2 March 2023

Vertu Motors plc ("Vertu Motors" or the "Group")

Trading Update: Group trading in line, Helston integration on track, cash generation better than expected

Vertu Motors, a leading UK automotive retailer with a network of 191 sales and aftersales outlets is pleased to announce the following update with regards to the five-month period to 31 January 2023 (the "Period") ahead of its preliminary results for the year ended 28 February 2023 to be announced on 10 May 2023. The Group continues to trade in line with management expectations.

HIGHLIGHTS

- Group trading in line with management expectations
- Year-end net debt now expected to be £80-85m (versus previous guidance of £100-110m) on strong operating cashflow and working capital management
- Core Group service gross profit grew +5.2% vs. prior year as recent increase in technicians drove market share gain
- Helston integration on track, with confirmation of £3.2m annual synergy target to be achieved by FY2025
- 37 sales outlets added to Group portfolio since 1 December 2021, including 27 from Helston and 2 from BMW Motorrad acquisitions underpinning scale benefit opportunities
- Signs of new car supply improving after extended period of disruption with significant supply constraints in used cars remaining
- Used car gross margin normalising back to historical rates in line with expectations. Used car pricing remains firm overall
- Commercial vehicle division growth ahead of the market, with Vansdirect making a significant contribution
- Interest rate cap implemented on £50m of mortgage debt and an interest rate swap arrangement is in the process of being implemented in respect of £30m of borrowing under the revolving credit facility (RCF), to mitigate interest rate risk

Robert Forrester, Chief Executive of Vertu Motors said:

"I am pleased to report that trading remains in line with expectations against a complex macro backdrop. The entire Vertu team has put in hard work and dedication once again, and I would like to thank them all. Used car margins have normalised back towards historical levels as we had expected and there are tentative signs of improving new car supply. The performance of our service and repair business has been strong.

We have been working at pace to integrate the recently acquired Helston Motors business and this is progressing well. We are excited about the opportunities our enlarged portfolio will create for Vertu Motors."

	5-month period ended 31 January 2023 Var to 2022	
	Like-for-like	**SMMT UK registrations**
Group Revenues	9.4%	
Service Revenues[2]	7.6%	
Volumes:		
Used Retail Vehicles	(4.4%)	
New Retail Vehicles	(5.4%)	(1.5%)
Motability Vehicles	59.7%	44.1%
New Fleet Cars[3]	13.2%	33.4%
New Commercial Vehicles	7.0%	(8.5%)

[2] includes internal and external revenues
[3] includes agency volumes

TRADING UPDATE for the 5-month Period ended 31 January 2023

All commentary below reflects the 5-month Period ended 31 January 2023 compared to the 5-month Period ended 31 January 2022 unless stated.

Used vehicle sales

Reduced new vehicle sales in recent years continue to impact the used vehicle market (as they will for the foreseeable future) restricting fresh supplies of used vehicles. This constrained supply aided price stability in the average price of a used car in the UK over the Period and such stability is expected to continue. Within this overall benign picture, however, there has been recent much publicised weakness in the price of used electric vehicles in the UK, which saw average values decline by 17.0% on average over the Period.

The Group's like-for-like volume of used vehicles sold in the Period fell by 4.4% when compared to the same period last year. Gross margin percentages normalised to 7.0% from 9.4% and average selling prices were stable at high levels. The Core Group's gross profit per unit reduced to £1,400 from the record levels seen in FY22, a decline of £455 per unit. Whilst used electric vehicles currently represent a small proportion of Group sales, dilution of margins due to pricing pressure on used electric cars was visible. Ongoing restricted supply of cars less than three years old led to the Group retailing older vehicles. As anticipated, Core Group gross profit generated from used vehicle sales in the Period was £16.9m lower than the record levels of profitability achieved in FY22.

New retail car and Motability sales

The UK new vehicle market recorded 1.61 million registrations in the 12 months to 31 December 2022 (SMMT), a 1.5% decline on the low level of registrations seen in 2021. Supply-side issues, driven by component shortages, remain the primary reason for the continued subdued new vehicle market though prices also remain high which will be impacting demand levels.

SMMT data showed a 1.5% decline in UK private registrations in the Period. The Group's like-for-like volumes of new retail vehicles fell by 5.4% against a strong market outperformance in the comparative Period as the Group emerged from lockdowns quicker than the sector in general. The Core Group took 4.0% (2022: 4.0%) of the UK new retail market in the Period.

Group Motability volumes grew significantly by 59.7% in the Period on a like-for-like basis, a strong outperformance compared to a rise in UK registrations in this channel of 44.1%. The Group has always had a strong focus on Motability sales and again its portfolio of Manufacturer partners enhanced the Group's market share to 6.0% in the Period (2022: 5.2%). The Group is responsible for the largest fleet of Motability vehicles in the UK, and this makes a significant contribution to Group aftersales revenues.

In the Period, Group gross profit per unit on the sale of new retail and Motability units improved to £2,344, a 3.6% increase on the comparative period. Like-for-like gross profits from the sale of new retail and Motability vehicles therefore grew £5.1m compared to the same Period last year on the back of the stronger margins.

