

PENDRAGON PLC

2020 HALF YEAR RESULTS

29TH SEPTEMBER 2020

Agenda

1. Introduction

Bill Berman

1. H1 FY20 COVID-19 update & performance overview

Bill Berman

3. Group strategy recap

Bill Berman

2. Financial review

Mark Willis

4. Summary & outlook

Bill Berman

Introduction

Pandemic response

- **Outstanding response from team**
- **Demonstrated strong operational resilience**
- **Developed capabilities and streamlined the business**

First-half performance

- **H1 underlying loss before tax £31.0m (H1 FY19 loss: £32.2m)**
- **Closing net debt £46.0m (FY19: £119.7m)**

Outlook

- **Strong performance since re-opening**
- **Launched an exciting strategy to: transform automotive retail through digital innovation and operational excellence**



H1 FY20 COVID-19 update & performance overview

Managing the pandemic (1/2)

Context

- **Government mandated closure of all UK dealerships from 23rd March until 1st June**

Objectives

- **Ensure health and wellbeing of customers and associates**
- **Protect cash position given trading impacts**
- **Safely reopen locations at the beginning of June**

Actions

- **Rapid and decisive action taken to minimise the impact of the Pandemic and to protect cash:**
 - *Utilised government support measures*
 - *Over 80% of workforce furloughed*
 - *Capital expenditure reviewed*
 - *Support from OEM's and stocking loan providers*
 - *Voluntary management pay cuts of up to 20%*
 - *Move to monthly rent payments*
 - *Reduced all discretionary cost activity*

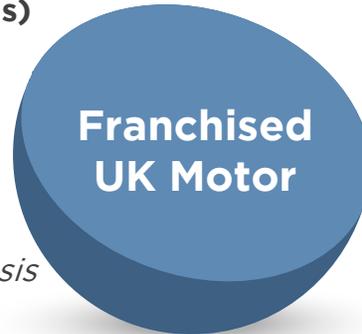
Managing the pandemic (2/2)

Actions (cont...)

- **20 service centres remained open, initially to support key workers, up to 125 opened during May**
- **Group accelerated development of its digital and fulfilment capabilities:**
 - *Online payment functionality*
 - *Click & collect*
 - *Home delivery*
- **Pinewood and PVM continued trading throughout to support their customer base**
- **Safe ways of working and new PPE introduced across the business**
- **Successful reopening executed**
- **New operating structures defined**

Divisional H1 operating highlights (1/2)

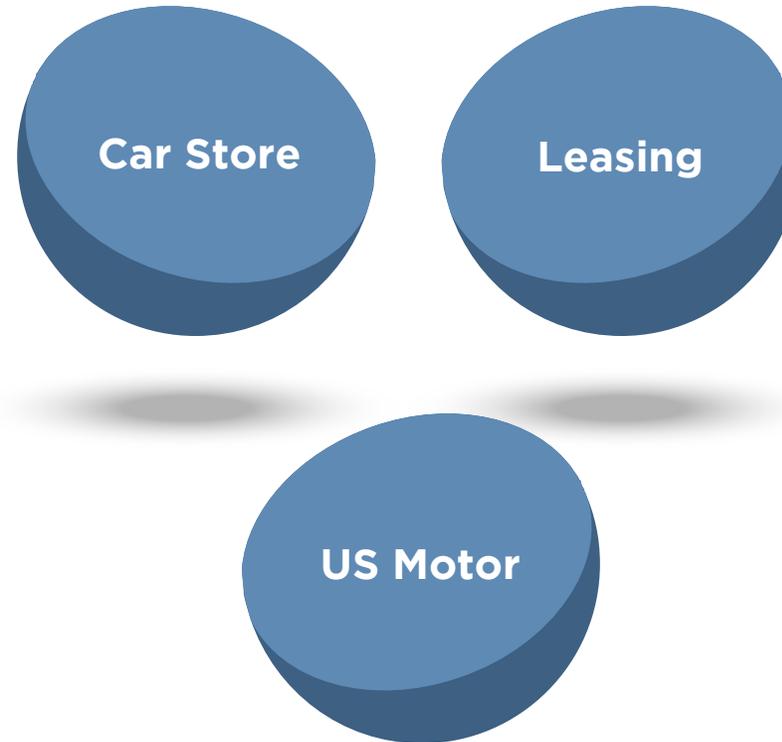
- Significant changes to operating model to provide safe physical environments
- Rapid development of digital & fulfilment capabilities
- Materially impacted by lock-down period
- Underlying operating loss of £18.1m (H1 FY19: loss of £7.7m)
- Total revenue down 46.6% (44.5% on a LFL basis)
 - New cars down 47.9% LFL vs. a market down 48.5%.
 - Used cars down 45.3% on a LFL basis vs. a market reduction of 28.7%, reflecting H1 FY19 stock clearance activity
 - Aftersales revenue down 40.4% on a LFL basis
- Improved gross margins of 10.2%, increasing from 9.1% in H1 FY19
 - Used cars improving from 4.9% in H1 FY19 to 7.6%, adjusted for additional stock provision
- Total operating costs were down 33.1% (-31.3% on a LFL basis) with costs managed tightly during the pandemic, supported by government programmes



