Pendragon PLC

FULL YEAR RESULTS FOR 31 DECEMBER 2019 (issued 18 March 2020)

A much improved second half performance and a return to profitability in challenging market conditions were more than offset by significant underlying losses in the first half of the year, resulting in an overall underlying loss before tax in FY19. Financial performance in the first half was impacted by a combination of issues, with the principal driver being the impact of the clearance of used car stock from excess levels. The second half performance improved as a result of actions taken by management to re-set performance, which included the closure of 22 underperforming Car Store locations, better management of used vehicle inventory and a clear focus on operational cost management. The improvement in performance during the second-half puts the business on a much stronger footing for FY20. The company is closely monitoring the unprecedented impact of the COVID-19 virus and its potential impact on the economy. At the moment, and excluding any impact from COVID-19, the company expects Group underlying profit before tax for FY20 to be in line with market expectations, but will continue to watch the situation closely, particularly in light of the measures that were announced by the UK Government on 16 March. At this stage, it is too early to accurately quantify what the impact may be.

Group Financial Highlights

- **Group Revenue £4,506.1m +3.8% LFL (-2.6% total)**
- **Underlying (Loss) / Profit Before Tax £(16.4)m loss** (2018 : £47.8m profit). H1 underlying loss of £(32.2)m loss, H2 underlying profit of £15.8m
- **Non-Underlying Charge of £97.7m** (2018 : £92.2m charge) including a non-cash charge principally for impairment of goodwill and non-current assets of £130.2m.
- **Loss After Tax £(117.4)m (2018 : £(50.5)m loss)**
- **Dividend** - The Group is not proposing a final dividend for FY19 (2018: 0.7p)
- **Net Debt** - £119.7m (FY18 : £126.1m), down 5.1%

Like for like (LFL) results only include trading businesses which have been trading for 12 consecutive months. Reconciliations of the like for like figures to the total reported figures can see seen in Note 9 - Alternative Performance Measures.

Segmental Performance

Units Sold	H1 2019	H2 2019	FY19	H1 2018	H2 2018	FY18	Change (%)	LFL Change (%)
Used Units								
Car Store	17,474	10,392	**27,866**	12,944	15,499	**28,443**	-2.0%	13.3%
Franchised UK Motor	76,105	59,102	**135,207**	78,334	65,475	**143,809**	-6.0%	-2.1%
US Motor	1,452	1,046	**2,498**	1,630	1,658	**3,288**	-24.0%	-21.2%
	95,031	**70,540**	**165,571**	**92,908**	**82,632**	**175,540**	**-5.7%**	**-1.1%**
New Units								
Franchised UK Motor	43,085	38,338	**81,423**	45,060	38,365	**83,425**	-2.4%	-0.1%
US Motor	3,413	2,662	**6,075**	3,394	3,551	**6,945**	-12.5%	1.7%
	46,498	**41,000**	**87,498**	**48,454**	**41,916**	**90,370**	**-3.2%**	**0.0%**

£m	H1 2019	H2 2019	FY19	H1 2018	H2 2018	FY18	Change (%)	LFL Change (%)
Revenue								
Car Store	170.8	99.5	270.3	146.7	153.8	300.5	-10.0%	6.3%
Franchised UK Motor	1,999.2	1,731.6	3,730.8	2,048.3	1,725.6	3,773.9	-1.1%	3.8%
Software	8.9	9.4	18.3	8.4	8.5	16.9	8.3%	8.3%
Leasing	42.8	21.6	64.4	40.8	16.5	57.3	12.4%	12.4%
US Motor	233.9	188.4	422.3	232.0	246.4	478.4	-11.7%	1.2%
	2,455.6	2,050.5	4,506.1	2,476.2	2,150.8	4,627.0	-2.6%	3.8%
Gross Profit								
Car Store	5.3	5.6	10.9	10.3	14.3	24.6	-55.7%	-46.5%
Franchised UK Motor	182.2	189.4	371.6	227.1	205.0	432.1	-14.0%	-10.4%
Software	7.9	8.5	16.4	7.4	7.5	14.9	10.1%	10.1%
Leasing	8.4	8.7	17.1	8.2	10.6	18.8	-9.0%	-9.0%
US Motor	31.4	25.3	56.7	30.1	30.0	60.1	-5.7%	-0.0%
	235.2	237.5	472.7	283.1	267.4	550.5	-14.1%	-10.1%
Underlying Operating Profit								
Car Store	(19.1)	(6.1)	(25.2)	(6.4)	(5.5)	(11.9)	111.8%	166.7%
Franchised UK Motor	(7.7)	20.7	13.0	31.8	21.2	53.0	-75.5%	-66.0%
Software	6.5	6.9	13.4	5.6	6.1	11.7	14.5%	14.5%
Leasing	6.3	6.5	12.8	6.1	8.7	14.8	-13.5%	-13.5%
US Motor	3.3	9.4	12.7	5.6	3.0	8.6	47.7%	93.9%
	(10.7)	37.4	26.7	42.7	33.5	76.2	-65.0%	-49.8%
Gross Margin %	9.6%	11.6%	10.5%	11.4%	12.4%	11.9%	-1.4%	-1.6%
Operating Margin %	-0.4%	1.8%	0.6%	1.7%	1.6%	1.6%	-1.0%	-1.1%

Operating Highlights

- Car Store
  - A full market and operating model assessment of Car Store was completed during H1, which confirmed there is a significant and attractive market opportunity and that the proposition is well received by its target customers.
  - Following this, a clear roadmap of short-term and long-term steps were established. The short-term actions included the closure of 22 Car Stores and one preparation centre in H2. In addition, following a review of capacity, a further preparation centre was closed.
  - Significant performance improvements in the remaining 12 stores since the closure programme was completed, with underlying operating losses from the remaining 12 stores reducing to £(1.1)m in the fourth quarter. Further improvements are targeted during 2020.

- Franchised UK Motor
  - H1 reported underlying operating loss of £(7.7)m (H1 2018 : £31.8m) , H2 reported underlying operating profit of £20.7m (H2 2018 : £21.2m).
  - H1 2019 was impacted by the previously disclosed clearance of used car stock from excess levels.
  - Used car gross margins stabilised at 7.8% in H2 vs 4.9% in H1.
  - Further progress has been made with right-sizing the Franchised UK Motor operation with 6 Jaguar Land Rover sites either disposed of or closed in FY19.
  - While market conditions remained challenging during H2, with the new car market down (1.1)%. The Group outperformed the new car market in the period, with H2 like-for-like new car unit sales growth of 2.3%.
  - Underlying operating costs were well managed in H2 and on a proforma comparable IAS 17 basis, in total were down 5.6% (down 0.8% on an LFL basis) as a result of the previously announced cost reduction programmes.

- Software - Pinewood
  - Underlying operating profit up 14.5% to £13.4m (2018 : £11.7m).
  - The software business continues to perform well, with continued international expansion.
  - Additional customers were added in multiple territories, including Norway and Sweden during 2019.

- Leasing – Pendragon Vehicle Management
  - Underlying operating profit down 13.5% to £12.8m (2018 : £14.8m), as a result of the previously disclosed provision release of £2.8m in FY18.
  - Continued high return on investment from a low capital base.
  - Valuable source of used car stock to the group.

- US Motor Group
  - Disposal of two franchise locations in 2019 (Mission Viejo and Newport Beach) for a combined consideration of £59.3m.
  - This followed the initial disposal of Newport Beach Aston Martin in 2018 for £3.1m.
  - Puente Hills Chevrolet disposal was completed in February 2020 for consideration of £16.5m.
  - Discussions for the remaining two sites in the US Motor Group are continuing.
  - On target for expected total gross proceeds from the combined sale of US assets of c.£100m pre-tax.

- Board and management changes
  - A number of Board and senior management positions have been added to strengthen the business to support its future growth potential.
  - Bill Berman appointed as Chief Executive Officer.
  - Two new Non-Executive Board members appointed.
  - New roles of Chief Information Officer and Chief Marketing Officer created and appointed.

Outlook

- We remain cautious given the ongoing level of economic uncertainty post the UK's exit from the EU, with trade terms only agreed until the end of 2020. We will continue to monitor market conditions and respond accordingly.
- The company has considered and will continue to monitor the threat and economic implications of COVID-19. At the moment, and excluding any impact from COVID-19, the company expects Group underlying profit before tax for FY20 to be in line with market expectations, but will continue to watch the situation closely, particularly in light of the measures that were announced by the UK government on 16 March. At this stage, it is too early to accurately quantify what the impact maybe.
- The Group has taken some additional protective measures such as deferring commitments in our capital expenditure programme, increasing the flexibility we have in our marketing spend, closely monitoring inventory levels and developing alternating work schedules and home working options for employees.

Bill Berman, Chief Executive Officer

"I am excited to have been appointed to the role of Chief Executive Officer of Pendragon and look forward to the prospect of leading the business through a period of rapid change and innovation in the automotive retail sector. Despite having only been with the business for a short period of time, it is clear this is a company with great potential and a very strong team.

"2019 was a year of transition for the Group that played out against challenging market conditions, however, we returned to profitable growth in the second half and this provides us with a solid platform for the coming year. At the moment, we are closely monitoring the impact of COVID-19 on the economy as the situation continues to develop.

"We will be providing a fuller update on the Group strategy later in the year, which will continue to be based on four strategic pillars; the opportunity to create a strong, stand-alone used car brand, an improved and stable platform in the Franchised UK Motor division, delivering growth in Pinewood and further strengthening our leasing business. I am confident in the long-term prospects for Pendragon and look forward to communicating our strategy in more detail in due course."

Potential Impact of COVID-19

The Group is closely monitoring the evolution of COVID-19 and to date, we have seen minimal impact on our business. However, it is hard to predict with any certainty what may happen.

Pendragon's key priority is the health and wellbeing of our colleagues, customers and business partners, while we maintain our high standards of service to customers. We have clear business continuity plans in place to deal with a range of scenarios and we have taken appropriate preventative steps, such as minimising all non-essential business travel, and implementing contingency plans for alternative working locations.

Our new vehicles are predominantly sourced from the EU and UK and recently, some manufacturers have announced short term shut downs to their production facilities. However, we understand that the vehicle manufacturers have inventory buffers of several months. Therefore, we currently anticipate our supply of new vehicles should not be significantly disrupted before the Autumn of 2020.

As the virus spreads across the UK then this will likely influence the willingness of customers to visit our dealerships, which could affect our financial performance. Most of our new car sales and a substantial proportion of used car sales are made through a Purchase Car Plan or similar arrangement which provides an incentive to customers to change their vehicle at the expiry of the arrangement. Consumers can purchase both new and used cars with associated finance over the telephone or internet without visiting dealerships. We also offer vehicle delivery to the customer's chosen destination. This provides underpinning for vehicle sales, although if the situation worsens, we anticipate there may be some level of deferral. We also note that servicing and repair work is generally undertaken in compliance with manufacturer warranty, extended warranty or service plan arrangements that customers will continue to observe.

We have modelled the impact of a severe reduction in vehicle sales over a sustained period on our financial covenants and bank facility limits and we are comfortable that we are well positioned in this regard, with mitigants available in the more severe scenarios where headroom becomes more limited. However, we have taken some additional protective measures such as deferring commitments in our capital expenditure programme, increasing the flexibility we have in our marketing spend and closely monitoring inventory levels.

