	+51.0%	+51.0%
US Motor	8.6	10.8	-20.4%	-20.4%
TOTAL	76.2	83.8	-9.1%	-9.3%



Business Strategy and Review



Sector Profit Bridge



Businesses

UK Motor

Sale/Service of vehicles in the UK

Software

SaaS solutions for retailers

Leasing

Vehicle leasing and fleet in the UK

US Motor

Sale/Service of vehicles in the US



UK Motor Strategy and Business Review

UK Motor – Summary

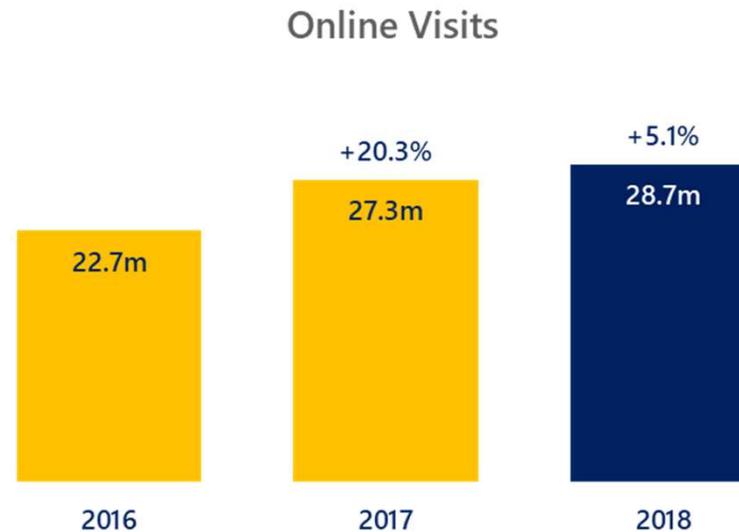
UK Motor (£m)				
	2018	2017	% Change	% Change L4L
Revenue	4,074.4	4,243.6	-4.0%	-2.8%
Gross Profit	456.7	471.0	-3.0%	-2.0%
Operating Costs	(415.6)	(418.7)	-0.7%	+0.7%
Operating Profit	41.1	52.3	-21.4%	-21.0%
Gross Margin %	11.2%	11.1%	+0.1%	+0.1%
Operating Margin %	1.0%	1.2%	-0.2%	-0.3%

- Overall revenue down 4.0%, with L4L used revenue down 1.0% against a record comparative.
- Used revenue, excluding nearly new vehicles grew by 2.9% vs a used market which fell 2.2%.
- L4L used gross profit was up 4.7%, with new gross profit (L4L) down 8.3% and aftersales gross profit (L4L) down 3.3%
- Operating profit declined largely due to new profit reduction

Strategy

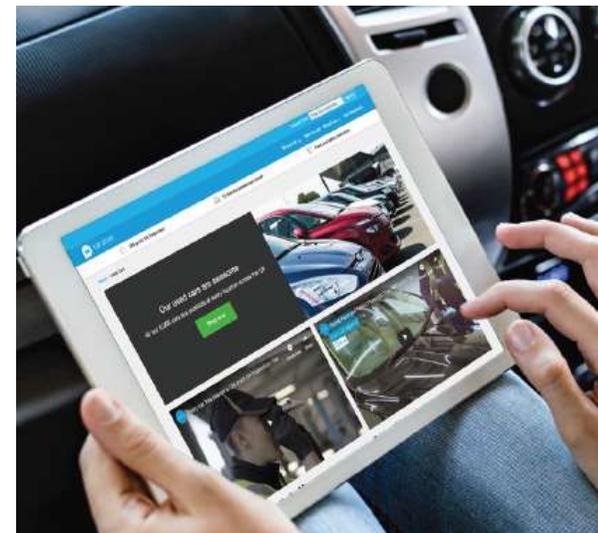
- Continue to invest in the transformation of our business model
- To deliver a market leading share in the used vehicle and retail aftersales markets in the UK
- Double used revenue by 2021
- Review premium brand capital allocation to optimise returns

UK Motor Business Review – Online



Summary

- Online visits to Evanshalshaw.com and Stratstone.com increased by 5.1% in the period to 28.7m visits.
- During late 2018 we launched the new carstore.com website which offers a uniquely differentiated customer proposition, including the ability for a customer to fully transact online, either for full payment or utilising one of our finance options. We are continuing to invest in further online capability and platforms to ensure we provide best in class service to our customers.