- Pinewood's revenue proved resilient, down 4.5%
- Discount offered to support customers
- Underlying operating profit of £5.9m (H1 FY19: £6.5m)
 - Customers offered a 25% reduction in recurring fees for a three-month period
 - User numbers up 2% vs H1 2019
 - Pinewood's international business continues to grow, particularly in the Nordic countries where the impact of the COVID-19 pandemic on business activity has been more limited

Divisional H1 operating highlights (2/2)

- Significant performance improvement in Car Store prior to pandemic through improved operating controls and stock management
- Improved gross margins and operating costs following the estate restructuring exercise completed in H2 FY19
 - Gross margin 6.7% vs. H1 FY19 3.1%
- Underlying operating loss of £1.7m (H1 FY19: loss of £19.1m)
- Good progress has been made with the property management of the closed store estate;
 - 10 of 24 closed locations successfully sold, sublet or lease exit achieved



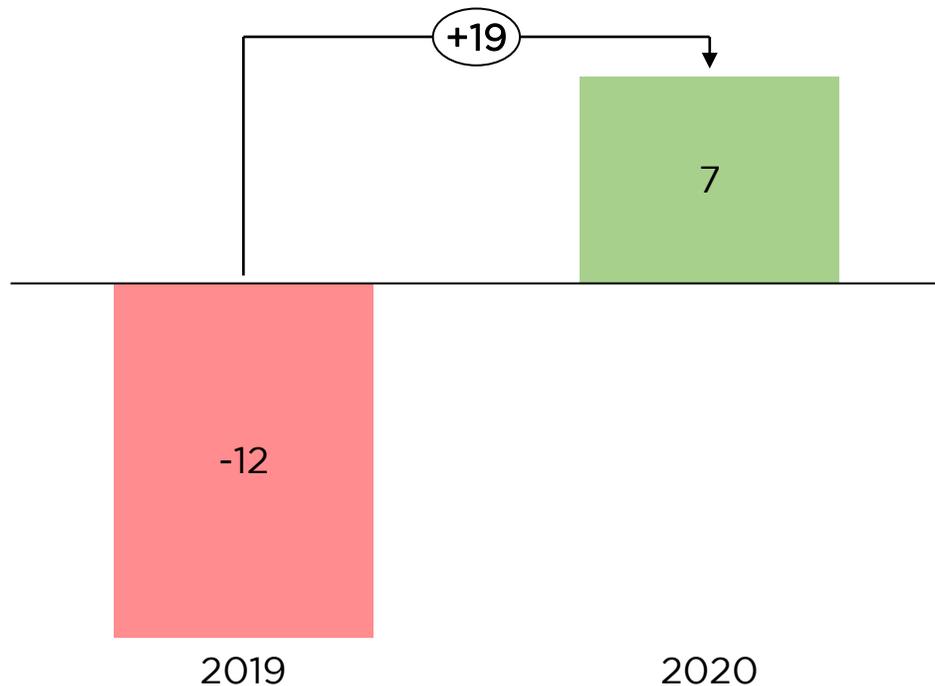
- Pendragon Vehicle Management (PVM) saw a reduction to its fleet size of 2.3% vs H1 FY19
- Lower levels of new business during the pandemic
- Underlying operating profit of £4.7m (H1 FY19: £6.3m)
- The overall impact was mitigated by vehicle lease extensions and payment holidays for users, with payment holidays funded by the finance lenders
- Extensions led to lower disposals, resulting in lower gross profit in the period