Financial Summary

Consolidated Income Statement Year ended 31 December Underlying unless stated	2019 £m	2018 £m		*2019* [1] *£m*
Revenue	4,506.1	4,627.0		4,506.1
Cost of sales	(4,033.4)	(4,076.5)		(4,033.4)
Gross profit	**472.7**	**550.5**		**472.7**
Operating expenses	(446.0)	(474.3)		(461.4)
Operating (loss) / profit	**26.7**	**76.2**		**11.3**
Net finance costs	(43.1)	(28.4)		(29.8)
(Loss) / profit before taxation	**(16.4)**	**47.8**		**(18.5)**
Non-underlying loss before taxation	(97.7)	(92.2)		
Total income tax expense	(3.3)	(6.1)		
Total loss for the period	**(117.4)**	**(50.5)**		
Earnings per share				
Basic earnings per share	(8.4)p	(3.6)p		
Diluted earnings per share	(8.4)p	(3.6)p		
Non GAAP Measure				
Underlying basic earnings per share	(1.2)p	2.8p		
Underlying diluted earnings per share	(1.2)p	2.8p		

[1] Restated on a proforma IAS 17 basis to exclude the impact of IFRS 16 for comparison purposes

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Contacts

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Operating and Financial Review by Segment

- The business is organised into 5 segments, analysed as follows:
    - Car Store – Own brand proposition for the sale of used vehicles in the U.K.
    - Franchised UK Motor – sale and servicing of vehicles in the U.K.
    - Software – Licencing of Software as a Service to global automotive business users
    - Leasing – Fleet and contract hire provider. Source of used vehicle supply
    - US Motor – Sale and servicing of vehicles in the U.S.

Car Store

Underlying £m	H1 2019	H2 2019	FY19	H1 2018	H2 2018	FY18	Change (%)	FY19 [2]
Revenue	£170.8m	£99.5m	**£270.3m**	£146.7m	£153.8m	**£300.5m**	-10.0%	£270.3m
Gross Profit	£5.3m	£5.6m	**£10.9m**	£10.3m	£14.3m	**£24.6m**	-55.7%	£10.9m
Gross margin rate	*3.1%*	*5.6%*	***4.0%***	*7.0%*	*9.3%*	***8.2%***	*-4.2%*	*4.0%*
Operating Costs	£(24.4)m	£(11.7)m	**£(36.1)m**	£(16.7)m	£(19.8)m	**£(36.5)m**	-1.1%	£(37.3)m
Operating (Loss)	£(19.1)m	£(6.1)m	**£(25.2)m**	£(6.4)m	£(5.5)m	**£(11.9)m**	111.8%	£(26.4)m
Operating margin rate	*(11.2)%*	*(6.1)%*	***(9.3)%***	*(4.4)%*	*(3.6)%*	***(4.0)%***	*-5.3%*	*(9.8)%*
Total Revenue Change	16.4%	-35.3%	**-10.0%**					
Like-for-like Revenue Change	27.5%	-11.8%	**6.3%**					
Units Sold	17,474	10,392	**27,866**	12,944	15,499	**28,443**	-2.0%	
Number of Locations	34	12	**12**	25	32	**32**		
Average Selling Price [1]	£8,283	£8,333	**£8,307**	£9,502	£9,022	**£9,231**	-10.0%	

[1] Trading dealerships only. The used selling price is retail vehicles only and excludes any trade vehicles.

[2] Restated on proforma IAS 17 basis to exclude impact of IFRS 16 for comparison purposes

Operating Review

During the first half of FY19, Car Store incurred underlying operating losses of £(19.1)m, of which £(6.1)m resulted from the clearance of used car stock from excess levels that had built up at the end of FY18, with the remainder driven by operational performance constraints. As outlined in the Group's interim results, a detailed strategic and market review of the Car Store business was completed during the first half of the year and the decision was taken to close 22 of the 34 Car Stores and one of the three vehicle preparation centres. The review concluded that the stores that were identified for closure did not have the right physical characteristics to succeed as a Car Store location, for example, converted ex-franchised dealerships that had limited external display space. The closures were completed during September and October 2019.

Since the closure programme was completed, and following a further review of the production capacity of Car Stores main preparation centre in Coventry, an additional vehicle preparation centre has been closed, which will further improve the underlying cost performance of the business. This additional reduction was facilitated by an increase in capacity at Coventry following an operational process review to improve both the speed, and quality of vehicle preparation.

In addition to the store closure programme, a number of actions to improve performance were taken during H2, including:

- Improved stock management. The level of stock at each site has been subject to improved controls to prevent over-stocking re-occurring. The stock profile of Car Store vehicles was refined during the second half to limit the focus to the prime retail market of cars up to seven years old, and reducing the exposure to older vehicles.
- Following the clearance in the over-age stock. improved controls have been put in place to manage the ageing of stock in order to mitigate losses on over-age cars. Used car gross margins increased from 3.8% in H1 2019 to 4.6% in quarter three 2019 and to 7.4% in quarter four 2019.

- Increased management focus – The reduction in the size of the estate, combined with the improvement of the suitability of the remaining sites has enabled the Car Store management team to better focus on driving performance.

As a result of these actions, performance improved significantly in the last quarter of FY19 such that underlying operating losses for Car Store reduced from £(5.0)m in quarter three 2019 to £(1.1)m in quarter four FY19, giving a £(6.1)m underlying operating loss in the second half of the year. Whilst Car Store is expected to remain loss making in FY20, management now believe that this underlying loss will be limited to around £5m and believe there remains scope for further performance improvement in the remaining portfolio and will continue to focus on driving this during FY20.

Good progress has been made with the property management of the closed store estate. Of the total of 24 sites (22 stores and two preparation centres) closed, eight have been either sold, had the lease surrendered or been sublet as at the end of February 2020. The remaining sites will continue to be actively marketed, with several of the remaining sites currently under offer.

We remain confident that the strategic opportunity for a standalone used car proposition is significant. The strategic review completed during the first half (outlined in detail in the FY19 interim results) confirmed there is an attractive used-car market within the UK, where Car Store should be strategically advantaged against peers given its stock purchasing scale and relationships, its scale purchasing of parts and high levels of brand referrals and cross site traffic from the Group. Car Store will continue to focus on an omni-channel approach, positioning this business for a digitally-led future to serve early adopters who want to complete the end-to-end customer journey online, showcase the product and drive digital traffic, supported by physical locations of the optimal size and location for customers who want to view and test the product.

Financial Review

Revenue reduced by 10.0% in FY19 as a result of the 22 store closures (6.3% revenue increase on an LFL basis in FY19). Units sold reduced by 2.0% in FY19 (13.3% units increase on a LFL basis in FY19). The average sales price per unit reducing from £9,231 to £8,307.

Gross profit reduced by 55.7% in FY19 (46.5% reduction in LFL gross profit in FY19). This was primarily a consequence of the clearance of used car stock from excess levels and a fall in national used car values. The falling national used car values in FY19 also adversely affected profitability.

Operating costs decreased by 1.1% in FY19 (3.9% reduction on a LFL basis in FY19). On a proforma IAS 17 basis, operating costs were up 2.2% (2.8% on a LFL basis)

The operating loss for Car Store in FY19 was £(25.2)m (FY18: £(11.9)m). Losses were reduced in line with expectations during the second Half of FY19 to total £6.1m.

Franchised UK Motor

Underlying £m	H1 2019	H2 2019	FY19	H1 2018	H2 2018	FY18	Change (%)	FY19 [2]
Used Revenue	£959.4m	£743.0m	**£1,702.4m**	£984.7m	£811.4m	**£1,796.1m**	-5.2%	£1,702.4m
Aftersales Revenue	£168.0m	£158.2m	**£326.2m**	£168.4m	£164.8m	**£333.2m**	-2.1%	£326.2m
New Revenue	£871.8m	£830.4m	**£1,702.2m**	£895.2m	£749.4m	**£1,644.6m**	3.5%	£1,702.2m
Total Revenue	**£1,999.2m**	**£1,731.6m**	**£3,730.8m**	**£2,048.3m**	**£1,725.6m**	**£3,773.9m**	**-1.1%**	**£3,730.8m**
Used Gross Profit	£47.0m	£58.2m	**£105.2m**	£68.3m	£73.0m	**£141.3m**	-25.5%	£105.2m
Aftersales Gross Profit	£83.7m	£77.8m	**£161.5m**	£94.3m	£85.5m	**£179.8m**	-10.2%	£161.5m
New Gross Profit	£51.5m	£53.4m	**£104.9m**	£64.5m	£46.5m	**£111.0m**	-5.5%	£104.9m
Total Gross Profit	**£182.2m**	**£189.4m**	**£371.6m**	**£227.1m**	**£205.0m**	**£432.1m**	**-14.0%**	**£371.6m**
Gross margin rate	*9.1%*	*10.9%*	***10.0%***	*11.1%*	*11.9%*	***11.4%***	-1.4%	*10.0%*
Operating Costs	£(189.9)m	£(168.7)m	**£(358.6)m**	£(195.3)m	£(183.8)m	**£(379.1)m**	-5.4%	£(369.3)m
Operating (Loss) / Profit	**£(7.7)m**	**£20.7m**	**£13.0m**	**£31.8m**	**£21.2m**	**£53.0m**	**-75.5%**	**£2.3m**
Operating margin rate	*(0.4)%*	*1.2%*	***0.3%***	*1.6%*	*1.2%*	***1.4%***	-1.1%	*0.1%*
Total Revenue Change	-2.4%	0.3%	**-1.1%**					
Like-for-like Revenue Change	2.6%	5.2%	**3.8%**					
Used Units Sold	76,105	59,102	**135,207**	78,334	65,475	**143,809**	-6.0%	
New Units Sold	43,085	38,338	**81,423**	45,060	38,365	**83,425**	-2.4%	
Number of Locations	170	166	**166**	185	177	**177**		
Average Used Selling Price [1]	£11,449	£11,467	**£11,457**	£11,378	£11,458	**£11,415**	0.4%	
Average New Selling Price [1]	£19,880	£21,639	**£20,717**	£19,257	£18,959	**£19,118**	8.4%	

[1] Trading dealerships only. The used selling price is retail vehicles only and excludes any trade vehicles. The new selling price excludes vehicles sold by our fleet business (National Fleet Solutions).

[2] Restated on proforma IAS 17 basis to exclude impact of IFRS 16 for comparison purposes

Operating Review

The Franchised UK Motor business operated from 161 franchise points and four used cars only retail points. The points represent a range of volume and premium products offering both sales and service functions.

In the first half of 2019, Franchised UK Motor had underlying operating losses of £(7.7)m. A significant increase in used car stock at the end of FY18 without an associated increase in sales rates, led to excess used car stock during the first-half of FY19. The subsequent programme to clear used car stock from excess levels, combined with a reduction in national used car values led to a c.£20m impact on the underlying operating performance in the first-half.