UK Motor Business Review – Car Store

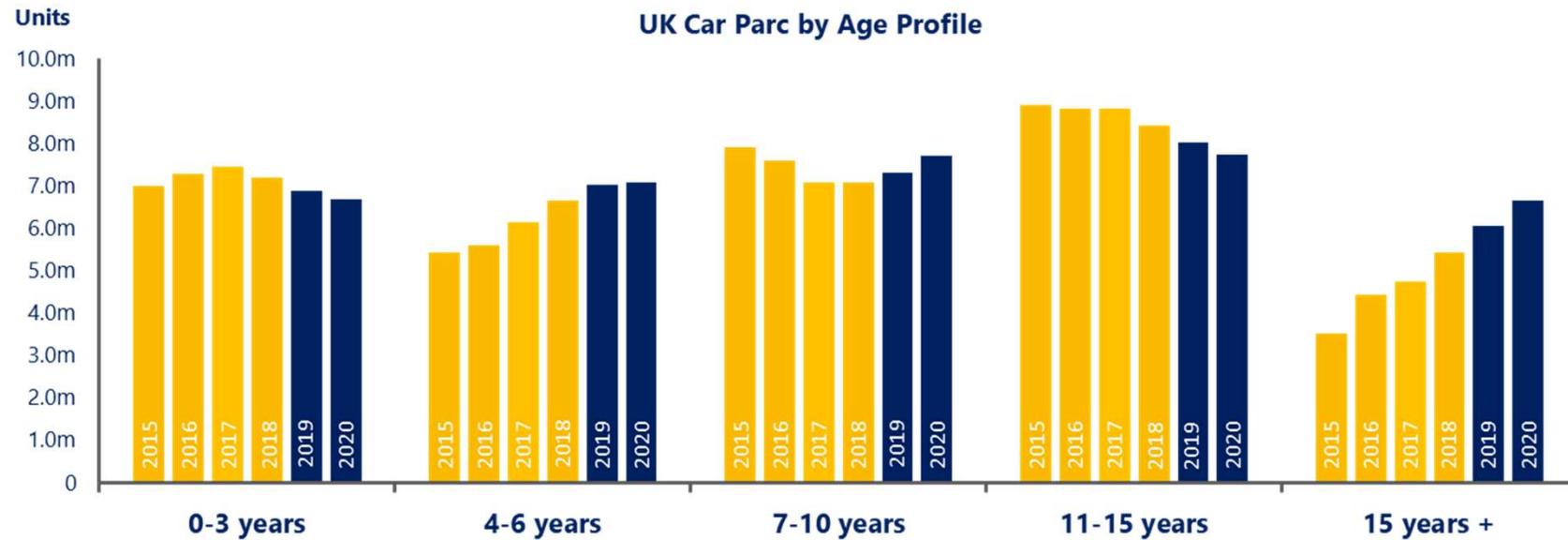
- Revenue grew by £83.6m, an increase of 38.5%
- Gross profit was up 42.2%
- Operating loss of £11.9m (2017 : £6.9m loss)

Summary

- Investment in Car Stores to expand our network in the UK continues
- Opened four dedicated used car refurbishment factories in the year
- Three new purpose built Car Stores opened in the first half of the year
- In the second half of the year, we repurposed four former new car franchises as Car Stores
- Operating loss includes the impact of start-up and transformation costs