- Group ambition remains to dispose of the US Motor sites, with targeted combined proceeds of £100m before tax:
 - Total current proceeds from the US Motor site disposals of £78.8m
 - Agreement entered to sell Los Angeles for approximately £15.8m (subject to completion adjustments) announced on 7th September 2020
 - Active discussions ongoing for the disposal of the remaining location in Santa Monica

Strong performance in July & August

Underlying PBT July and August, 2019 vs. 2020

£m



- **Material year on year profitability improvement in the first two months of H2 FY20**
- **Gross margin for the two month period of 11.9%, up from 10.2% in 2019, used gross margin rates at 8.9% vs. 6.5%**
- **Significantly improved cost performance - LFL costs down 18% in the two months combined**
- **Underlying PBT £7.0m, up £19.0m vs. comparative £12.0m loss**
- **September trading performing well, in line with our expectations**

Group Strategy recap

Our vision

**“Transform automotive retail
through digital innovation
and operational excellence”**

Strategy

1. Unlock value in Franchised UK Motor



- Accelerate digital innovation
- Drive operational excellence & best practice
- Lean and efficient cost base

2. Grow and diversify Pinewood



- Deliver material existing order pipeline
- Geographic expansion
- Digital product extension

3. Disrupt standalone used cars



- Re-brand
- Differentiate value proposition
- Scale the physical estate

Pendragon's advantages

Strategic pillars

1. Unlock value in Franchised UK Motor



2. Grow and diversify Pinewood



3. Disrupt standalone used cars



Pendragon's advantages

- Leaner cost base & improved efficiency
- Intragroup supply scale for standalone used cars
- Data availability and technology capability
- Portfolio breadth & customer reach

- Advanced digital capabilities
- Control of the ecosystem
- Varied drivers of Group profitability & non-UK reliance

- Vertically integrated assets and capabilities
- No OEM dependency and associated flexibility
- Margin upside

Financial targets

Transformative plan to restore and improve underlying profitability

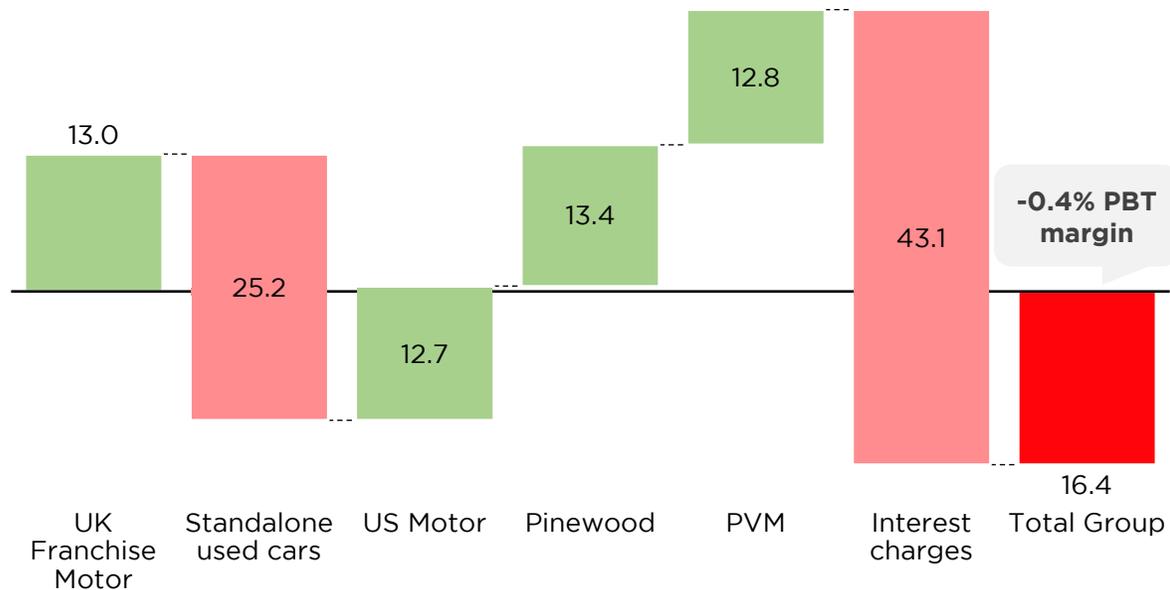
Delivered from an improved cost base following FY20 restructuring

