



PENDRAGON PLC – Outcome of Financial & Operational Review (Issued 12 June 2019)

As communicated in the Q1 Interim Management Statement released in April, the newly appointed management team has undertaken a business by business review to determine the expected underlying operating performance for the remainder of the current financial year. The market remains challenging, with SMMT reporting a decline in new car registrations of 3.1% YTD to May and the used car market seeing significant declines in used cars valuations.

In addition to the challenging market, FY19 performance is expected to be impacted further by certain internal operational challenges. As a result, the Board now expect Group underlying PBT for FY19 to be a small loss (pre the disposal of the US Motor group), with the first-half of FY19 expected to be significantly loss making ahead of returning to overall Group profitability for the second-half.

The review has analysed the expected performance of each individual component of the business across UK Motor, Car Store, Leasing, US Motor and Pinewood. Management have considered the expected performance of each business unit in the current financial year on an 'As Is' basis.

The change in expected performance versus FY18 is driven by five key factors:

- Notwithstanding encouraging growth in unit volumes, Car Store losses have accelerated in FY19 as detailed later;
- A significant increase in used car stock at the end of FY18 (£458m FY18 vs £372m FY17) resulted in an excess of stock held across the business. An accelerated programme during the second quarter will significantly reduce the level of aged, pre-reg and ex demonstrator stock (38% of used stock units as at 1/4/19);
- A number of one-off releases of provisions from the balance sheet in FY18 which will not be repeated during FY19;
- Lower than anticipated new car margins in order to achieve volume targets with lower levels of tactical registrations; and
- Increases in costs, particularly in aftersales.

Management have a preliminary action plan in place to address these factors including improvements in new vehicle retail market penetration resulting in reduced tactical registrations and improved used car stock management and profiling.

Car Store

The used car market presents an exciting opportunity and provides significant potential for future profitable growth. However, we expect to see the losses of £11.9m incurred in FY18 accelerate to c.£25m during FY19, principally as a result of execution inefficiency and the impact of excess used car stock during the first-half as described above. Significant management focus is currently being dedicated to the development of the Car Store strategy.

UK Motor

There remains a significant opportunity to optimise the performance of the core business across each of new, used and aftersales through a combination of focus on volume, margins and cost. Optimising performance in the UK motor business will provide stability for investment in the growth areas such as Car Store and Pinewood.

Software – Pinewood

Pinewood is performing in line with expectations for the full-year. The Group believes there is further potential in the business and is developing growth plans accordingly.

Leasing

Leasing has continued to perform in line with expectations.

US Motor

In May, the Group announced conditional disposals of a further two franchise locations (Mission Viejo, California and Newport Beach, California) for a combined consideration of c.£60.0m. Work is progressing in line with the expected timetable at each. The impact on the FY19 underlying PBT of the two announced disposals will depend on the timing of completion, which are currently expected to occur during Q3. Discussions for the disposal of the remainder of the US Motor group are continuing.

Given the level of ongoing work, it is expected that the interim results will be announced in late September. The strategic update accompanying these results will focus on the Group's plans to optimise profit and capital efficiency in the core UK motor and Leasing businesses, growth acceleration opportunities within Pinewood and the transformative opportunity for Car Store, and will also include a review of the balance sheet position.

Mark Herbert, Chief Executive Officer commented:

"Notwithstanding the challenging market and uncertain macro outlook, the expected loss for the year is still disappointing. That said, we see significant addressable opportunities to improve the business and return to profitable growth. We are continuing to work on our review of the business ahead of our strategic update in September, but I am confident there are real opportunities for self-help that will improve the performance of the core UK Motor and Leasing businesses. In the short-term, there is a need for a refocus of strategy and execution in Car Store but I believe this, together with Pinewood, to be significant long-term market opportunities that we should be pursuing with vigour."

ENDS.

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