UK Motor Business Review - Aftersales



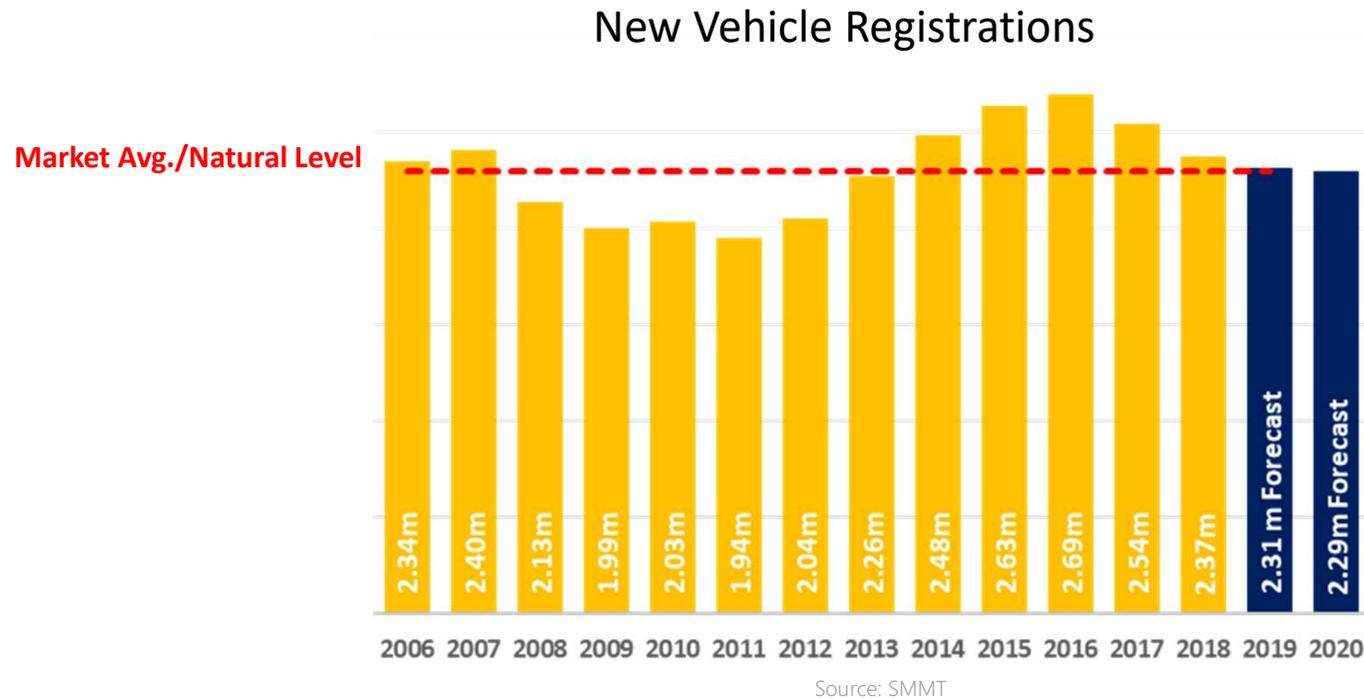
Source: Callcredit (2015 to 2018) and Pendragon (2019 to 2020)

Summary

- Aftersales revenue down 2.3% and gross profit down 3.3% like for like
- Retail aftersales revenue grew by 2.1%
- Margin impacted by labour cost inflation for skilled technicians



UK Motor Business Review – New Activity



Summary

- The new retail market was down by 6.4% in 2018 and the new fleet market was down 7.2%
- The retail market represented 44% of the UK new market in 2018
- A small decline in the UK new market is forecast in 2019



Businesses

UK Motor

Sale/Service of vehicles in the UK

Software

SaaS solutions for retailers

Leasing

Vehicle leasing and fleet in the UK

US Motor

Sale/Service of vehicles in the US



Software Strategy and Business Review

Software – Summary

Software (£m)				
	2018	2017	% Change	% Change L4L
Revenue	16.9	15.8	+7.0%	+7.0%
Gross Profit	14.9	13.8	+8.0%	+8.0%
Operating Costs	(3.2)	(2.9)	+10.3%	+10.3%
Operating Profit	11.7	10.9	+7.3%	+7.3%
Gross Margin %	88.2%	87.3%	+0.9%	+0.9%
Operating Margin %	69.2%	69.0%	+0.2%	+0.2%

- Strong recurring revenue with high gross margin
- 8% gross profit growth and 7.3% operating profit growth achieved in the period
- Increased investment for new markets localisation
- Installations in UK, Ireland, Switzerland, Netherlands, Norway, Sweden, Germany, South Africa, Namibia, Zimbabwe, Hong Kong, Thailand and Philippines

Strategy

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

Businesses

UK Motor

Sale/Service of vehicles in the UK

Software

SaaS solutions for retailers

Leasing

Vehicle leasing and fleet in the UK

US Motor

Sale/Service of vehicles in the US



Leasing Strategy and Business Review

Leasing – Summary

Leasing (£m)				
	2018	2017	% Change	% Change L4L
Revenue	57.3	64.9	(11.7%)	(11.7%)
Gross Profit	18.8	13.9	35.3%	35.3%
Operating Costs	(4.0)	(4.1)	(2.4%)	(2.4%)
Operating Profit	14.8	9.8	51.0%	51.0%
Gross Margin %	32.8%	21.4%	11.4%	11.4%
Operating Margin %	25.8%	15.1%	10.7%	10.7%