Targeting a c.2% underlying PBT margin by 2025

Capital expenditure averaging c.£45m p.a. from 2021 - 2025

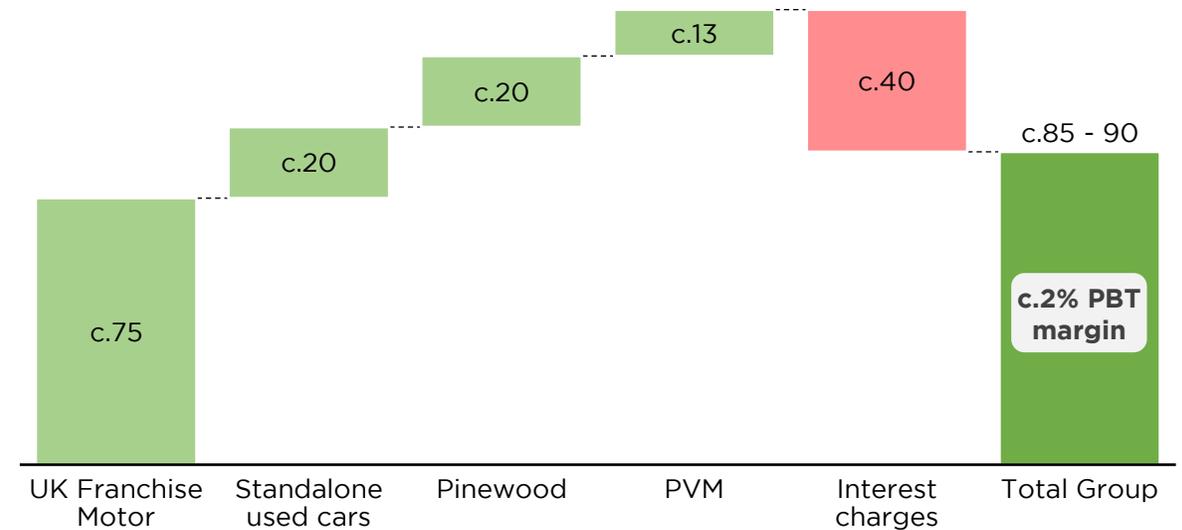
PBT Performance, FY19 Actual

£m



PBT Performance, FY25 Targets

£m



Financial review

Key metrics – H1 FY20



£1,218.3m
-50.4%



£135.3m
-42.5%



-£31.0m
+3.7%



£46.0m
-£73.7m



£44.1m

Financial summary: Income statement

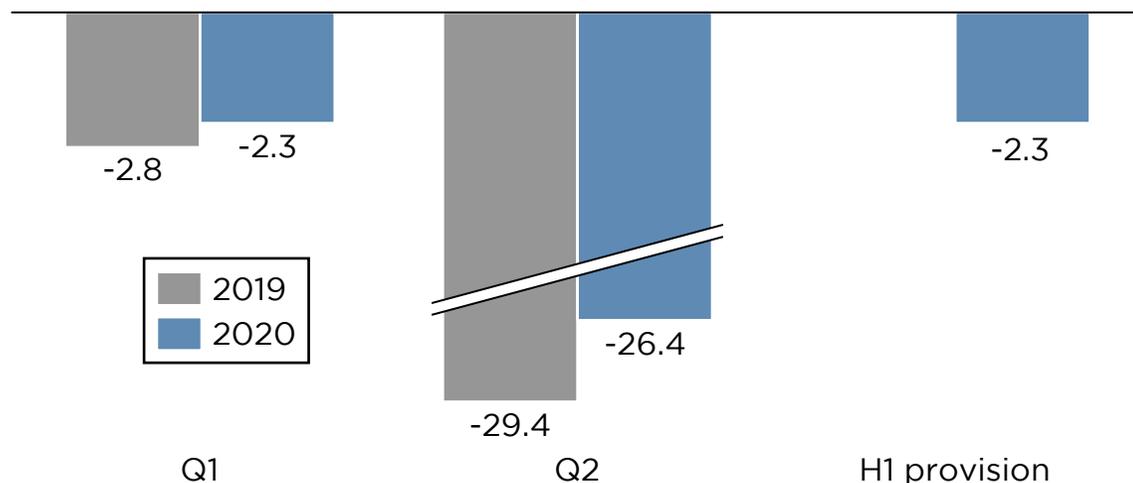
Income Statement (£m)			
	H1 2020	H1 2019	% Change
Revenue	1,218.3	2,455.6	-50.4%
Gross Profit	135.3	235.2	-42.5%
Gross Margin %	11.1%	9.6%	+1.5%
Operating Costs	(146.1)	(245.9)	+40.6%
Operating (Loss) / Profit	(10.8)	(10.7)	-0.9%
Operating Margin %	-0.9%	-0.4%	-0.5%
Interest	(20.2)	(21.5)	-6.0%
Underlying Loss Before Tax	(31.0)	(32.2)	+3.7%
Non-underlying Items	(21.0)	(102.4)	+79.5%
Loss Before Tax	(52.0)	(134.6)	+61.4%
Underlying Earnings Per Share	(1.7)p	(1.9)p	-

- Revenue decline of 50.4% driven by COVID-19 pandemic and business disposals and closures
- Strong gross margins, driven by improved used car margin performance
- Cost action, strong management and government support led to reduced operating costs:
 - Run rate operating costs & interest were c.£35m per month
 - c.50% mitigated during lock-down through cost reductions and furlough support
- Lower interest charge as a result of lower stocking charges following stock reductions
- Underlying loss before tax £(31.0m), H1 FY19 £(32.2)m
- Non-underlying items:
 - Loss on disposal of Puente Hills Chevrolet £6.5m
 - Impairment £12.5m
 - Closure and redundancy costs £2m

