PENDRAGON
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PENDRAGON PLC INTERIM MANAGEMENT STATEMENT AND STRATEGY UPDATE (ISSUED 23 October 2017)

This Interim Management Statement and strategy update for Pendragon PLC, the largest and leading automotive online retailer in the UK, covers the period from 1 July 2017 to 20 October 2017. Unless otherwise stated, figures quoted in this statement are for the three months ended 30 September 2017.

Trevor Finn, Chief Executive:

"Following a strategic review, the Board is now committed to focussing on reshaping the business to accelerate transformation.

We are placing our software and online technologies at the heart of our business as a platform to fulfil customers' vehicle and servicing needs.

We believe this strategy will provide more reliable and sustainable returns."

Strategy

The Board has carefully considered the strategic priorities of the Company. As a result we announce that:

Used Cars and Aftersales Servicing

- We remain committed to our strategic goal to double used car revenue over the five years to 2021 and in order to maintain growth in our used car and aftersales business we will continue to invest in capacity across the UK in both of these areas.
- In order to enhance and accelerate our progress in this area we will be seeking to make a senior appointment to lead all aspects of our UK used car operations.

UK New Car business

- We are conducting a strategic review of the premium brands, to evaluate by manufacturer the investment appeal of their franchise proposition.

- We will review capital requirements by manufacturer and only allocate capital where we see strong future prospects for reliable returns.

US Motor Group

- The conclusion of the strategic review of the US Motor Group has determined that there will be no further acquisitions in the USA.
- The Board considers that it would be appropriate in the light of our capital allocation priorities to assess the ongoing value of this business to the Group.

Software and online

- Our Software business is a unique asset in our industry with a global opportunity.
- It is an online fulfilment platform for the sale and servicing of vehicles for retailers and manufacturers.
- We are placing this asset at the heart of our business as a strategic priority and as such the senior management with technology expertise will play a larger part in the development of our business as a whole.

Quarter 3 trading financial highlights

- We anticipate that our full year underlying profit before tax will now be approximately £60m.
- We anticipate resumption of growth in profits in 2018.
- Revenue grew by 3.7% in the period on a like for like basis with used revenue growth of 18.1%. For the year to date our revenue has grown by 6.7% on a like for like basis with used revenue growth of 21.1%.
- New gross profit reduced by 20.7% in the period on a like for like basis. For the year to date our new gross profit has reduced by 10.2% on a like for like basis.
- Used gross profit (including the negative impact of pre-registration and demonstrator sales) reduced in the period by 20.3% on a like for like basis. For the year to date our used gross profit has increased by 2.1% on a like for like basis.
- Aftersales gross profit reduced by 3.0% in the period on a like for like basis with one working day less in the period. For the year to date our aftersales gross profit has grown by 3.0% on a like for like basis.
- Overall in the quarter, underlying like for like profit before tax was a break even position.
- Our debt ratio remains below our target range.
- Our net debt has reduced by £34.5m in the period whereas in the prior year Q3 period the net debt reduction was £2.5m.
- During the period we completed the acquisition of Chevrolet Puente Hills, California for a consideration of £17.7m which will be immediately earnings enhancing.

Trading Update

The decline in demand for new cars and the consequent used car price correction has impacted this year's profit outturn and we anticipate that our full year underlying profit before tax will now be approximately £60m. However, we anticipate resumption of growth in profits in 2018 for the reasons outlined.

During the quarter as consumer confidence waned we experienced significant market pressures. As described below we expect the new car market to continue to decline this year and the first half of next year as car manufacturers continue to adjust to the reduced level of demand for new cars.

Our business is underpinned by stable aftersales profitability and we expect our used car volumes to continue to grow as we make progress on our goal to double used revenue in the five years to 2021. We are pleased to see our used margins are now recovering.

UK Motor Group

We operate our business in the used, aftersales and new vehicle markets under the Evanshalshaw.com and Stratstone.com brands within our UK Motor business, facilitated by our Software online fulfilment platform (Pinewood.co.uk).

New

New gross profit fell by 20.7% in the period on a like for like basis and by 10.2% for the year to date on a like for like basis. During Q3 total UK market registrations fell by 8.9% whereas retail registrations fell by 8.5%. On a year to date basis total UK national market registrations fell by 3.9% and national retail registrations fell by 6.1%. In the premium sector we have experienced unprecedented pressure on new vehicle margin caused by certain manufacturers continuing to force vehicles into the market despite softening demand.