- Significant gross profit growth of 35.3% achieved in the period benefitting from utilising factory disposal for end of contract disposals
- Reduction in provision for vehicles that lose money on disposal
- Strong used vehicle supply in the period to the UK Motor segment

Strategy

- Retain low capital base and high return on investment from the leasing business
- 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/Service of vehicles in the UK

Software

SaaS solutions for retailers

Leasing

Vehicle leasing and fleet in the UK

US Motor

Sale/Service of vehicles in the US



US Motor Strategy and Business Review

US Motor – Summary

US Motor (£m)				
	2018	2017	% Change	% Change L4L
Revenue	478.4	414.8	+15.3%	+15.3%
Gross Profit	60.1	54.2	+10.9%	+10.9%
Operating Costs	(51.5)	(43.4)	+18.7%	+18.7%
Operating Profit	8.6	10.8	-20.4%	-20.4%
Gross Margin %	+12.6%	+13.1%	-0.5%	-0.5%
Operating Margin %	+1.8%	+2.6%	-0.8%	-0.8%

- Completed the first disposal of a franchise and further disposals are well progressed
- Strong double digit growth in revenue and gross profit growth in the period
- Strong aftersales performance in particular with L4L aftersales gross profit up 15.8%

Strategy

- Selling the US Motor business in 2019
- Proceeds expected in excess of £100m before tax