In January 2023, the first major franchise, Mercedes-Benz, commenced the agency model for the retailing of new retail vehicles.

Fleet & Commercial vehicle sales

The Group's like-for-like sales of new commercial vehicles grew 7.0% in the Period, with the SMMT reporting a decline of 8.5% in UK registrations. This significant market outperformance shows that the Group has been successful in improving market share in commercial vehicles with the performance aided by the Group's online commercial vehicle sales operation, Vansdirect. The Group took 5.9% of the new commercial market in the Period (compared to 4.9% last year).

The Group's like-for-like volumes in the fleet car channel grew by 13.2%, against a 33.4% growth in the UK fleet market. The Group saw strong fleet car sales in the comparative period due to emerging from lockdowns quicker than the competition.

Importantly, despite strong volume growth, the Group grew like-for-like gross profit per unit in the Fleet and Commercial channels and consequently Core Group gross profit generation rose £2.2m in the Period.

Aftersales

Aftersales is a vital contributor to overall Group profitability and delivered the following like-for-like trends in the Period, compared to FY22:

	Service £m	Parts £m	Accident & Smart Repair £m	Forecourt £m	Total £m
Revenue[4]	66.3	79.4	8.5	6.2	160.4
Revenue[4] change	4.7	7.8	1.5	2.5	16.5
Revenue[4] change (%)	7.6	10.9	20.7	69.2	11.5
Gross profit change	2.4	1.7	0.7	0.1	4.9
Gross margin[5] FY23 (%)	72.5	22.9	54.3	7.0	44.4
Gross margin[5] FY22 (%)	74.1	23.0	56.1	7.2	46.1

[4] includes internal and external revenue
[5] margins in aftersales expressed on internal and external revenue

- *Service*

Core Group service revenue in the Period was £4.7m above FY22 levels, with increases in revenue from all key channels, retail, warranty and internal. An improvement in warranty revenue is a reversal from recent trends for reduced Manufacturer warranty revenue, that resulted from reduced mileages driven during lockdown and the reduction in UK new vehicle registrations. The Group's performance in warranty sales has been aided by some significant vehicle recalls in the Period in several franchises.

The Group has proactively improved its service capacity by reducing technician vacancy levels. The Group continues to ensure that pay levels for technicians are competitive with further pay rises implemented on 1 March 2023. Like-for-like service gross margins have reduced from 74.1% in FY22 to 72.5% in the Period reflecting these higher payroll costs.

- *Parts*

The Group successfully grew like-for-like revenue and gross profits from the sale of parts in the Period compared to FY22. The Group has very successful scaled parts operations operating under the traditional and agency models and the Group continues to take market share. Gross margins in parts were stable at 22.9% resulting in an increase in core gross profit of £1.7m.

- *Accident and Smart Repair*

The Group's Smart Repair operations continued to expand in the Period and now operates a total of 106 vans. The Group's accident repair centres continue to benefit from improved operational excellence resulting from having dedicated specialist management in place. Overall, the Core Group saw improved revenue and gross profit from the accident and Smart repair channel in the Period.

Overall, core Group aftersales margins were 44.4% (FY22: 46.1%) with core gross profit generation up £4.9m in the Period on improved volume. Margins were diluted by sales mix as lower margin parts and accident repair areas grew faster than the higher margin service channel.

Operating expenses

Group expenses increased by £11.9m in the Period compared to FY22. Like-for-like Core Group expenses grew by 4.9% (£7.3m) over Period, with dealership acquisitions accounting for the balance.

The Group has continued to invest in driving growth and ensuring it has the right resource levels to serve its customers and deliver an outstanding service. A £3.9m increase in core employment expenses arose in the Period compared to FY22. Alongside salary increases, to ensure colleague retention levels were increased and recruitment targets achieved, the Group has invested in additional headcount in the Group's service departments with a major apprentice recruitment drive as well as expansion of the Gateshead based customer experience centres, software development, cyber security, and digital marketing functions.

Energy has been a cost headwind for the Group. While the Group benefitted from below market rate fixed contracts on electricity up to September 2022, contract expiry led to £2.7m of additional costs for the Group in the Period. The Group is highly focused on reducing energy usage, achieving a 3.9% reduction in like-for-like electricity usage during the Period. Furthermore, the Group is deploying its previously announced energy purchase strategy and installing solar panels. The Group has to date installed solar panels at 7 of 46 planned installations which when complete in December 2023 should generate 10% of the Group's electricity load with an expected total capital expenditure of £2.7m.

Interest Costs

With an easing of supply of new vehicles in some franchises, together with increased costs of borrowing, the Group saw new vehicle stocking charges increase by £1.3m compared to the very low levels in the prior Period.

In addition, the increased level of debt in the Group following the acquisition of Helston Garages, as expected, increased interest costs.