In the second half of FY19, a number of actions were taken to improve performance including;

- Improved stock management. As with Car Store, improvements to the management of both the quantity and the ageing of stock levels resulted in significantly improved used car performance. Used Gross margins increased by 2.9% from 4.9% in H119 to 7.8% in H219 as a result of the improved stock management.
- Cost management. The actions to reduce headcount outlined with the interim results were completed during the second half, and combined with an increased focus on all costs resulted in comparable like for like operating cost reductions of 0.8% (total down 5.6%) in H219 vs H218, compared with a 5.4% like for like increase in H119.
- New car performance improvements. The division recorded a 16.8% increase in like for like new car revenue in H219, outperforming the overall market (SMMT data reports 1.1% H2 decline), which combined with an increase in gross margin of 50 basis points vs the first half resulted in new gross profit increasing by £6.9m in H2 2019 compared to last year.

As a result of these actions, underlying performance improved significantly, in what remained a challenging market, during the second half resulting in Operating profit for H219 of £20.7m (H218: £21.2m).

Overall for the year, the new car market was down 2.4%, with national new car registrations declining by 3.4% in the first half of the year and declining by 1.1% in the second half of 2019. The Group outperformed this market overall with like-for-like new unit volumes being flat vs FY18. During the second half of FY19 the business focussed on reducing the reliance on pre-registrations to achieve targets by achieving these targets through earlier sales to the end customer during each target-led period. This resulted in a slight decline in the gross margin rate to 6.2% (FY18: 6.7%), although for the second half the rate was marginally ahead year on year at 6.4% (H218: 6.2%) as performance improved.

A total of six Jaguar Land Rover sites were either disposed of or closed in FY19. In addition, five 'satellite' Vauxhall dealerships were closed in January 2020 as a result of a manufacturer review of the estate right-size. The Group will continue to monitor the overall size of the portfolio.

Aftersales gross profit was impacted by a combination of technician cost increases following a benchmarking exercise of industry rates of pay exercise in late 2018 and an increased mix of lower margin warranty work.

The Franchised Motor division will remain an important part of the Group's portfolio of operations. During FY20 work will continue to improve the performance of the business across Used, New and aftersales with a number of initiatives in place. There remains significant opportunity for improvement in both the underlying used car and aftersales performance through a series of self-help performance improvement measures, including used margin growth through improved pricing capabilities and process execution, driving aftersales performance through conversion of health checks and more efficient marketing. In addition, the Group will continue to focus on cost control and optimisation.

Financial Review

Revenue decreased by 1.1% in FY19 (3.8% increase in like-for-like revenue in FY19). In the first half of FY19 revenue fell by 2.4% (2.6% LFL increase) and in the second half of FY19 revenue increased by 0.3% (5.2% LFL increase). Aftersales revenue fell by 2.1% (1.6% LFL increase), new revenue increased by 3.5% (8.3% LFL increase) and used revenue fell by 5.2% (flat LFL). The new revenue increase was despite UK new car registrations falling by 2.4% in 2019, with national new retail car registrations falling by 3.2%.

Gross profit fell by 14.0% in FY19 (10.4% reduction in like-for-like gross profit in FY19) with the principal driver being a 25.5% reduction (22.0% LFL reduction) in the used gross profit, largely as a result of the exercise to reduce excess stock during the first half of the year combined with a national fall in used car values during the same period. Used car margin rates improved significantly during the second half following the management actions set out above.

The reduction in aftersales gross profit of 10.2% (6.7% LFL reduction) is principally due to the increased cost of service technicians. Finally, new gross profit was down 5.5% (down 1.2% LFL), despite the new revenue increase as a result of lower new car margins to achieve natural registrations in a challenging market environment.

Underlying operating costs have decreased by 5.4% (0.7% decrease on an LFL basis). On a proforma IAS 17 basis, operating costs were down 2.6% (Up 2.3% on a LFL basis). During the second half, on a proforma IAS 17 comparable basis, operating costs were 0.8% down, compared to a 5.4% increase in the first half, as a result of the ongoing focus on the level of underlying operating costs, with a reduction in headcount and reduced advertising expenditure supporting the overall reductions.

In total, the division delivered a £13.0m underlying operating profit in FY19 (FY18: £53.0m), with the previously reported first half underlying operating losses of £7.7m (H118: £31.8m) offset by the improved performance of the second half underlying operating profit of £20.7m (H218: £21.2m).

Software

Underlying £m	FY19	FY18	Change (%)
Revenue	**£18.3m**	**£16.9m**	8.3%
Gross Profit	**£16.4m**	**£14.9m**	10.1%
Gross margin rate	***89.6%***	***88.2%***	*1.4%*
Operating Costs	**£(3.0)m**	**£(3.2)m**	-6.3%
Operating Profit	**£13.4m**	**£11.7m**	14.5%
Operating margin rate	***73.2%***	***69.2%***	*4.0%*
Revenue Change	**8.3%**		

Operating Review

Pinewood, our software business provides Software as a Service ("SaaS") in the UK and in a number of countries worldwide. Pinewood is strategically important to the Group and we believe it has potential for further expansion. Pinewood currently has SaaS users in 16 countries.

Pinewood has secured orders for the Pinewood DMS from dealers in both Sweden & Norway and implementations commenced in the second half of 2019. This is in addition to further orders secured by our partners in South Africa, Asia Pacific and The Netherlands. In total, over 1,000 net new users were added by Pinewood during FY19.

Our core UK business continues to grow with orders from new customers and existing customers extending their user subscriptions.

Financial Review

As the Pinewood business expands its global footprint, revenue has grown by 8.3% in FY19. Gross profit has increased by 10.1% as the strong gross margins have been maintained.

Underlying operating profit was £13.4m, an increase of 14.5% on FY18.

Leasing

Underlying £m	FY19	FY18	Change (%)
Revenue	£64.4m	£57.3m	12.4%
Gross Profit	£17.1m	£18.8m	-9.0%
Gross margin rate	*26.6%*	*32.8%*	*-6.2%*
Operating Costs	£(4.3)m	£(4.0)m	7.5%
Operating Profit	£12.8m	£14.8m	-13.5%
Operating margin rate	*19.9%*	*25.8%*	*-5.9%*
Revenue Change	12.4%		

Operating Review

Pendragon Vehicle Management (PVM), our Leasing business offers a complete range of fleet leasing and contract hire solutions. Our customers are varied in both fleet size and business sector. The financing for the leasing business is provided by third parties leading to a high return on capital.

The British Leasing and Rental Association reported that the business contract hire car fleet sector fell 9% whilst light commercial vehicles increased by 2.8% compared to prior year. PVM grew its fleet size (number of cars) by 5.5% during FY19. The overall reduction in the market for new contracts put pressure on margins, and regardless of these market conditions PVM continued to adopt a responsible approach to future residual values. PVM's fleet is starting to experience a reduction in the levels of take up of diesel product and increased uptake in electric vehicles particularly post the June budget announcement detailing zero Benefit in Kind Tax for these vehicles.

During FY20 the Group will continue to focus on driving incremental growth in the overall size of the fleet whilst maintaining a sensible approach to the assessment of residual values.

Financial Review

Revenue has grown by 12.4% in FY19, but there has been a 9.0% decrease in gross profit from a strong comparative, which included the benefit of the previously disclosed release of the provision in respect of loss-making disposals of £2.8m in FY18. Underlying operating costs were up 7.5% to £4.3m (FY18: £4.0m).

As a result, underlying operating profit decreased by 13.5% to £12.8m (FY18: £14.8m).

US Motor

Underlying £m	H1 2019	H2 2019	FY19	H1 2018	H2 2018	FY18	Change (%)	FY19 [2]
Used Revenue	£43.1m	£32.6m	**£75.7m**	£47.3m	£50.6m	**£97.9m**	-22.7%	£75.7m
Aftersales Revenue	£22.5m	£18.2m	**£40.7m**	£21.6m	£21.6m	**£43.2m**	-5.8%	£40.7m
New Revenue	£168.3m	£137.6m	**£305.9m**	£163.1m	£174.2m	**£337.3m**	-9.3%	£305.9m
Total Revenue	**£233.9m**	**£188.4m**	**£422.3m**	**£232.0m**	**£246.4m**	**£478.4m**	**-11.7%**	**£422.3m**
Used Gross Profit	£3.5m	£2.2m	**£5.7m**	£2.9m	£2.5m	**£5.4m**	5.6%	£5.7m
Aftersales Gross Profit	£11.7m	£9.4m	**£21.1m**	£11.5m	£11.2m	**£22.7m**	-7.0%	£21.1m
New Gross Profit	£16.2m	£13.7m	**£29.9m**	£15.7m	£16.3m	**£32.0m**	-6.6%	£29.9m
Total Gross Profit	**£31.4m**	**£25.3m**	**£56.7m**	**£30.1m**	**£30.0m**	**£60.1m**	**-5.7%**	**£56.7m**
Gross margin rate	*13.4%*	*13.4%*	***13.4%***	*13.0%*	*12.2%*	***12.6%***	*0.8%*	*13.4%*
Operating Costs	£(28.1)m	£(15.9)m	**£(44.0)m**	£(24.5)m	£(27.0)m	**£(51.5)m**	-14.6%	£(47.5)m
Operating Profit	£3.3m	£9.4m	**£12.7m**	£5.6m	£3.0m	**£8.6m**	47.7%	£9.2m
Operating margin rate	*1.4%*	*5.0%*	***3.0%***	*2.4%*	*1.2%*	***1.8%***	*1.2%*	*2.2%*
Total Revenue Change	0.8%	-23.5%	**-11.7%**					
Like-for-like Revenue Change	8.9%	-6.0%	**1.2%**					
Used Units Sold	1,452	1,046	**2,498**	1,630	1,658	**3,288**	-24.0%	
New Units Sold	3,413	2,662	**6,075**	3,394	3,551	**6,945**	-12.5%	
Number of Locations	9	5	**5**	10	9	**9**		
Average Used Selling Price [1]	£19,744	£20,925	**£20,293**	£19,978	£20,376	**£20,183**	0.5%	
Average New Selling Price [1]	£45,209	£47,133	**£46,119**	£42,781	£44,634	**£43,727**	5.5%	

[1] Trading dealerships only. The used selling price is retail vehicles only and excludes any trade vehicles

[2] Restated on proforma IAS 17 basis to exclude impact of IFRS 16 for comparison purposes

Operating Review

The disposal of the US Motor Group is ongoing with total proceeds expected to be c.£100m before tax. In FY18, the sale of the Newport Beach Aston Martin business for £3.1m was completed. During the second half of FY19 the previously announced transactions at sites in Mission Viejo and Newport Beach, California, were completed for a combined consideration of £59.3m. Post the year end, the previously announced transaction at Puente Hills, California, also completed on the 10 February 2020 for consideration of £16.5m.

The process to complete the disposals of the two remaining Jaguar Land Rover locations in Los Angeles (Beverley Hills) and Santa Monica are actively ongoing.

Impact of IFRS 16

Leases in the US Motor Group are now subject to the application of IFRS16, which replaces the rent expense with depreciation and interest charges. In the case of the US Motor Group, all assets are classified as 'held for sale' which will include the lease assets capitalised under IFRS 16. A consequence of this classification is that these non-current assets are not subject to a depreciation charge during the accounting period, an impairment test being undertaken instead. As a result, there has been a £2.7m adjustment to the reported performance of the business as a result of the application of IFRS16 by virtue of the lease expense for 2019 comprising a £0.8m interest expense and no depreciation charge, rather than a £3.5m rent expense.