APPENDIX – Pendragon 2018 Full Year Results

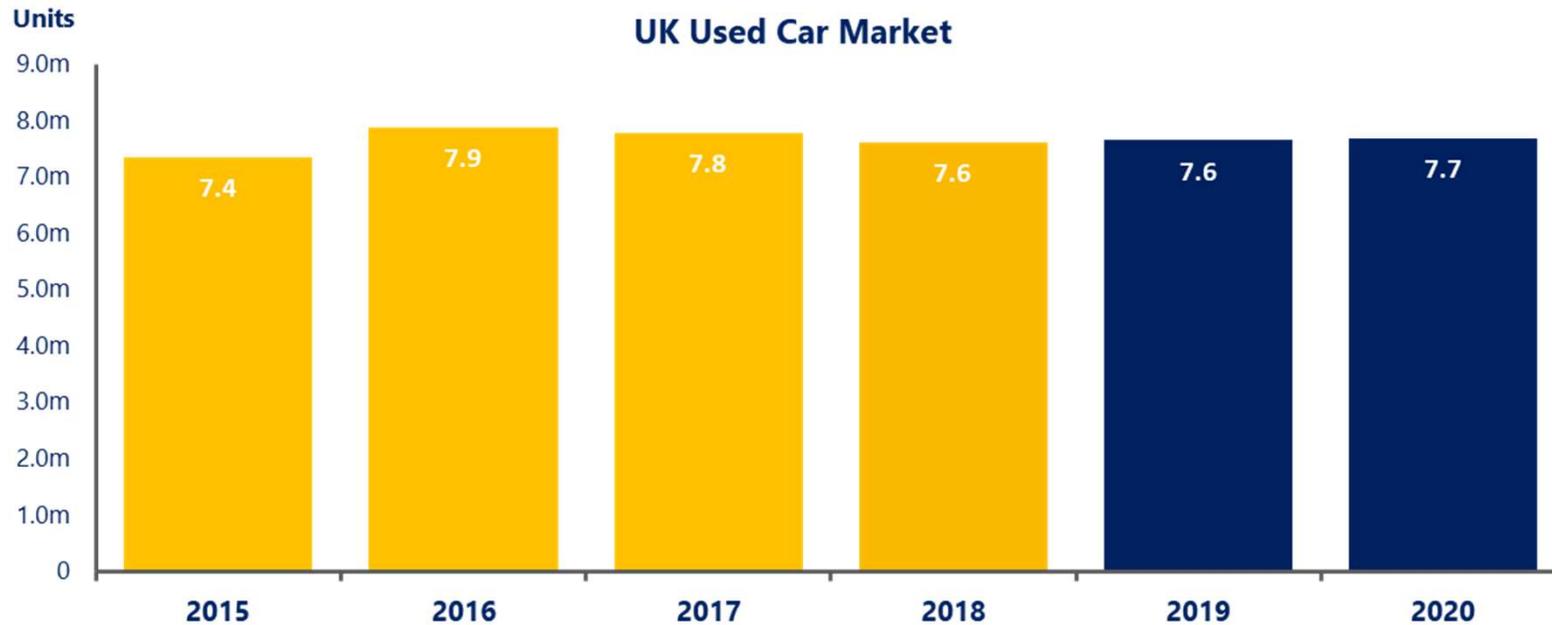
Appendix - UK Motor

UK Motor (£m)				
	2018	2017	% Change	% Change L4L
Used	2,092.4	2,125.5	-1.6%	-1.0%
Aftersales	337.4	350.6	-3.8%	-2.3%
New	1,644.6	1,767.5	-7.0%	-5.2%
Revenue	4,074.4	4,243.6	-4.0%	-2.8%
Used	164.2	156.3	+5.1%	+4.7%
Aftersales	181.5	191.2	-5.1%	-3.3%
New	111.0	123.5	-10.1%	-8.3%
Gross Profit	456.7	471.0	-3.0%	-2.0%
Operating Costs	(415.6)	(418.7)	-0.7%	+0.7%
Operating Profit	41.1	52.3	-21.4%	-21.0%
Gross Margin %	11.2%	11.1%	+0.1%	+0.1%
Operating Margin %	1.0%	1.2%	-0.2%	-0.3%

Summary

- Used gross profit up 4.7% like for like
- Aftersales gross profit down 3.3% like for like
- New gross profit back 8.3% like for like largely as a result of declines in the premium sector
- Operating costs increased by 0.7% like for like in the period

Appendix – UK Used Market



Source: Callcredit (2015 to 2018) and Pendragon (2019 to 2020)

Summary

- The latest available market data is for Q4 2018, which showed that the UK used market decreased by 0.6% in Q4 2018
- In 2018, the used vehicle market decreased by 2.2% to 7.6 million units, falling by 2.8% in H1 2018 and falling by 1.5% in H2 2018



Appendix – UK Used Performance

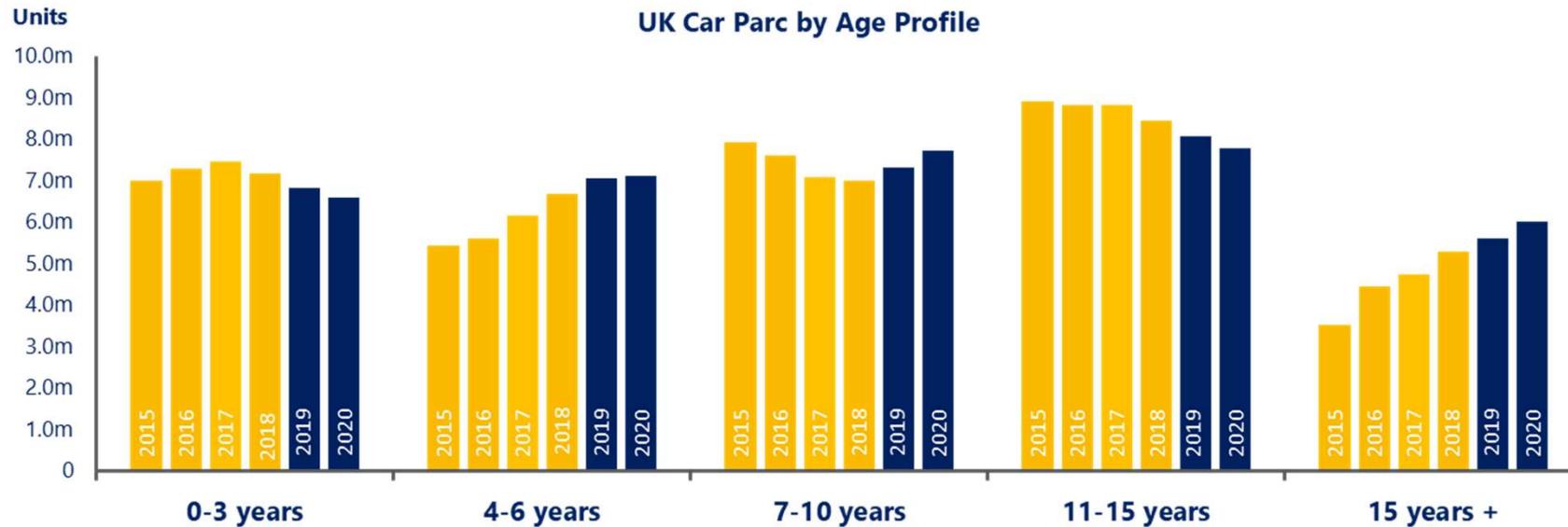
Used (£m)				
	Actual	Last Year	% Last Year	% Last Year L4L
Revenue	2,092.4	2,125.5	-1.6%	-1.0%
Gross Profit	164.2	156.3	+5.1%	+4.7%
Gross Margin %	7.8%	7.4%	+0.4%	0.4%