Pandemic impact on financial performance

Underlying PBT by Quarter, 2019 vs. 2020

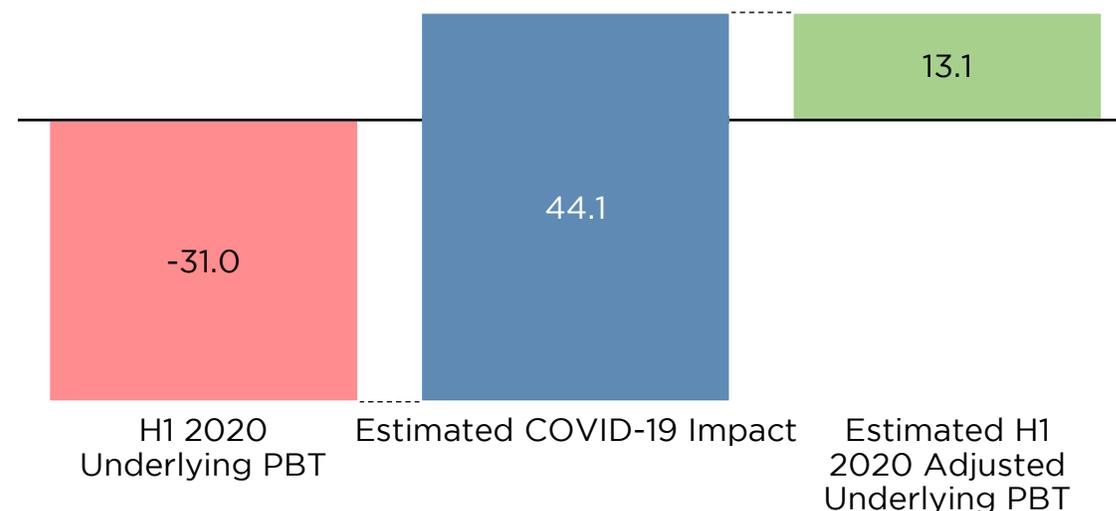
£m



- **Pre-pandemic, in January and February 2020, performance was ahead of last year and the Group's budget:**
 - Jan & Feb combined £5.1m up vs. FY19
 - March £4.6m down vs. FY19 as lock-down implemented
- **Q2 underlying loss of £26.4m from losses in April and May, profitable in June on partial re-opening**
- **£2.3m of additional stock provision in H1 reflecting used vehicle ageing during lock-down**

Estimated impact on H1 Underlying PBT, 2020

£m



- **Management estimate Pandemic impact to have been c.£44.1m against internal expectations**
- **Driven by loss of trade in key March period, lock-down in April and May and substantially lower manufacturer bonuses in June, linked to volume**
- **'COVID-19 Adjusted' PBT estimated at £13.1m**

Financial summary: Cashflow

Summary Cashflow (£m)		
	H1 2020	H1 2019
Underlying Operating Loss	(10.8)	(10.7)
Depreciation and Amortisation	22.2	22.6
Share Based Payments	0.4	0.4
Non-underlying Items	(2.0)	0.2
Working Capital and Contract Hire Movements	66.5	57.5
Operating Cashflow	76.3	70.0
Tax Received / (Paid)	0.8	3.2
Underlying Net Interest	(11.5)	(14.3)
Capital Expenditure – Car Store	(0.1)	(5.2)
Capital Expenditure – Franchise	(6.9)	(8.4)
Capital Expenditure – Underlying Replacement	(0.5)	2.8
Capital Expenditure – Property	(2.5)	(2.3)
Business and Property Disposals	31.9	3.2
Net Capital Expenditure, Acquisitions and Disposals	21.9	(9.9)
Dividends	-	(9.7)
Share Buybacks	-	(0.5)
Lease Payments & Receipts	(13.2)	(16.7)
Other	(0.6)	(0.3)
Opening Net Debt	119.7	126.1
Decrease / (Increase) in Net Debt	73.7	21.8
Closing Net Debt	46.0	104.3