Financial Review

Revenue is down by 11.7% in the year (1.2% LFL increase) with new falling 9.3% (+7.3% LFL), aftersales falling 5.8% (+2.0% LFL) and used revenue falling by 22.7% (-21.5% LFL).

Gross profit decreased by 5.7% (flat LFL), with aftersales gross profit down 7.0% (up 1.6% LFL), used gross profit up 5.6% (down 3.3% LFL) and new gross profit down 6.6% (down 0.6% LFL).

Underlying operating costs decreased by 14.6% (down 11.2% LFL).

Underlying operating profit was up by £4.1m to £12.7m (2018 : £8.6m). Adjusting for the impact of the transition to IFRS 16 as outlined above, operating profit was up £1.4m on a comparable basis to £10.0m.

Industry Insight

Used Car Market

The used car market in FY19 in the UK was 7.6m units, a fall of 0.1% against 2018. This represents a market opportunity that is c.3.3 times the size by volume of the new car market. The used market is more stable than the new vehicle sector, being less affected by fluctuations in the UK economy and providing a more reliable supply chain than the new market.

Aftersales Market

The main determinant of the aftersales market is the number of vehicles on the road, known as the 'car parc'. The car parc in the UK has risen to 35.1m vehicles at FY19, a rise of 1.4% on the prior year. The car parc can also be segmented into markets representing different age groups. At the end of HY19, around 20% of the car parc was represented by less than three-year-old cars, around 20% by four to six-year-old cars and 60% is greater than seven-year-old cars. The demand for servicing and repair activity is less affected than other sectors by economic conditions, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons.

New Car Market

The UK new car market was 2.311m in FY19 which is a reduction of 2.4% over the prior year. The UK new car market is divided into two markets, retail and fleet. The retail market is the direct selling of vehicle units to individual customers and operates at a higher margin than the fleet market. The retail market is the key market opportunity for the Group and represents 44% of the total market in the year. The fleet market represents the sale of multiple vehicles to businesses, and is predominately transacted at a lower margin and consumes higher levels of working capital than retail, and represents 56% of the market in the year.

UK New Car Registrations '000	2019	2018	Change (%)
UK Retail Registrations	1,018.3	1,052.2	-3.2%
UK Fleet Registrations	1,292.8	1,314.9	-1.7%
Total UK Registrations	**2,311.1**	**2,367.1**	**-2.4%**
Group Represented* UK Retail Registrations	660.0	700.6	-5.8%
Group Represented* UK Fleet Registrations	844.9	906.5	-6.8%
Group Represented* Registrations	**1,504.9**	**1,607.1**	**-6.4%**

* Group Represented - defined as national registrations for the franchised brands that the Group represents as a franchised dealer.

The new retail market was down by 3.2% in FY19, and the new fleet market fell by 1.7% in the year. All new car market figures are from the Society of Motor Manufacturers and Traders (SMMT).

Non-underlying Items

	H1 2019 £m	*H2 2019 £m*	**2019 £m**	**2018 £m**
Settlement of historic VAT issues	*3.5*	-	3.5	-
Impairment of goodwill, property, plant and equipment, right of use assets and assets held for sale	*(102.5)*	*(27.7)*	(130.2)	(95.8)
Termination and severance costs	*(1.4)*	*(4.1)*	(5.5)	-
Gains on the sale of businesses and property	*(1.1)*	*34.4*	33.3	15.7
Car Store closure costs	-	*(1.8)*	(1.8)	-
Pension income / (costs)	*(0.9)*	*3.9*	3.0	(12.1)
Total non-underlying items before tax	***(102.4)***	***4.7***	**(97.7)**	**(92.2)**
Non-underlying items in tax	*(0.3)*	*(3.0)*	(3.3)	3.0
Total non-underlying items after tax	***(102.7)***	***1.7***	**(101.0)**	**(89.2)**

Non-underlying income and expenses are items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business. During the year the Group has recognised a net charge of £97.7m of pre-tax non-underlying items against a charge of £92.2m in FY18. These include non-cash impairments, principally of goodwill and non-current assets amounting to £130.2m. There is £102.4m impairment of goodwill, £23.3m impairment of property assets primarily within Car Store, £2.6m impairment of property, plant and equipment and £1.9m impairment of assets held for sale. These have been necessary following assessments of the carrying value of those assets which have been calculated by taking into account trading, market conditions on future cash flows and the current market capitalisation of the Group.

Pension income of £3.0m represents a £4.8m credit relating to past service costs in respect of pension obligations and an interest charge on pension scheme obligations of £1.8m for FY19. The Group recorded gains on the sale of properties and businesses in the period of £33.3m. This included gains on disposal of businesses of £32.1m and gains on the sale of surplus property during the year of £1.2m. There were termination and severance costs of £5.5m in FY19, partially offset by a credit of £3.5m on settlement of historic VAT issues in respect of VAT reclaims and associated interest.

Capital Allocation

Net debt* has reduced by £6.4m from £126.1m at 31 December 2018 to £119.7m at 31 December 2019. The net debt to underlying EBITDA ratio* was 1.5x for the rolling 12 months to FY19. The net debt to underlying EBITDA ratio has moved from 0.9x at FY18 largely due to the trading impact of the stock clearance as detailed in the operating reviews.

The Group expects gross proceeds from the disposal of the entire US business of around £100m before tax. Proceeds of £3.1m had already been generated on the disposal of a single Aston Martin US business in July 2018, proceeds of £28.7m were generated from the disposal of the Mission Viejo Jaguar Land Rover business in July 2019 and proceeds of £30.6m were generated from the disposal of the Newport Beach Jaguar Land Rover business in December 2019. In February 2020, the Puente Hills Chevrolet business was disposed of for £16.5m. In total to date, total disposal proceeds of £78.8m have been received.

The final two disposals are expected to complete during FY20 with interest in both remaining sites.

6 Jaguar Land Rover franchise sites were either disposed of or closed in FY19. In addition, during January 2020 the Group announced it would be closing five Vauxhall franchise points. All of these are satellite locations and are not expected to materially impact on Group underlying profit.

* This is an Alternative Performance Measure (APM), see page 34 for more detail.

Cash Flow

The following table summarises the cash flows and net debt of the Group for the twelve-month periods ended 31 December 2019 and 31 December 2018 as follows:

£m	2019	2018	2019 [2]
Underlying Operating Profit	**26.7**	**76.2**	**11.3**
Depreciation and Amortisation	44.7	27.4	25.5
Share Based Payments	0.6	0.7	0.6
Non-underlying Items	(5.7)	-	(7.3)
Working Capital and Contract Hire Vehicle Movements	(2.2)	(16.2)	(5.9)
Underlying Operating Cash Flow	**64.1**	**88.1**	**24.2**
Tax Paid	(3.3)	(10.9)	(3.3)
Underlying Net Interest Paid	(26.8)	(24.8)	(26.8)
Operating Activities	**34.0**	**52.4**	**(5.9)**
Capital Expenditure - Car Store	(3.8)	(6.8)	(3.8)
Capital Expenditure - Franchise	(20.2)	(12.6)	(20.2)
Capital Expenditure - Underlying Replacement	(9.3)	(30.6)	(9.3)
Capital Expenditure - Property	(16.1)	(6.5)	(16.1)
Business and Property Disposals	72.4	30.2	72.4
Net Capital Income/(Expenditure)	**23.0**	**(26.3)**	**23.0**
Dividends	(9.7)	(22.5)	(9.7)
Share Buybacks	(0.5)	(6.7)	(0.5)
Lease Payments & Receipts	(39.9)	-	-
Other	(0.5)	(0.4)	(0.5)
Decrease / (Increase) in Net Debt	**6.4**	**(3.5)**	**6.4**
Opening Net Debt[1]	126.1	122.6	126.1
Closing Net Debt	**119.7**	**126.1**	**119.7**

Reconciliation to Consolidated Cash Flow Statement

£m	2019	2018	2019 [2]
Net cash from/(used in) operating activities	**34.0**	**52.4**	**(5.9)**
Net cash from/(used) in investing activities - Net Capital Income/(Expenditure)	**23.0**	**(26.3)**	**23.0**
Financing cash flows as included above:			
Dividends	(9.7)	(22.5)	(9.7)
Share Buybacks	(0.5)	(6.7)	(0.5)
Lease Payments & Receipts	(39.9)	-	-
Shares acquired EBT	-	0.1	-
Financing cash flows not included above relating to loans:			
Repayment of loans	(5.0)	(10.0)	(5.0)

Proceeds from issue of loans	5.4	7.1	5.4
Net cash outflow from financing activities	**(49.7)**	**(32.0)**	**(9.8)**
Net increase/(decrease) in cash and cash equivalents per consolidated cash flow statement	7.3	(5.9)	7.3
Repayment of / proceeds from loans	(0.4)	2.9	(0.4)
Non-cash movements (other above)	(0.5)	(0.5)	(0.5)
Movement in net debt as above	**6.4**	**(3.5)**	**6.4**

[1] On adoption of IFRS 16 on 1 January 2019 the Group has opted to re-define its net debt metric to exclude finance lease liabilities. This has resulted in the net debt at 31 December 2018 being adjusted by £1.5m, the finance lease liability at those dates. Net debt has been adjusted from £127.6m to £126.1m respectively at 31 December 2018.

[2] Restated to exclude impact of IFRS 16 for comparison purposes.

The underlying operating cash flow was £64.1m in FY19 compared to £88.1m in FY18. This reduction was largely due to the impact of the clearance of used car stock from excess levels.

Non-underlying cash items of £5.7m comprised of redundancy costs of £5.5m in relation to three former Executive Directors, combined with the cost reduction exercise enacted during the second half of FY19. In addition, there was a cash outflow of £1.8m in relation to the Car Store closure programme and a cash inflow of £1.6m in relation to the settlement of historic VAT issues.

The net capital expenditure inflow of £23.0m (FY18: outflow of £26.3m) was principally due to the £72.4m cash inflow from business and property disposals, which more than offset the outgoing capital expenditure in the year.

Dividends of £9.7m (FY18: £22.5m) reflects the payment of the FY18 final dividend. No interim dividend was paid for FY19.

The adoption of IFRS 16 on 1 January 2019 has resulted in changes to the way the cash flows in respect of lease rentals paid and received are reported, as, in adopting the modified retrospective method of transition the Group have not restated comparative information in the cash flow statement. In the prior period the net rental expense was presented in the income statement as an operating expense and subsequently an operating cash flow but for FY19 the equivalent charge into the income statement has instead been accounted for as a depreciation charge and net interest expense. In terms of cash flow reporting, the net interest expense of £13.3m is not a component of the operating result and a £19.2m depreciation charge, included in the underlying operating loss, has been added back. Under IFRS 16 the actual net cash paid and received of £39.9m in respect of lease payments and receipts is now presented as a financing cash flow.

Property and Investment, Acquisitions and Disposals

Our property portfolio is a key strength for our business. At FY19, the Group had £238.7m (£396.5m including IFRS16 right of use assets) of land and property assets (FY18 : £240.5m). There was a small reduction in this value as our disposals were matched by new property acquisitions and developments. Property assets classified as held for sale were £62.3m (FY18 : £32.8m).