It has been noticeable this year that registrations have declined in the volume sector but registrations have been maintained in the premium sector as previously described. Coupled with new margin pressure, the reduction in new vehicle retail registrations in the volume sector of 13% in the quarter has caused a reduction in profitability in our volume franchises.

We expect new car registrations to continue to reduce for the remainder of this year and into next year with the volume franchise reductions easing first, followed by a normalisation of the registrations of premium vehicles. With this overall normalisation of registrations we would then anticipate new car margins returning to previous levels.

Used

Used market share growth continues to be a key strategic priority for the Group. Used like for like revenue grew by 18.1%. Gross profit (including the impact of pre-registration and demonstrator sales) is up 2.1% for the year to date in spite of a reduction by 20.3% in the period on a like for like basis.

During the quarter we experienced a reduction in margin due to price corrections in the used vehicle market. This price correction, which was primarily focussed on some premium brands and therefore affected our Stratstone business, was a reaction to significant numbers of cars being registered and then sold into the market at significant discounts. This practice drives down the value of younger cars in the market and nearly new inventories (eg dealer demonstrators and loan cars). We addressed this issue quickly in order to mitigate margin erosion and continued to turn our inventory. We are now experiencing an improvement in margin going into the fourth quarter which we expect to normalise by the year end. During the third quarter the combined gross profits in new and used cars from two premium car manufacturers in Stratstone declined by £10.9m compared to the prior year.

We have continued to rollout additional used car and aftersales capacity to complete a national UK presence for the sale and servicing of vehicles. Year to date we have opened 6 locations including Dartford and Ashford (Surrey) in the quarter.

Aftersales

Aftersales is our largest profit contributor. Whilst gross profit fell by 3.0% in the period on a like for like basis (with one less working day), overall gross profit for the year to date is up 3.0%. The Group is benefiting from the increased new vehicle supply over the last five years which continues to increase the zero to six year old vehicle parc. Additionally, we also benefit from our growing market share in used vehicles which provides an increasing opportunity for aftersales work.

Software and online

Our Software business, Pinewood.co.uk continues to grow its user base, including further increases in the European customer base and completing its first system deployment in the Asia Pacific region.

During the period our website visits grew by a further 21.4%.

US Motor Group

Our US Motor business has had another strong quarter. During the period we completed the acquisition of Chevrolet Puente Hills, California for a consideration of £17.7m. This business will be immediately earnings enhancing. We anticipate completing an additional US$ facility this year to fund approximately £9m of the property acquired. This acquisition will complement our existing US Motor businesses by giving us significant used car capacity in the region.

Leasing

Our Leasing business continues to grow its vehicle book and has had strong performance in the period.

Balance sheet

Our financial position remains strong, with our debt : underlying EBITDA ratio remaining below our target range of 1.0 to 1.5. Our net debt has reduced by £34.5m in the period whereas in the prior year Q3 period the net debt reduction was £2.5m.

Board change

The Company announces that Mel Egglenton has stepped down as Chairman and non-executive director for personal reasons, with immediate effect.

Chris Chambers, a non-executive director since January 2013 and the senior independent director since November 2014 has been appointed as Chairman.

Mel Egglenton said "I am pleased to have led the development of Pendragon since being appointed Chairman in May 2013 and feel that we have achieved much in a challenging retail environment. I am confident that in Chris Chambers, we have a Chairman whose skills and experience are ideally suited to the next stage of the Company's development".

Chris Chambers said "Mel's sound guidance and firm leadership have been invaluable to the development of the Company's strategy over the past four years. I look forward to working with the Board and the executive team in the next stage of the Company's development".

Outlook

We anticipate that our full year underlying profit before tax will now be approximately £60m. However, we anticipate resumption of growth in profits in 2018.

The management team have reacted to changes in the industry and is undertaking a significant transformation of the business as technology takes an ever increasing role in car retailing and servicing.

We are focussed on growth in our used car and aftersales business and we have placed our global software asset at the heart of our business.

We have a unique opportunity to make appropriate investment and focus on our strategic priorities to give more predictable, reliable earnings.

Investor and analyst call

We have published a presentation in the Investor Relations Section of our website (http://www.pendragonplc.com/investors/). We will be hosting a call for investors and analysts at 0830 today on the following number:

Standard International Access - +44 (0) 20 3059 2627
UK Toll Free - 0800 368 0707
Participant PIN: 1750576#

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