- **Net debt reduction of £58.3m vs HY19 (FY19: £119.7m, down £73.7m)**
- **Net debt reduction benefiting from timing benefits**
 - Debtor reductions c.£45m
 - Vat deferral c.£30m
 - Rent timing c.£5m
- **Net CapEx inflow**
 - Business and property disposals £31.9m
 - Puente Hills Chevrolet US disposal £16.6m
 - Porsche Stockport sale and leaseback £10.5m
 - ex Borehamwood Car Store £4.5m
 - Capital expenditure £10m
- **Approximately £40m impact on cash flow from PBT impact of pandemic**
 - Recovery through ongoing rates holiday and reduced Capex
- **H2 expected Capex of approximately £20m**
- **Disposal of US asset in LA – expected proceeds £15.8m**
- **H2 cash restructuring costs of c.£7.5m relating to store closures and redundancies**

Financial summary: Balance sheet

Balance Sheet (£m)			
	Jun-20	Dec-19	Jun-19
Property	230.7	237.8	233.9
Plant & Equipment	215.5	231.3	223.9
Goodwill & Intangibles	160.4	172.3	195.6
Right of Use Assets	156.4	159.2	164.8
Inventory	747.8	839.0	785.3
Trade & other receivables	89.3	129.9	159.0
Net Assets Held For Resale	26.8	59.6	68.9
Creditors	(1,463.8)	(1,540.5)	(1,574.8)
Net Debt	(46.0)	(119.7)	(104.3)
Shareholders Funds	117.1	168.9	152.3

- Reduction in property from sale & leaseback of Porsche Stockport
- Plant and equipment reduction from reduced CapEx and ongoing depreciation
- Reduction in goodwill & intangibles due to £12.5m impairment in the period
- Stock has reduced as a result of store closures and focussed stock management
- Debtors balance reduced following collection of outstanding debtors in lockdown, primarily manufacturer vehicle bonus debt and trade debtors
- Reduction in creditors related to reduced vehicle inventory, partially offset by an increased VAT creditor as a result of the deferred VAT payment