Dividend

The Group is not proposing a final dividend for 2019.

Pensions

The net liability for defined benefit pension scheme obligations has decreased from £68.3m at FY18 to £59.0m at FY19. Movements in the respective assets and liabilities of the Pension Scheme largely offset each other, reflecting the hedging in place. The Group contributed £7.6m to the Pension Scheme in the period following the Group commitment to pay annual contributions of £7.0m from 1 January 2017, increasing by 2.25% thereafter until July 2022.

Following the full actuarial valuation of the company's pension scheme at 31 December 2018 showing a deficit of £117m, the company and trustees agreed to raise its annual contribution to the pension scheme to £12.5 million from 1 January 2020 from £7.6m of contributions in 2019.

Revolving Credit Facility (RCF)

In March 2020 the maturity date of the Group's RCF was extended by one year to 31 March 2022 and the facility size was reduced from £240m to £175m, in line with the Group's expected reduced requirements going forward. The Group has agreed to pay an increased margin of 0.50%.

Adoption of IFRS 16

IFRS 16 Leasing is a new accounting standard that was effective from 1 January 2019. The new standard replaces existing leases guidance, principally IAS 17 Leases. IFRS 16 introduces a single, on-balance sheet leases accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 has been applied using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 has been recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The impact of adopting IFRS 16 on the 2019 consolidated income statement can be seen below:

Consolidated Income Statement Year ended 31 December Underlying	2019 Following adoption of IFRS 16 £m	2019 Without adoption of IFRS 16 £m	2018 £m
Revenue	4,506.1	4,506.1	4,627.0
Cost of sales	(4,033.4)	(4,033.4)	(4,076.5)
Gross profit	**472.7**	**472.7**	**550.5**
Operating expenses	(446.0)	(461.4)	(474.3)
Operating profit	**26.7**	**11.3**	**76.2**
Net finance costs	(43.1)	(29.8)	(28.4)
(Loss) / profit before taxation	**(16.4)**	**(18.5)**	**47.8**
EBITDA	**113.5**	**78.9**	**141.5**

The balance sheet impact of the transition to IFRS 16 is summarised below:

	1 January 2019 £m
Property, plant and equipment	193.1
Assets classified as held for sale	39.4
Lease liabilities	(279.7)
Lease liabilities classified as held for sale	(39.4)
Finance lease receivables	24.7
Trade and other receivables	(9.2)
Trade and other payables	0.3
Deferred income	11.4

Provisions	2.3
Deferred tax	8.7
Retained earnings	48.4

Balance Sheet Summary

The following table summarises the balance sheet of the Group at 31 December 2019 and 31 December 2018. There is also a restated 2019 balance sheet that illustrates the balance sheet position presented on a proforma IAS 17 basis, excluding the impact of IFRS 16 for comparison purposes.

Balance Sheet	Dec-19	Dec-18	2019[1]
Property	237.8	240.5	241.4
Plant & Equipment	231.3	233.4	231.3
Goodwill & Intangibles	172.3	274.1	172.3
Right of Use Assets	159.2	-	-
Stock	839.0	959.6	839.0
Debtors	129.9	114.8	116.6
Net Assets Held for Resale	59.6	49.0	56.5
Creditors	(1,540.5)	(1,389.7)	(1,300.5)
Net Debt[2]	(119.7)	(126.1)	(119.7)
Shareholders Funds	**168.9**	**345.6**	**236.9**

[1] Restated to exclude impact of IFRS 16 for comparison purposes

[2] On adoption of IFRS 16 on 1 January 2019 the Group has decided to re-define its net debt metric to exclude finance lease liabilities. This has resulted in the net debt at 31 December 2018 being adjusted by £1.5m, the finance lease liability at those dates. Net debt has been adjusted from £127.6m to £126.1m respectively at 31 December 2018.

Net assets have reduced from £345.6 million at FY18 to £168.9 million. The reduction in goodwill and intangibles is principally a result of a goodwill impairment charge of £102.4m recorded in the period. The Group has adopted IFRS 16 Leases from 1 January 2019. IFRS 16 introduces a single, on balance model for leases. As a result, the Group as a lessee has recognised a right or use asset of £159.2m representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This lease liability of £240.0m is the primary reason for the increase in creditors, partially offset by a reduction of £89.2m largely as a result of the lower level of stocking finance following the reduction in used car stock levels. Stock has been reduced by £120.6m versus FY18, principally as a result of the stock reduction exercise previously described.

Detailed Financials

Consolidated Income Statement Year ended 31 December 2019	Continuing operations £m	Discontinued operations * £m	2019 IFRS 16 £m	Continuing operations £m	Discontinued operations * £m	2018 IAS 17 £m
Revenue	4,083.8	422.3	4,506.1	4,148.6	478.4	4,627.0
Cost of sales	(3,667.8)	(365.6)	(4,033.4)	(3,658.2)	(418.3)	(4,076.5)
Gross profit	**416.0**	**56.7**	**472.7**	**490.4**	**60.1**	**550.5**
Operating expenses	(533.1)	(44.0)	(577.1)	(529.1)	(51.5)	(580.6)
Operating (loss)/profit before other income	**(117.1)**	**12.7**	**(104.4)**	**(38.7)**	**8.6**	**(30.1)**
Other income - gains on the sale of businesses and property	0.3	33.0	33.3	13.0	2.7	15.7
Operating (loss)/profit	**(116.8)**	**45.7**	**(71.1)**	**(25.7)**	**11.3**	**(14.4)**
Analysed as						
Underlying operating profit	14.0	12.7	26.7	67.6	8.6	76.2
Non-underlying operating (loss)/profit **	(130.8)	33.0	(97.8)	(93.3)	2.7	(90.6)
Finance expense	(42.9)	(3.1)	(46.0)	(27.5)	(2.5)	(30.0)
Finance income	3.0	-	3.0	-	-	-
Net finance costs	(39.9)	(3.1)	(43.0)	(27.5)	(2.5)	(30.0)
Analysed as						
Underlying net finance costs	(40.0)	(3.1)	(43.1)	(25.9)	(2.5)	(28.4)
Non-underlying net finance costs **	0.1	-	0.1	(1.6)	-	(1.6)
(Loss)/profit before taxation	**(156.7)**	**42.6**	**(114.1)**	**(53.2)**	**8.8**	**(44.4)**
Analysed as						
Underlying profit before taxation	(26.0)	9.6	(16.4)	41.7	6.1	47.8
Non-underlying (loss)/profit before taxation **	(130.7)	33.0	(97.7)	(94.9)	2.7	(92.2)
Income tax (expense)	7.8	(11.1)	(3.3)	(3.8)	(2.3)	(6.1)
(Loss)/profit for the year	**(148.9)**	**31.5**	**(117.4)**	**(57.0)**	**6.5**	**(50.5)**
Earnings per share						

Basic earnings per share	(10.7p)	2.3p	(8.4p)	(4.1p)	0.5p	(3.6p)
Diluted earnings per share	(10.7p)	2.3p	(8.4p)	(4.1p)	0.5p	(3.6p)
Non-GAAP Measure						
Underlying basic earnings per share	(1.8p)	0.6p	(1.2p)	2.5p	0.3p	2.8p
Underlying diluted earnings per share	(1.8p)	0.6p	(1.2p)	2.5p	0.3p	2.8p

* The discontinued operations are in respect of the Group's US business which is currently classified as held for sale.

** Non-underlying, see note 2 for explanation.

The Group adopted IFRS 16 Leases with effect from 1 January 2019 using the modified retrospective approach on transition and has accordingly not restated prior periods. As a consequence, the results for the year ended 31 December 2019 are not directly comparable with those of the prior period which were prepared using the accounting standard IAS 17 Leases.

Consolidated Statement of Comprehensive Income Year ended 31 December 2019	2019 £m	2018 £m
Loss for the year	(117.4)	(50.5)
Other comprehensive income		
Items that will never be reclassified to profit and loss:		
Defined benefit plan remeasurement gains and (losses)	(1.3)	(0.9)
Income tax relating to defined benefit plan remeasurement gains and (losses)	0.2	-
	(1.1)	(0.9)
Items that are or may be reclassified to profit and loss:		
Foreign currency translation differences of foreign operations	(0.2)	-
Other comprehensive income for the year, net of tax	(1.3)	(0.9)
Total comprehensive income for the year	(118.7)	(51.4)
Total comprehensive income for the period attributable to equity shareholders of the company arises from:		
Continuing operations	(150.0)	(57.9)
Discontinued operations	31.3	6.5
	(118.7)	(51.4)

The Group adopted IFRS 16 Leases with effect from 1 January 2019 using the modified retrospective approach on transition and has accordingly not restated prior periods. As a consequence, the results for the year ended 31 December 2019 are not directly comparable with those of the prior period which were prepared using the accounting standard IAS 17 Leases.

Consolidated Statement of Changes in Equity Year ended 31 December 2019	Share Capital £m	Share Premium £m	Other Reserves £m	Translation Differences £m	Retained Earnings £m	Total £m
Balance at 1 January 2019	**70.0**	**56.8**	**18.1**	**(0.8)**	**201.5**	**345.6**
Adjustment on initial application of IFRS 16 (net of tax)	-	-	-	-	(48.4)	(48.4)
Adjusted balance at 1 January 2019	**70.0**	**56.8**	**18.1**	**(0.8)**	**153.1**	**297.2**
Total comprehensive income for 2019						
Loss for the year	-	-	-	-	(117.4)	(117.4)
Other comprehensive income for the year, net of tax	-	-	-	(0.2)	(1.1)	(1.3)
Total comprehensive income for the year	**-**	**-**	**-**	**(0.2)**	**(118.5)**	**(118.7)**
Dividends paid	-	-	-	-	(9.7)	(9.7)
Own shares purchased for cancellation	(0.1)	-	0.1	-	(0.5)	(0.5)
Share based payments	-	-	-	-	0.6	0.6
Balance at 31 December 2019	**69.9**	**56.8**	**18.9**	**(1.0)**	**25.0**	**168.9**
Balance at 1 January 2018	**71.2**	**56.8**	**16.9**	**(0.8)**	**281.3**	**425.4**
Total comprehensive income for 2018						
Loss for the year	-	-	-	-	(50.5)	(50.5)
Other comprehensive income for the year, net of tax	-	-	-	-	(0.9)	(0.9)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(51.4)**	**(51.4)**
Dividends paid	-	-	-	-	(22.5)	(22.5)
Own shares purchased for cancellation	(1.2)	-	1.2	-	(6.7)	(6.7)
Own shares issued by EBT	-	-	-	-	0.1	0.1
Share based payments	-	-	-	-	0.7	0.7
Balance at 31 December 2018	**70.0**	**56.8**	**18.1**	**(0.8)**	**201.5**	**345.6**

The Group adopted IFRS 16 Leases with effect from 1 January 2019 using the modified retrospective approach on transition and has accordingly not restated prior periods. As a consequence, the results for the year ended 31 December 2019 are not directly comparable with those of the prior period which were prepared using the accounting standard IAS 17 Leases.

