PENDRAGON
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PENDRAGON PLC INTERIM MANAGEMENT STATEMENT (Issued 2 May 2018)

This Interim Management Statement for Pendragon PLC, the leading online automotive retailer in the UK, covers the period from 1 January 2018 to 1 May 2018. Unless otherwise stated, figures quoted in this statement are for the three months ended 31 March 2018.

Trevor Finn, Chief Executive:

"Our profitability in the first quarter of the year is in line with our expectations against a backdrop of an exceptionally strong comparative in the prior year and our expectations of the market conditions in the first quarter being realised. In the first quarter of 2017, the industry experienced the effect of the vehicle licence tax changes which brought forward vehicle revenue into quarter one of 2017. We also achieved in quarter one 2017 record used vehicle revenue as the Group tested the sales capacity of its retail stores. In the first quarter of 2018, national new vehicle registrations fell by 12.4%, which is in line with our expectations of the calendarisation of new vehicle registrations this year. Our used vehicle revenue, excluding nearly new used car sales, increased by 3.1% against a strong comparative. We are making progress on the delivery of our target of doubling used revenue by 2021 with three retail store openings this quarter and further retail stores planned in the year. The Group performance remains in line with expectations for the full year."

Strategy Update

The following is our update on Strategic actions announced in December 2017:

- Software – we are progressing on our goal to globalise our software business with 4.7% international users added in this quarter.
- Used – we have appointed Chris Caygill as our Used Car Director in the period to manage the rollout, delivery and operation of our used retail stores throughout the UK. Chris has a wealth of industry experience, recently operating a very successful multi-site used car supermarket business.
- National network investment – we opened full scale used retail stores sites in Norwich, Shrewsbury and Ipswich in the period, in line with our strategy to double used vehicle revenue by 2021.
- US Motor Group – disposal is proceeding to plan and we will provide an update at the half year.
- Premium brand franchises – disposals are also proceeding to plan and we will provide an update at the half year.

Trading Update

New vehicle revenue has fallen by 13.3% in the period which is broadly in line with the market decline given our mix of brands. National new vehicle registrations fell by 12.4% in the period with retail registrations down 13.8%. We are pleased to report that new vehicle margin is returning to normal levels following a dilution in quarter three 2017 and minor dilution in quarter four 2017. New vehicle gross profit fell by 17.6% in the quarter versus our record quarter one last year.

Used vehicle revenue fell by 1.5% in the quarter due to a reduction in nearly new vehicle sales. Excluding nearly new vehicles, used vehicle revenue grew by 3.1% in the period against a record comparative.

During the period our average total used inventory had reduced by 3.3%, whereas our average inventory of nearly new vehicles had fallen by 24%. The overall impact of this has reduced our margin as we have had a lower proportion of freshly acquired used stock.

During the month of March, where we were unable to retain sufficient used stock to meet demand and sales suffered as a result. We are increasing used inventory levels in quarter two with a view to capturing an increased volume of activity at an improved margin, as this stock will increase our proportion of newly acquired used stock.

Used vehicle gross profit fell by 16.5% in the quarter versus our record quarter one last year.

We expect to see an acceleration in used revenue in the remainder of the year as a result of used retail store openings.

Aftersales revenue in the period has increased by 3.1% on a like for like basis following a strong UK retail labour sales performance. Aftersales gross profit fell by 3.7% in the quarter as we continue to invest in capacity to drive future growth.

During the period the Group has saved like for like costs of £3.9m, as actions taken have begun to take effect. Underlying profit before tax fell to £15.0m from £32.4m in the prior year.

Outlook

The Group has a clear focus and direction to transform the business and double used vehicle revenue by 2021, enabled by our market leading software and investment in used car and aftersales stores in the UK. The expected market conditions in quarter one impacted profitability. We anticipate our performance in 2018 to be in line with expectations given our assessment of a stronger second half versus a weak 2017 comparative.

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