Summary & outlook

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- **Strong year-on-year improvement in underlying profit expected in Q3**
- **Uncertainty remains for Q4:**
 - *New car market expected to be challenging*
 - *Potentially weaker economy post government support removal*
 - *Risk of further COVID-19 outbreaks and further lock-down*
- **Board remain cautious about short-term economic outlook**
- **Guidance currently remains withdrawn for FY20**
- **Strategy provides material opportunity for profit growth over the medium-term**

Appendix – Divisional financial summary

Franchised UK Motor

Franchised UK Motor (£m)				
	H1 2020	H1 2019	% Change	% Change LFL
Revenue	1,067.1	1,999.2	-46.6%	-44.5%
Gross Profit	108.9	182.2	-40.2%	-39.5%
Operating Costs	(127.0)	(189.9)	+33.1%	+31.3%
Operating Loss	(18.1)	(7.7)	-135.1%	-1,084.6%
Gross Margin %	10.2%	9.1%	+1.1%	+0.9%
Operating Margin %	-1.7%	-0.4%	-1.3%	-1.4%

New (£m)				
	H1 2020	H1 2019	% Change	% Change LFL
Revenue	460.2	871.8	-47.2%	-44.5%
Gross Profit	27.2	51.5	-47.2%	-44.4%
Gross Margin %	5.9%	5.9%	-	-

Used (£m)				
	H1 2020	H1 2019	% Change	% Change LFL
Revenue	509.2	959.4	-46.9%	-45.3%
Gross Profit	36.4	47.0	-26.8%	-29.6%
Gross Margin %	7.1%	4.9%	+2.2%	+1.9%

Aftersales (£m)				
	H1 2020	H1 2019	% Change	% Change LFL
Revenue	97.7	168.0	-41.8%	-40.4%
Gross Profit	45.3	83.7	-45.9%	-44.9%
Gross Margin %	46.4%	49.8%	-3.4%	-3.7%

Software - Pinewood

Software - Pinewood (£m)			
	H1 2020	H1 2019	% Change
Revenue	8.5	8.9	-4.5%
Gross Profit	7.8	7.9	-1.3%
Operating Costs	(1.9)	(1.4)	-35.7%
Operating Profit	5.9	6.5	-9.2%
Gross Margin %	91.8%	88.8%	+3.0%
Operating Margin %	69.4%	73.0%	-3.6%

Car Store

Car Store (£m)				
	H1 2020	H1 2019	% Change	% Change LFL
Revenue	43.1	170.8	-74.8%	-41.4%
Gross Profit	2.9	5.3	-45.3%	-6.2%
Operating Costs	(4.6)	(24.4)	+81.1%	+62.6%
Operating Loss	(1.7)	(19.1)	-91.1%	-82.4%
Gross Margin %	6.7%	3.1%	+3.6%	+2.6%
Operating Margin %	-3.9%	-11.2%	+7.3%	+8.7%

Leasing – Pendragon Vehicle Management

Leasing – Pendragon Vehicle Management (£m)			
	H1 2020	H1 2019	% Change
Revenue	31.1	42.8	-27.3%
Gross Profit	6.7	8.4	-20.2%
Operating Costs	(2.0)	(2.1)	+4.8%
Operating Profit	4.7	6.3	-25.4%
Gross Margin %	21.5%	19.6%	+1.9%
Operating Margin %	15.1%	14.7%	+0.4%

US Motor

US Motor (£m)				
	H1 2020	H1 2019	% Change	% Change LFL
Revenue	68.5	233.9	-70.7%	-32.1%
Gross Profit	9.0	31.4	-71.3%	-33.6%
Operating Costs	(10.6)	(28.1)	+62.3%	+15.2%
Operating Loss	(1.6)	3.3	-148.5%	-162.5%
Gross Margin %	13.1%	13.4%	-0.3%	-0.3%
Operating Margin %	-2.3%	1.4%	-3.7%	-3.2%