Consolidated Balance Sheet At 31 December 2019	2019 IFRS 16 £m	2018 IAS 17 £m
Non-current assets		
Property, plant and equipment	628.3	463.9
Goodwill	162.8	265.9
Other intangible assets	9.5	8.2
Finance lease receivables	20.6	-
Deferred tax assets	25.5	9.8
Total non-current assets	**846.7**	**747.8**
Current assets		
Inventories	839.0	959.6
Trade and other receivables	106.9	114.8
Finance lease receivables	2.4	-
Current tax assets	-	4.3
Cash and cash equivalents	55.7	51.4
Assets classified as held for sale	150.1	137.6
Total current assets	**1,154.1**	**1,267.7**
Total assets	**2,000.8**	**2,015.5**
Current liabilities		
Lease liabilities	(23.9)	-
Trade and other payables	(1,084.6)	(1,175.4)
Deferred income	(50.9)	(49.7)
Current tax payable	(2.8)	-
Provisions	-	(0.7)
Liabilities directly associated with the assets held for sale	(90.5)	(88.6)
Total current liabilities	**(1,252.7)**	**(1,314.4)**
Non-current liabilities		
Lease liabilities	(237.8)	(1.5)
Interest bearing loans and borrowings	(175.4)	(177.5)
Trade and other payables	(60.4)	(54.4)
Deferred income	(46.6)	(52.2)

Retirement benefit obligations	(59.0)	(68.3)
Provisions	-	(1.6)
Total non-current liabilities	**(579.2)**	**(355.5)**
Total liabilities	**(1,831.9)**	**(1,669.9)**
Net assets	**168.9**	**345.6**
Capital and reserves		
Called up share capital	69.9	70.0
Share premium account	56.8	56.8
Capital redemption reserve	5.6	5.5
Other reserves	12.6	12.6
Translation reserve	(1.0)	(0.8)
Retained earnings	25.0	201.5
Total equity attributable to equity shareholders of the Company	**168.9**	**345.6**

The Group adopted IFRS 16 Leases with effect from 1 January 2019 using the modified retrospective approach on transition and has accordingly not restated prior periods. As a consequence, the balance sheet as at 31 December 2019 is not directly comparable with that of the prior period which was prepared using the accounting standard IAS 17 Leases.

Consolidated Cash Flow Statement Year ended 31 December 2019	2019 IFRS 16 £m	2018 IAS 17 £m
Cash flows from operating activities		
Loss for the year	(117.4)	(50.5)
Adjustment for taxation	3.3	6.1
Adjustment for net financing expense	43.0	30.0
	(71.1)	**(14.4)**
Depreciation and amortisation	44.7	27.4
Share based payments	0.6	0.7
Pension past service costs	(4.8)	10.5
Profit on sale of businesses and property	(33.3)	(15.7)
Impairment of goodwill	102.4	88.8
Impairment of assets held for sale	1.9	1.2
Impairment of property, plant and equipment	25.9	5.8
Retirement benefit obligations	(7.6)	(7.5)
Changes in inventories	186.7	(23.6)

Changes in trade and other receivables	1.7	(7.6)
Changes in trade and other payables	(127.4)	61.6
Changes in provisions	-	(7.2)
Movement in contract hire vehicle balances	(55.6)	(31.9)
Cash generated from operations	**64.1**	**88.1**
Taxation paid	(3.3)	(10.9)
Interest paid	(26.8)	(24.8)
Net cash from operating activities	**34.0**	**52.4**
Cash flows from investing activities		
Proceeds from sale of businesses	67.4	10.9
Purchase of property, plant, equipment and intangible assets	(115.0)	(133.2)
Proceeds from sale of property, plant, equipment and intangible assets	70.6	96.0
Net cash from/(used) in investing activities	**23.0**	**(26.3)**
Cash flows from financing activities		
Dividends paid to shareholders	(9.7)	(22.5)
Repurchase of own shares	(0.5)	(6.7)
Disposal of shares by EBT	-	0.1
Payment of lease liabilities	(43.2)	-
Receipt of lease receivables	3.3	-
Repayment of bond and loans	(5.0)	(10.0)
Proceeds from issue of loans	5.4	7.1
Net cash outflow from financing activities	**(49.7)**	**(32.0)**
Net increase/(decrease) in cash and cash equivalents	**7.3**	**(5.9)**
Cash and cash equivalents at 1 January	**51.4**	**53.3**
Effects of exchange rate changes on cash held	(3.0)	4.0
Cash and cash equivalents at 31 December	**55.7**	**51.4**

Reconciliation of net cash flow to movement in net debt Year ended 31 December 2019	2019 £m	2018 £m
Net increase/(decrease) in cash and cash equivalents	7.3	(5.9)
Repayment of bond and loans	5.0	10.0
Proceeds from issue of loans	(5.4)	(7.1)

Non-cash movements	(0.5)	(0.5)
Decrease/(increase) in net debt in the year	**6.4**	**(3.5)**
Opening net debt	**(126.1)**	**(124.1)**
Adjustment for finance lease liabilities (see note below)	**-**	**1.5**
Closing net debt	**(119.7)**	**(126.1)**

Note: The reconciliation of net cash flow to movement in net debt is not a primary statement and does not form part of the consolidated cash flow statement but forms part of the notes to the financial statements.

The Group adopted IFRS 16 Leases with effect from 1 January 2019 using the modified retrospective approach on transition and has accordingly not restated prior periods. As a consequence, the cash flows for the year ended 31 December 2019 are not directly comparable with those of the prior period which were prepared using the accounting standard IAS 17 Leases.

The reconciliation of net cash flow to movement in net debt is not a primary statement and does not form part of the consolidated cash flow statement but forms part of the notes to the financial statements. On adoption of IFRS 16 on 1 January 2019 the Group has decided to re-define it's net debt metric to exclude finance lease liabilities. This has resulted in the net debt at 31 December 2018 being adjusted by £1.5m, the finance lease liability at that date from. £127.6m to £126.1m.

Notes

1 Basis of Preparation

The Group summary financial statements have been prepared and approved by the directors in accordance with international accounting standards being the International Financial Reporting Standards as adopted by the EU ('adopted IFRSs').

The summary financial statements are presented in millions of UK pounds, rounded to the nearest £0.1m. They have been prepared under the historical cost convention except for certain financial instruments which are stated at their fair value. In addition, non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The summary financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statement.

The preparation of summary financial statements in conformity with adopted IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the summary financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Adoption of new and revised standards

The Group has adopted IFRS 16 Leases from 1 January 2019. IFRS 16 introduces a single, on balance model for leases. As a result, the Group as a lessee has recognised a right or use asset representing it's right to use the underlying asset and a lease liability representing it's obligation to make lease payments. The Group also acts as a Lessor, and whilst Lessor accounting remains similar to that under the Group's previous accounting policies, where the substantial risks and rewards of ownership of the asset has been passed to it's Lessee then the underlying asset of the Group becomes that of a finance lease receivable.

Under the previous accounting policy the Group previously classified leases as either an operating lease or a finance lease depending upon whether it was deemed that substantially all of the risks and rewards of ownership had transferred. Under IFRS 16 the Group recognises a right of use asset for all leases with the exception of those deemed to be of low value or short term in nature, in which case lease payments are expensed on a straight line basis over the lease term. In its transition to IFRS 16 the Group has applied a modified retrospective approach, under which the cumulative effect of initial application is recognised in retailed earnings at 1 January 2019. Accordingly, the comparative information for 2018 has not been restated. The revised accounting policy is:

Significant accounting policies - Leases.

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. Depreciation is recognised on a straight-line basis over the period of the lease the right of use asset is expected to be utilised.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease or when this is not readily attainable the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and reduced by payments made. It is remeasured when there is a change in future lease payments arising from a change of index or rate, a variation in amounts payable following contractual rent reviews and changes in the assessment of whether an extension/termination option is reasonably certain to be exercised.

The Group has applied judgement in determining the lease term for some lease contracts which include renewal and termination options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term and the subsequent recognition of the lease liability and right of use asset.

Where the Group acts as a Lessor, receipts of lease payments are recognised in the income statement on a straight-line basis over the period of the lease unless it is deemed that the risks and rewards of ownership have been substantially transferred to the Group's lessee. If it is deemed that the risks and rewards of ownership have been substantially transferred then the Group will, rather than recognise a right of use asset, recognise a finance lease receivable, this being the present value of future lease receipts discounted at the interest rate implicit in the lease or if this is not specified the Group's incremental borrowing rate. The finance lease receivable will be increased by the interest received and reduced by payments made by the lessee.

Transition

The Group has a significant leasehold property portfolio which, in the most part, where previously accounted for as operating leases under IAS 17. The leases have a variety of lease terms and some include scheduled rent reviews, break options or provide for rent increases based upon future UK price indices.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right of use assets as measured at either:

- their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted by the Group's incremental borrowing rate as at 1 January 2019. The Group has applied this methodology to the majority of its property leases where sufficient historical information has been available to facilitate this.

- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. This has been applied to a small number of property leases where it was not possible to ascertain sufficient historical data to enable a retrospective calculation. This method has also been applied to the Group's small number of non-property leases, comprising of motor vehicles and items of plant and equipment.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right of use assets and liabilities with less than 12 months of the lease term remaining at 1 January 2019.

- Excluded initial direct costs from measuring the right of use asset at date of initial application.

- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

- Used the option to grandfather the assessment of which transactions are leases by applying IFRS 16 only to contracts that were previously identified as a leases under IAS 17.

- Used previous assessments of whether leases are onerous instead of performing an impairment review.

The Group previously classified two properties as finance leases. These leases have been reassessed under IFRS 16 and reclassified as right of use assets.

As a Lessor the Group has sub-let a number of surplus properties with some of these matching the term of the under lease. In these instances, the Group has deemed that it has none of the risks and rewards of ownership of the properties and has recognised a finance lease receivable based on expected lease receipts from the date of application, discounted at the same interest rate as applied to the head lease. There are no residual values applicable to these leases.

A small number of leased properties were ascribed values when acquired as part of previous business combinations. The carrying value of these assets have been reassessed under IFRS 16 and reclassified as right of use assets at the date of application.

The Group, during the period between 2005 and 2006 entered into sale and leaseback arrangements on some of its properties. At the time it was deemed that the consideration received for these properties and the subsequent rents attached to the leases were in excess of their equivalent fair values at the time. An adjustment was made at the time of these transactions to reduce the profit on disposal of these properties and defer this over the remaining lease terms to offset the excess rentals payable in the future. This credit was held as deferred income in the financial statements. On transition to IFRS 16 the residual deferred income credit relating to these properties at 1 January 2019 has been allocated to the right of use asset.

Provision had previously recognised a provision for vacant properties which related to sub-let properties where the rental income was insufficient to cover the lease costs paid. Where these relate to leases in which the Group retain the risks and rewards of ownership of the property the provision previously recognised has been credited to the right of use asset. Where these relate to leases in which the Group do not retain the risks and rewards of ownership of the property the provision previously recognised has been credited to reserves on transition.

Impacts of transition

The impacts of the transition to IFRS 16 is summarised below;

	1 January 2019 £m
Property, plant and equipment	193.1
Assets classified as held for sale	39.4
Lease liabilities	(279.7)
Lease liabilities classified as held for sale	(39.4)
Finance lease receivables	24.7
Trade and other receivables	(9.2)
Trade and other payables	0.3
Deferred income	11.4
Provisions	2.3
Deferred tax	8.7
Retained earnings	48.4

When measuring lease liabilities for leases that were classified as operating leases, the Group has discounted lease payments using either it's incremental borrowing rate for shorter term leases or higher rates based upon market rates for borrowing against equivalent assets with similar risk profiles in specific markets for medium to longer term leases as at 1 January 2019 . The weighted average rate applied was 4.20%.