Summary

- Used revenue fell by 1.0% on a like for like basis against a very strong comparative
- Excluding nearly new vehicles, used vehicle revenue grew by 2.9%
- Used gross profit up by 4.7% like for like.
- Exceptionally strong margins in the second half of 2018, when L4L used gross profit was 27.6% higher than prior year

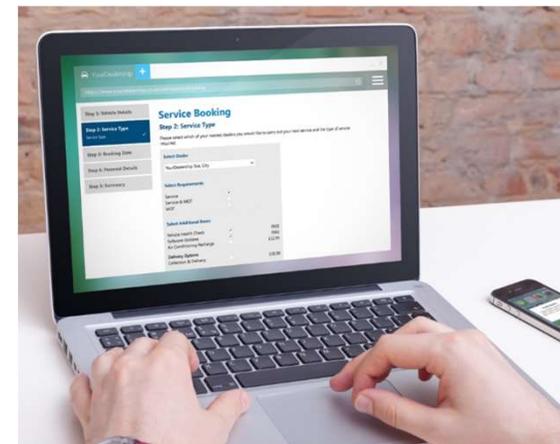
Appendix – UK Aftersales Market



Source: Callcredit (2015 to 2018) and Pendragon (2019 to 2020)

Summary

- 5.0% reduction in 0-3 year car parc forecast in 2019
- 5.8% growth in 4-6 year car parc forecast in 2019
- 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
Revenue	337.4	350.6	-3.8%	-2.3%
Gross Profit	181.5	191.2	-5.1%	-3.3%
Gross Margin %	53.8%	54.5%	-0.7%	0.6%



Summary

- Aftersales contributes 39.7% of the gross profit of UK Motor and delivered a gross margin of 53.8%
- Retail service revenue increased by 2.1%
- Like for like aftersales gross profit fell by 3.3% in UK Motor with margin impacted by labour cost inflation for skilled technicians

Appendix – UK New Market



Source: SMMT

Summary

- The UK new car market was down 6.8% in 2018
- The retail market fell by 6.4% and the fleet market fell by 7.2% in 2018
- Forecast of 2.3% fall in new car market in 2019



Appendix – UK New Performance

New (£m)				
	Actual	Last Year	% Last Year	% Last Year L4L
Revenue	1,644.6	1,767.5	-7.0%	-5.2%
Gross Profit	111.0	123.5	-10.1%	-8.3%
Gross Margin %	6.7%	7.0%	-0.3%	-0.3%



Summary

- New revenue fell by 5.2% in the period on a like for like basis
- Gross profit fell by 8.3% in the period on a like for like basis following continuing margin pressure in the Premium sector

Appendix - US Motor

US Motor (£m)				
	2018	2017	% Change	% Change L4L
Used	97.9	85.7	+14.2%	+14.2%
Aftersales	43.2	37.0	+16.8%	+16.8%
New	337.3	292.1	+15.5%	+15.5%
Revenue	478.4	414.8	+15.3%	+15.3%
Used	5.4	4.8	+12.5%	+12.5%
Aftersales	22.7	19.6	+15.8%	+15.8%
New	32.0	29.8	+7.4%	+7.4%
Gross Profit	60.1	54.2	+10.9%	+10.9%
Operating Costs	(51.5)	(43.4)	+18.7%	+18.7%
Operating Profit	8.6	10.8	-20.4%	-20.4%
Gross Margin %	12.6%	13.1%	-0.5%	-0.5%
Operating Margin %	1.8%	2.6%	-0.8%	-0.8%

Summary

- Strong revenue growth across all departments
- Strong performance in aftersales with revenue up 16.8% and gross profit up 15.8% like for like
- New revenue up 15.5% and gross profit up 7.4% like for like
- Operating costs increase primarily due to the full year of the Chevrolet business