PORTFOLIO CHANGES

On 17 December 2022 the Group completed the acquisition of Helston Garages Group Limited ('Helston') adding 28 predominantly premium franchised sales outlets. This acquisition radically enhanced the Group's scale and reach into the South West of England. The integration of these acquired dealerships onto the Group's systems and processes is on track, with only the acquired BMW & MINI businesses still to be rebranded and transitioned in the coming weeks. The Group disposed of a small acquired Peugeot outlet in Honiton in January to the Snows group in order to optimise representation. The Group represents Peugeot in nearby Exeter and Peugeot related operations ceased at Honiton on transfer.

On 31 October 2022 the Group acquired the business and assets of two BMW Motorrad outlets in Shipley, near Bradford, and Rotherham from Saltaire Motor Company Limited. These Businesses have been rebranded to trade under the Vertu brand and have been fully integrated into the Group.

The Group remains committed to its strategy to multi-franchise certain of its locations where this generates enhanced returns. The Period saw the Group execute on this strategy in several locations as set out below:

- On 21 October the Group continued with its expansion with Toyota in the West of Scotland opening its second site for the brand in Hamilton, in existing premises alongside the Mazda franchise.
- Work was finalised on the introduction of sales outlets for Vauxhall and Citroen alongside the Group's Peugeot operation in Harlow. The outlets opened in November 2022 following the move of the aftersales operation off site to a new larger dedicated aftersales operation.

The Board continues to actively manage the Group's portfolio of dealerships and assess further growth opportunities, utilising strict investment return metrics to ensure discipline in capital allocation. The Group has recently announced that its BMW/Mini outlet in Malton, Yorkshire will close at the end of March. Operations will consolidate at the Group's operation in nearby York and the Malton property lease will cease in October 2023. This action will reduce operating expenses whilst the Group seeks to retain customers in its York and Stockton BMW/Mini dealerships.

Net Debt

To fund the acquisition of Helston Garages Group in December 2022 the Group increased its debt funding though renegotiated and new debt facilities. Vertu's existing lending banks were joined by a third lending bank to extend the Group's Revolving Credit Facility ('RCF') out to November 2025, with the option to further extend until November 2027 and increasing the overall facility limit to £93m from £62m. In addition, the Group agreed a new 20-year mortgage facility of £74.8m provided by BMW Financial Services ('BMW FS') and increased stock lending facilities to £70m from £35m.

An interest rate cap contract has been completed by the Group. This limits the underlying Sonia rate on £50m of mortgage borrowings to a maximum of 4.5% (BMWFS base rate risk premium and the applicable margin of 2.8% will apply in excess of this maximum). To further limit the Group's exposure to future interest rate fluctuations on its RCF borrowings, the existing £22m current interest rate swap which expired in January 2023, will be replaced with a new fixed rate swap on £30m of the drawn RCF.

The Group expects net debt at year-end 28 February 2023 to be £80-85m (versus the £100-110m previous guidance), reflecting strong operational cashflow and working capital management.

OUTLOOK

The Board considers that scale is a key success factor in the UK automotive retail sector given the need for strong brands and investment in physical and digital capabilities and it continues to have ambitious growth aspirations for the Group as recently demonstrated with the acquisition of Helston Group. Our strong balance sheet and the ongoing support from lenders, our experienced leadership team and robust systems capabilities will ensure the Group continues to capitalise on the significant growth opportunities that exist in the sector.

As expected, trading conditions are normalising after a period of exceptional financial performance across the sector. New car supply is improving and should mean year-on-year volume growth of new and used car sales for the market in 2023. Used car supply remains tight given the lack of new car sales in recent years and this is likely to underpin pricing in the year ahead. Clearly consumer confidence is volatile and higher interest rates and high vehicle prices may influence demand patterns. The Group will remain agile and dynamic in adapting to this environment.

The Group focus remains on those areas under its control: Cost will be managed tightly, while investing in growth opportunities; Helston integration will be completed into the Group and synergies delivered; aftersales market share gains remain a focus as we benefit from reduced technician vacancies and implement conquest and retention improvement strategies.

The Group will announce its preliminary results for the year ended 28 February 2022 on 10 May 2023.

For further information please contact:

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Notes to Editors

Vertu Motors is the fourth largest automotive retailer in the UK with a network of 191 sales outlets across the UK. Its dealerships operate predominantly under the Bristol Street Motors, Vertu and Macklin Motors brand names.

Vertu Motors was established in November 2006 with the strategy to consolidate the UK motor retail sector. It is intended that the Group will continue to acquire motor retail operations to grow a scaled dealership group. The Group's acquisition strategy is supplemented by a focused organic growth strategy to drive operational efficiencies through its national dealership network. The Group currently operates 187 franchised sales outlets and 4 non-franchised sales operations from 142 locations across the UK.

Vertu's Mission Statement is to "deliver an outstanding customer motoring experience through honesty and trust".

Vertu Motors Group websites – https://investors.vertumotors.com/ /www.vertucareers.com

Vertu brand websites – www.vertumotors.com / www.bristolstreet.co.uk / www.vertuhonda.com / www.vertutoyota.com / www.macklinmotors.co.uk / www.vertumotorcyles.com