	1 January 2019 £m
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	**479.7**
Discounted using incremental borrowing rate at 1 January 2019	325.5
Finance lease liabilities recognised at 31 December 2018	1.5
Recognition exemption for leases with less than 12 months of lease term at transition *	(14.1)
Extension options reasonably certain to be exercised	7.7
Lease liabilities recognised at 1 January 2019	**320.6**

* Included within the £14.1m recognition exemption for leases with less than 12 months of lease term at transition, are £11.9m of lease commitments in the US business which is a discontinued operation held for sale. These US leases were deemed to be short leases on transition as the Group was reasonably certain that obligations under those leases would be discharged in 2019. These were assigned as part of the sales of US businesses which were completed in 2019.

Impact for the period

As a result of initially applying IFRS 16, in relation to those leases which were originally classified as operating leases, the Group has recognised an interest and depreciation cost instead of an operating lease expense and as a Lessor on leases where the Group no longer has the risks and rewards of ownership, recognises an interest receipt instead of a rental income. During the year ended 31 December 2019 the Group recognised £19.2m of depreciation charges, a non-underlying impairment charge of £23.3m, an interest expense of £14.4m and made payments of £43.2m in respect of its lease liabilities. As a Lessor, the Group has an interest receipt of £1.1m having received payments of £3.3m in respect of the finance lease receivable.

Other standards - A number of other standards and interpretations are applicable to these condensed financial statements but are not expected to have a significant impact. A summary of these standards is presented in the consolidated financial statements of the Group for the year ended 31 December 2019.

2 Non-underlying Items

Non-underlying income and expenses are items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business.

	2019 IFRS 16 £m	2018 IAS 17 £m
Within operating expenses:		
Settlement of historic VAT issues	1.6	-
Impairment of goodwill	(102.4)	(88.8)
Impairment of assets held for sale	(1.9)	(1.2)
Impairment of property, plant and equipment	(2.6)	(5.8)
Impairment of right of use assets	(23.3)	-
Termination and severance costs	(5.5)	-
Car Store closure costs	(1.8)	-
Past service costs in respect of pension obligations	4.8	(10.5)
	(131.1)	**(106.3)**
Within other income - gains on the sale of businesses, property and investments:		
Gains on the sale of businesses	32.1	3.3
Gains on the sale of property	1.2	12.4
	33.3	**15.7**
Within net finance expense:		
Interest on settlement of historic VAT issues	1.9	-
Net interest on pension scheme obligations	(1.8)	(1.6)
	0.1	**(1.6)**
Total non-underlying items before tax	**(97.7)**	**(92.2)**
Non-underlying items in tax	(3.3)	3.0
Total non-underlying items after tax	**(101.0)**	**(89.2)**

The following amounts have been presented as non-underlying items in these summary financial statements:

Goodwill has been reviewed for any possible impairment and as a result of this review there was an impairment charge of £102.4m made during the year (2018: £88.8m).

Group property, plant and equipment and assets held for sale have been reviewed for possible impairments. As a result of this review there was an impairment charge against assets held for sale of £1.9m during the year (2018: £1.2m) and property, plant and equipment of £25.9m (2018: £5.8m) which comprised impairment of owned assets of £2.6m and right of use assets of £23.3m. There were no reversals of previous impairment charges in respect of assets held for sale where anticipated proceeds less costs to sell have increased over their impaired carrying values (2018: £nil).

A Pension Increase Exchange exercise was carried out during the year and the impact of this has been to recognise a credit of £4.8m in the past service cost line. The past service costs for the previous year in respect of pension obligations is an estimate of the cost of GMP equalisation exercise undertaken in 2018.

The net financing return on pension obligations in respect of the defined benefit schemes closed to future accrual is shown as a non-underlying item due to the irregularity of this amount historically and it is not incurred in the normal course of business. A net expense of £1.8m has been recognised during the year (2018: £1.6m).

Other income consists of the profit or loss on disposal of businesses and property. This comprises a £32.1m (2018: £3.3m) profit on disposals of motor vehicle dealerships during the year (of which £33.0m was in respect of discontinued operations (2018: £2.7m)) and a £1.2m profit on sale of properties (2018: 12.4m). This does not include routine transactions in relation to the disposal of individual assets, and only relates to the disposal of motor vehicle dealerships and associated properties.

The Group announced during the year the closure of 22 Car Stores and one preparation centre following a full market and operating model assessment of the Car Store business. The resultant costs of closure of these sites of £1.8m have been recognised as a non-underlying item.

During the year there were termination and severance costs of £5.5m (2018: £nil).

We acquired CD Bramall PLC in 2004, with the company having made a claim in 2003 for VAT overpaid in respect of bonuses received by the company's leasing companies from OEMs during the period 1988-1995 (Fleming claims). These claims were refused by HMRC over the years for a number of reasons which gradually fell away through litigation with other parties. We were then left with a fundamental objection of principle by HMRC and so we litigated in 2017 and were successful (decision released August 2018). As the legal decision was one of principle only, we were then left to agree quantum with HMRC. This was concluded during the first half of 2019, resulting in a VAT repayment of just over £1.9m (cash received in June 2019) with interest to follow shortly of another £1.9m. Associated costs are expected to be £0.3m which will result in a net gain of £3.5m.

The tax charge in relation to non-underlying items referred to above is £3.3m (2018: credit of £3.0m). Despite the non-underlying items constituting an overall loss, a tax charge arises due to majority of the loss not being eligible for tax relief (goodwill impairment) and the gains arising on disposal of businesses arises in the US, which is taxed at higher rates.

3 Earnings per share

	2019 IFRS 16 Earnings per share Pence	2019 IFRS 16 Earnings total £m	2018 IAS 17 Earnings per share Pence	2018 IAS 17 Earnings total £m
Basic earnings per share	**(8.4)**	**(117.4)**	**(3.6)**	**(50.5)**
Adjusting items:				
Non-underlying items attributable to the parent (see note 2)	7.0	97.7	6.6	92.2
Tax effect of non-underlying items	0.2	3.3	(0.2)	(3.0)
Underlying earnings per share (Non-GAAP measure)	**(1.2)**	**(16.4)**	**2.8**	**38.7**
Diluted earnings per share	(8.4)	(117.4)	(3.6)	(50.5)
Diluted earnings per share - underlying (Non-GAAP measure)	(1.2)	(16.4)	2.8	38.7

The calculation of basic, adjusted and diluted earnings per share is based on the following number of shares in issue (millions):

		2019 Number		2018 Number
Weighted average number of ordinary shares in issue		1,390.6		1,405.7
Weighted average number of dilutive shares under option		2.6		1.4
Weighted average number of shares in issue taking account of applicable outstanding share options		1,393.2		1,407.1
Non-dilutive shares under option		8.7		10.8

The directors consider that the underlying earnings per share figure provides a better measure of comparative performance.

4 Finance expense

	2019	2018

	IFRS 16 £m	IAS 17 £m
Recognised in profit and loss		
Interest payable on bank borrowings, Senior note and loan notes	8.2	8.4
Vehicle stocking plan interest	19.3	18.1
Interest payable on finance leases	14.4	0.1
Net interest on pension scheme obligations (non-underlying - see note 2)	1.8	1.6
Less: interest capitalised	(0.8)	(1.0)
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	**42.9**	**27.2**
Unwinding of discounts in contract hire residual values	3.1	2.8
Total finance expense	**46.0**	**30.0**

5 Finance income

	2019 IFRS 16 £m	2018 IAS 17 £m
Recognised in profit and loss		
Interest receivable on finance leases	1.1	-
Interest on settlement of historic VAT issues	1.9	-
Total finance income	3.0	-

6 Net debt

	2019 £m	2018 £m
Cash and cash equivalents	55.7	51.4
Non-current interest bearing loans and borrowings	(175.4)	(177.5)
	(119.7)	(126.1)

The Group has on adoption of IFRS 16 Leases excluded Finance Lease liabilities from its measure of Net Debt.

7 Movement in contract hire vehicle balances

	2019 £m	2018 £m
Depreciation	42.1	37.9
Changes in trade and other payables and deferred income	13.3	(1.5)
Purchases of contract hire vehicles	(107.9)	(65.5)

Unwinding of discounts in contract hire residual values	(3.1)	(2.8)
	(55.6)	**(31.9)**

8 Pension Funds

The net liability for defined benefit obligations has decreased from £68.3m at 31 December 2018 to £59.0m at 31 December 2019. The decrease of £9.3m comprises contributions of £7.6m, net credit recognised in the income statement of £3.0m (comprising a credit to past service costs of £4.8m and an interest expense of £1.8m). The net actuarial gain has arisen due in part to changes in the principal assumptions used in the valuation of the scheme's assets and liabilities and also the change in value of the assets held over the year. The main assumptions subject to change are the discount rate of 2.05% (2018: 2.85%), inflation rate (RPI) of 2.85% (2018: 3.25%) and inflation rate (CPI) of 2.05% (2018: 2.25%).

9 Alternative performance measures

The Group uses a number of key performance measures ('KPI's') which are non-IFRS measures to monitor the performance of its operations. The Group believes these KPIs provide useful historical financial information to help investors and other stakeholders evaluate the performance of the business and are measures commonly used by certain investors for evaluating the performance of the Group. In particular, the Group uses KPIs which reflect the underlying performance on the basis that this provides a more relevant focus on the core business performance of the Group. The Group has been using the following KPIs on a consistent basis and they are defined and reconciled as follows:

Dividend per share - dividend per share is defined as the interim dividend per share plus the proposed final year dividend for a given period.

Gross margin % - gross margin is defined as gross profit as a percentage of revenue.

Operating margin % - operating margin is defined as operating profit as a percentage of revenue.

Underlying operating profit/profit before tax - results on an underlying basis exclude items that have non-trading attributes due to their size, nature or incidence. The detail of the non-underlying results is shown in note 2 and this is also shown on the face of the consolidated income statement to reconcile from the underlying to total results.

Operating profit reconciliation

	2019 IFRS 16 £m	2018 IAS 17 £m
Underlying operating profit	**26.7**	**76.2**
Settlement of historic VAT issues (see note 2)	1.6	-
Gains/(losses) on the sale of businesses and property (see note 2)	33.3	15.7
Past service costs (see note 2)	4.8	(10.5)
Impairment of goodwill (see note 2)	(102.4)	(88.8)
Impairment of assets held for sale (see note 2)	(1.9)	(1.2)
Impairment of property, plant and equipment (see note 2)	(2.6)	(5.8)
Impairment of right of use assets (see note 2)	(23.3)	-
Car Store closure costs (see note 2)	(1.8)	-
Termination and severance payments (see note 2)	(5.5)	-
Non-underlying operating profit items	(97.8)	(90.6)
Operating loss	**(71.1)**	**(14.4)**

(Loss)/profit before tax reconciliation

	2019 IFRS 16 £m	2018 IAS 17 £m
Underlying (loss)/profit before tax	**(16.4)**	**47.8**
Non-underlying operating profit items (see reconciliation above)	(97.8)	(90.6)
Non-underlying net finance income/(costs) (see note 2)	0.1	(1.6)
Non-underlying operating (loss)/profit and finance costs items	(97.7)	(92.2)
(Loss)/profit before tax	**(114.1)**	**44.4**

(Loss)/profit after tax reconciliation

	2019 IFRS 16 £m	2018 IAS 17 £m
Underlying profit after tax	**(16.4)**	**38.7**
Non-underlying operating profit and finance costs items (see reconciliation above)	(97.7)	(92.2)
Non-underlying tax (see note 2)	(3.3)	3.0
Non-underlying operating profit, finance costs and tax items	(101.0)	(89.2)
(Loss)/profit after tax	**(117.4)**	**50.5**

Underlying basic earnings per share ('underlying earnings per share') - the Group presents underlying basic earnings per share as the directors consider that this is a better measure of comparative performance. Underlying basic earnings per share is calculated by dividing the underlying profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. A full reconciliation of how this is derived is found in note 3.

Underlying diluted earnings per share - the Group presents underlying diluted earnings per share as the directors consider that this is a better measure of comparative performance. Underlying diluted earnings per share is calculated by dividing the underlying profit and loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue taking account of the effects of all dilutive potential ordinary shares, which comprise of share options granted to employees, LTIPs and share warrants. A full reconciliation of how this is derived is found in note 3.

Net Debt : Underlying EBITDA - the Group uses the ratio of net debt to underlying EBITDA to assess the use of the Group's financial resources. The reconciliation of this and the composition of underlying EBITDA is shown in note 4.2 of the full annual report and accounts.

Net Debt : Underlying EBITDA - the Group uses the ratio of net debt to underlying EBITDA to assess the use of the Group's financial resources. We have adjusted the underlying operating profit used in the calculation of EBITDA to present it on a pre IFRS 16 basis by treating the rentals paid as an operating expense, adjusting out right of use depreciation and various other adjustments that would have been made under IAS 17. This is to ensure consistency in the 12m period against our target measure of net debt : underlying EBITDA of between 1.0 and 1.5 which is based on a pre IFRS 16 basis.

Underlying operating profit on a pre IFRS 16 basis - reconciliation

	2019 £m	2018 £m
Underlying operating profit (see reconciliation above)	**26.7**	**76.2**
Adjustments to 2019 to restate as if under IAS 17:		

Rentals paid expense	(39.5)	
Rentals paid expense classified as non-underlying	1.6	
Reversal of IFRS 16 depreciation	19.2	
Lease receivable receipts taken to income	3.3	
Underlying operating profit on IAS 17 basis	**11.3**	**76.2**

Net debt : Underlying EBITDA – reconciliation – alternate IFRS 16 and IAS 17 basis

	2019 IFRS 16 £m	2019 IAS 17 £m	2018 IAS 17 £m
Underlying operating profit	**26.7**	**11.3**	**76.2**
Depreciation and amortisation	86.8	86.8	65.3
Reversal of IFRS 16 depreciation	-	(19.2)	-
Depreciation and amortisation	86.8	67.6	65.3
Underlying EBITDA on IAS 17 basis	**113.5**	**78.9**	**141.5**
Net debt	119.7	119.7	126.1
Net debt : Underlying EBITDA ratio	**1.1**	**1.5**	**0.9**

Like for Like reconciliations

Like for like - results on a like for like basis include only businesses which have been trading for 12 consecutive months. We use like for like results to aid in the understanding of the like for like movement in revenue, gross profit and operating profit in the business. The difference to underlying results are simply those businesses which are not like for like which have recently commenced operation and therefore do not have a 12 month history plus any retail points closed during the current or previous period.

Revenues by Department - Franchised UK Motor	2019 Group revenue £m	2019 Disposals revenue £m	2019 Other non like for like revenue £m	2019 Like for like revenue £m
Aftersales revenue	**326.2**	**(6.2)**	(1.6)	**318.4**
Used vehicle revenue	**1,702.5**	(33.1)	(5.2)	**1,664.2**
New vehicle revenue	**1,702.1**	(36.2)	-	**1,665.9**
Total Revenue	**3,730.8**	**(75.5)**	(6.8)	**3,648.5**

Revenues by Department - Franchised UK Motor	2018 Group revenue £m	2018 Disposals revenue £m	2018 Other non like for like revenue £m	2018 Like for like revenue £m

Aftersales revenue	333.2	(19.8)	-	313.4
Used vehicle revenue	1,796.1	(131.5)	-	1,664.6
New vehicle revenue	1,644.6	(106.9)	-	1,537.7
Total Revenue	3,773.9	(258.2)	-	3,515.7

Revenues by Department - Car Store	2019 Group revenue £m	2019 Disposals revenue £m	2019 Other non like for like revenue £m	2019 Like for like revenue £m
Aftersales revenue	2.5	(2.0)	-	0.5
Used vehicle revenue	267.8	(129.9)	(8.1)	129.8
Total Revenue	270.3	(131.9)	(8.1)	130.3

Revenues by Department - Car Store	2018 Group revenue £m	2018 Disposals revenue £m	2018 Other non like for like revenue £m	2018 Like for like revenue £m
Aftersales revenue	4.2	(3.5)	-	0.7
Used vehicle revenue	296.3	(174.4)	-	121.9
Total Revenue	300.5	(177.9)	-	122.6

Revenues by Department - US Motor	2019 Group revenue £m	2019 Disposals revenue £m	2019 Other non like for like revenue £m	2019 Like for like revenue £m
Aftersales revenue	40.7	(15.6)	-	25.1
Used vehicle revenue	75.7	(40.7)	-	35.0
New vehicle revenue	305.9	(131.5)	-	174.4
Total Revenue	422.3	(187.8)	-	234.5

Revenues by Department - US Motor	2018 Group revenue £m	2018 Disposals revenue £m	2018 Other non like for like revenue £m	2018 Like for like revenue £m
Aftersales revenue	43.2	(18.6)	-	24.6

Used vehicle revenue	97.9	(53.3)	-	44.6
New vehicle revenue	337.3	(174.7)	-	162.6
Total Revenue	478.4	(246.6)	-	231.8

Gross Profit by Department - Franchised UK Motor	2019 Group gross profit £m	2019 Disposals gross profit £m	2019 Other non like for like gross profit £m	2019 Like for like gross profit £m
Aftersales gross profit	161.5	(1.5)	(0.7)	159.3
Used vehicle gross profit	105.2	2.5	(0.5)	107.2
New vehicle gross profit	104.9	(2.4)	-	102.5
Total Gross profit	371.6	(1.4)	(1.2)	369.0

Gross Profit by Department - Franchised UK Motor	2018 Group gross profit £m	2018 Disposals gross profit £m	2018 Other non like for like gross profit £m	2018 Like for like gross profit £m
Aftersales gross profit	179.8	(9.1)	-	170.7
Used vehicle gross profit	141.3	(3.9)	-	137.4
New vehicle gross profit	111.0	(7.3)	-	103.7
Total Gross profit	432.1	(20.3)	-	411.8

Gross Profit by Department - Car Store	2019 Group gross profit £m	2019 Disposals gross profit £m	2019 Other non like for like gross profit £m	2019 Like for like gross profit £m
Aftersales gross profit	(1.8)	2.8	-	1.0
Used vehicle gross profit	12.7	(5.5)	(0.5)	6.7
Total Gross profit	10.9	(2.7)	(0.5)	7.7

Gross Profit by Department - Car Store	2018 Group gross profit £m	2018 Disposals gross profit £m	2018 Other non like for like gross profit £m	2018 Like for like gross profit £m
Aftersales gross profit	1.7	1.5	-	3.2
Used vehicle gross profit	22.9	(11.7)	-	11.2

Total Gross profit	24.6	(10.2)	-	14.4

Gross Profit by Department - US Motor	2019 Group gross profit £m	2019 Disposals gross profit £m	2019 Other non like for like gross profit £m	2019 Like for like gross profit £m
Aftersales gross profit	21.1	(8.6)	-	12.5
Used vehicle gross profit	5.7	(2.8)	-	2.9
New vehicle gross profit	29.9	(14.4)	-	15.5
Total Gross profit	56.7	(25.8)	-	30.9

Gross Profit by Department - US Motor	2018 Group gross profit £m	2018 Disposals gross profit £m	2018 Other non like for like gross profit £m	2018 Like for like gross profit £m
Aftersales gross profit	22.7	(10.4)	-	12.3
Used vehicle gross profit	5.4	(2.4)	-	3.0
New vehicle gross profit	32.0	(16.4)	-	15.6
Total Gross profit	60.1	(29.2)	-	30.9

Underlying operating profit/(loss)	2019 Group Underlying operating profit/(loss) £m	2019 Disposals Underlying operating profit/(loss) £m	2019 Other non like for like Underlying operating profit/(loss) £m	2019 Like for like Underlying operating profit/(loss) £m
Franchised UK Motor	13.0	7.3	0.5	20.8
Car Store	(25.2)	15.1	0.5	(9.6)
Software	13.4	-	-	13.4
Leasing	12.8	-	-	12.8
US Motor	12.7	(6.3)	-	6.4
Total underlying operating profit	26.7	16.1	1.0	43.8

Underlying operating profit/(loss)	2018 Group Underlying operating profit/(loss)	2018 Disposals Underlying operating profit/(loss)	2018 Other non like for like Underlying	2018 Like for like Underlying operating profit/(loss)

	£m	£m	operating profit/(loss) £m	£m
Franchised UK Motor	53.0	8.1		61.1
Car Store	(11.9)	8.3		(3.6)
Software	11.7	-	-	11.7
Leasing	14.8	-	-	14.8
US Motor	8.6	(5.3)	-	3.3
Total underlying operating profit	76.2	11.1	-	87.3

Operating profit/(loss)	2019 Group operating profit/(loss) £m	2019 Disposals operating profit/(loss) £m	2019 Other non like for like operating profit/(loss) £m	2019 Like for like operating profit/(loss) £m
Franchised UK Motor	(96.4)	7.3	0.5	(88.6)
Car Store	(46.6)	15.1	0.5	(31.0)
Software	13.4	-	-	13.4
Leasing	12.8	-	-	12.8
US Motor	45.7	(6.3)	-	39.4
Total Operating profit	(71.1)	16.1	1.0	(54.0)

Operating profit/(loss)	2018 Group operating profit/(loss) £m	2018 Disposals operating profit/(loss) £m	2018 Other non like for like operating profit/(loss) £m	2018 Like for like operating profit/(loss) £m
Franchised UK Motor	(24.5)	8.1	-	(16.4)
Car Store	(27.7)	8.3	-	(19.4)
Software	11.7	-	-	11.7
Leasing	14.8	-	-	14.8
US Motor	11.3	(5.3)	-	6.0
Total Operating profit	(14.4)	11.1	-	(3.3)

10 Annual Report

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2019 or 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the registrar of companies, and those for 2019 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Full financial statements for the year ended 31 December 2019 are published on the Group's website at www.pendragonplc.com and will be posted to shareholders and after adoption at the Annual General Meeting on 28 April 2020 they will be delivered to the registrar.

Copies of this announcement are available from Pendragon PLC, Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR.