4 March 2024

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

**Trading Update: Used car prices stabilised; new vehicle market uncertain; aftersales robust. Strong year-end cash position**

Vertu Motors, a leading UK automotive retailer with a network of 188 sales and aftersales outlets, is pleased to announce the following update with regards to the five-month period to 31 January 2024 (the "Period") ahead of its preliminary results for the year ended 29 February 2024 to be announced on 15 May 2024.

**HIGHLIGHTS**

- In line with expectations, UK used vehicle values have stabilised in recent weeks following post-October wholesale pricing correction.
- Group successfully increased used vehicle stock-turn and significantly reduced inventory levels to adjust to the changing market dynamics.
- Group delivered substantial £5.2m growth (28%) in core gross profits from fleet and commercial vehicle sales.
- New vehicle UK retail market is down year on year; Manufacturers discounting and enhancing offers to stimulate demand.
- Group aftersales operations delivered a robust performance with higher technician numbers, despite some parts supply challenges, with revenue and gross profit growth achieved.
- Operating expenses fell as a % of revenue to 9.8% (FY23: 9.9%).
- Full year FY24 adjusted[1] profit before tax expected to be broadly in-line with current consensus.
- Year-end net debt[2] expected to be reduced ahead of market expectations to between £60m-£65m, reflecting strong working capital management and robust free cash flow generation.
- Over £10m of cash receipts from surplus property disposals anticipated in the next 12 months with proceeds above net book value.

[1] Adjusted for exceptional items, share based payments charges and amortisation.
[2] Excluding lease obligations

**Robert Forrester, Chief Executive of Vertu Motors said:**

*''I am pleased with the team's performance against a fast-changing market backdrop with used vehicle prices now stabilised at lower levels and consumer uncertainty impacting retail demand for new cars. Our resilient aftersales business continues to thrive aided by higher technician numbers. The work that has gone into cost control and optimising stock levels has contributed to an excellent cash performance.*

*Despite the impact of the complex market dynamics on the short-term performance of the business, the current market presents opportunities for Vertu with our strong balance sheet providing; financial flexibility, portfolio of strong brands, robust and scalable systems, and a great team."*

| | 5-month period ended 31 January 2024 Var to 2023 | |
|---|---|---|
| | **Like-for-like** | **SMMT UK registrations** |
| Group Revenues | 7.8% | |
| Service Revenues[3] | 5.3% | |
| Volumes: | | |
| Used Retail Vehicles | 0.8% | |
| New Retail Vehicles[4] | (5.1%) | (3.8%) |
| Motability Vehicles | 73.1% | 77.9% |
| New Fleet Cars[4] | 14.8% | 18.5% |
| New Commercial Vehicles | (8.9%) | 21.2% |

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

**TRADING UPDATE** for the 5-month period ended 31 January 2024

All commentary below reflects the 5-month period ended 31 January 2024 (''the Period'') compared to the 5-month period ended 31 January 2023 unless stated.

**Used vehicle sales**

As outlined in the December trading update, there was a significant shift in UK used vehicle market dynamics, marked by a notable decline in wholesale prices which fell by 10.3% between October and December (Source: CAPHPI). This decline was primarily driven by an influx of supply into wholesale markets, compounded by subdued retail demand stemming from the dual impact of rising interest rates and high vehicle prices, thereby affecting affordability. Moreover, fleet companies benefitted from lower-than-market residual values on their de-fleet vehicles re-entering the market, with wholesale sellers willing to accept lower prices to liquidate inventory, further contributing to the overall price reduction. Premium vehicle values at the higher end of the market faced relatively greater weakness.

The Group has proactively adapted to these changing market dynamics, increasing stock-turn and delivering a substantial reduction in Group used inventory levels of over £40m over the Period, which has significantly reduced the Group net debt position. The Group effectively applied its Vertu Insights real time pricing algorithm to drive pricing updates, reacting quickly to the fast-moving market conditions to optimise volume and margin mix. This strategy was enhanced by the Group's strong marketing and digital capability. Group like-for-like used vehicle volumes grew 0.8% in the Period, a significant improvement on the 5.7% reduction in the first half of the financial year.

Gross profit generation from used car sales declined significantly compared to previous levels, as noted in the December trading update due to the market dynamics. The Core Group's gross profit per unit reduced to £1,241 in the Period delivering a gross margin of 6.3% (FY23 comparative period: £1,402 per unit, 7.0% margin). Core Group gross profit generated from the sale of used vehicles in the Period was consequently £4.7m lower than the level achieved in FY23.

Since January, margins have started to recover as stockturn increased and fresh stock came into play. Margins recovered first in the volume franchises and the Group is now seeing a return to more normal levels in the premium franchises.

**New retail car and Motability sales**

The UK new vehicle market saw its strongest performance since the onset of the pandemic, with 1.9 million vehicles registered in the 12 months to 31 December 2023 (Source: SMMT). This marked a substantial 17.9% increase compared to 2022. Nevertheless, despite this growth, the overall new car market remains 17.7% below pre-pandemic levels. The surge in registrations was predominantly driven by fleet volume, as supply constraints from the previous year dissipated, consequently satisfying pent-up demand from large fleet operators, particularly Motability. In contrast, UK private registrations were affected by cost-of-living pressures, elevated interest rates and the increased prices of new cars.

SMMT data showed a 3.8% decline in UK private registrations in the Period. The Group's like-for-like volumes of new retail vehicles fell by 5.1% with Core Group market share of the new retail UK market stable at around 4.0%.

Group Motability volumes grew significantly by 73.1% in the Period on a like-for-like basis, compared to a rise in UK registrations in this channel of 77.9%. The Group has always had a strong focus on Motability sales and remains responsible for the largest fleet of Motability vehicles in the UK, and this makes a significant contribution to Group aftersales revenues. The Group will benefit from this growth in sales in the service departments in the years ahead.

Manufacturers are facing a challenging combination of slow retail sales, complex new regulatory targets related to the share of electric vehicles (BEV), and increased competition from new entrants. As a result, significant discounting and finance offers are increasingly apparent to stimulate consumer demand particularly for electric models. The Group is seeing a dampening effect on new vehicle margins as competition to drive the market increases at the expense of margins and as the Motability channel increases as a proportion of the new car market.

In the Period, Core Group gross profit per unit on the sale of new retail and Motability was £2,010, a 13.1% reduction on the comparative period (FY23: £2,312 per unit). Like-for-like gross profits from the sale of new retail and Motability vehicles grew £0.7m compared to the same Period last year on increased volumes. This growth is lower than anticipated due to weaker margins noted above.

**Fleet & Commercial vehicle sales**

As set out above, the growth in UK vehicle registrations in 2023 was predominantly driven by fleet volume, particularly as large fleet companies were able to secure supply to satisfy pent-up demand to renew their fleets. The SMMT reported an 18.5% increase in fleet car volume in the Period and commercial vehicles registrations up 21.2%. A good proportion of these increased registrations arose in the daily rental market. The Group's like-for-like volumes in the fleet car channel grew by 14.8% in the Period. The Group's like-for-like sales of new commercial vehicles fell 8.9% in the Period. The Group's fleet and commercial activity does not include significant volume through the low margin daily rental channel.

Importantly, the Group grew like-for-like gross profit per unit in the Fleet and Commercial channels and consequently Core Group gross profit generation rose £5.2m in the Period.

**Aftersales**

Aftersales is a vital contributor to overall Group profitability and delivered the following robust like-for-like trends in the Period, compared to FY23:

| | Service £m | Parts £m | Accident & Smart Repair £m | Forecourt £m | Total £m |
|---|---|---|---|---|---|
| Revenue[5] | 69.4 | 88.5 | 9.8 | 4.9 | 172.6 |
| Revenue[5] change | 3.5 | 7.6 | 1.5 | (1.2) | 11.4 |
| Revenue[5] change (%) | 5.3% | 9.4% | 18.1% | (20.2%) | 7.1% |
| Gross profit change | 2.3 | 0.8 | 1.3 | (0.1) | 4.3 |
| Gross margin[6] FY24 (%) | 72.2% | 21.9% | 58.5% | 7.6% | 43.8% |
| Gross margin[6] FY23 (%) | 72.6% | 23.0% | 53.8% | 7.0% | 44.2% |

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

- *Service*

Core Group service revenue in the Period was £3.5m above FY23 levels, with increases in revenue from all key channels; retail, warranty and internal.

Aftersales demand remained strong and higher technician resource levels helped to drive increased revenues and an overall increase in core aftersales gross profit in the Period compared to the previous year. This improved resource level has aided performance in the Group's vehicle health check process, which has led to higher average invoice levels for service work. Service performance and delivery of outstanding customer experiences was, however, held back in the Period by the impact of dislocation in parts supply in respect of certain of the Group's Manufacturer partners. This led to significantly longer repair lead times for customers and reduced the efficiency of the Group's service operations.

Like-for-like service gross margins have reduced from 72.6% in FY23 to 72.2% in the Period reflecting the efficiency impact described above and higher levels of technicians pay.

- *Parts*

The Group successfully grew like-for-like revenue and gross profits from the sale of parts in the Period compared to FY23. Two operational enhancements have helped overall performance. First, improvements in the Group's vehicle health check process drove an increase in parts revenues per labour hour sold through the Group's workshops. Second, all the Group's dealerships are now serviced by a central parts sales hub which handles inbound parts sales calls in respect of retail parts sales, improving retail sales period-on-period. The Group also operates successful scaled parts operations operating under the traditional and agency models and continues to take market share. Parts margins reduced slightly to 21.9% in the Period reflecting reduced bonuses from Manufacturers.

- *Accident and Smart Repair*

The Group's Smart Repair operations run over 100 vans, mainly servicing the Group's dealerships' demand for internal repairs to used cars. The Group's accident repair centres continue to perform well. Overall, the Core Group saw improved revenue and gross profit from the accident and Smart repair channel in the Period, with strengthening margins.

A new retail focused smart repair operation has been created as a new business unit to serve the Group’s two million customers. Six vans will initially operate with a view to increase capacity substantially over the next 18 months as a high margin revenue stream.

Overall, Core Group aftersales margins were 43.8% (FY23: 44.2%) with core gross profit generation up £4.3m in the Period. Margins were diluted by sales mix as lower margin parts and accident repair areas grew faster than the higher margin service channel.

**Operating expenses**

Costs remain well controlled, with operating expenses as a percentage of revenue declining to 9.8% (FY23: 9.9%) in the Period.

Like-for-like Core Group expenses grew by 5.9% (£9.3m) over the Period. The biggest movements within this arose in salary, vehicle costs and energy.

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 £4.0m (4.6%) increase in core employment expenses arose in the Period compared to FY23, largely due to the success of the Group in filling vacant positions together with pay actions.

The cost of the Core Group’s demonstrator vehicle and courtesy fleet increased by £3.4m compared to the prior year Period. The Group not only saw higher levels of demonstrators mandated by Manufacturers as supply eased and product ranges expanded, but also increased vehicle depreciation rates, reflecting the price correction seen in the used wholesale market, and to ensure that vehicle carrying values on de-fleet will be appropriate.

Energy was a significant cost headwind for the Group in the first half of the financial year. Successful execution of the Group’s energy strategy along with market falls in energy prices led to a reduction in energy cost in the Core Group in the Period of £1.4m compared to the prior year.

**Interest Costs**

With an easing of supply of new vehicles, together with increased costs of borrowing, the Group saw new vehicle stocking charges increase by £2.3m compared to the prior year period.

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

**PORTFOLIO MANAGEMENT**

On 31 October 2023 the Group completed the acquisition of Rowes Garage Limited (“Rowes”). This added 4 sales outlets in South-West of England and further strengthened the Groups’ position in the region. These dealerships were rebranded to Bristol Street Motors or Vertu Motors and were fully integrated onto Group systems and processes upon acquisition. The outlets represent the Honda franchise in Plymouth and Truro and a used car sales outlet in Plymouth. In February 2024 the Honda outlet acquired in Plymstock was closed with the business being consolidated into the central Plymouth site. The now empty Plymstock dealership will be refranchised in due course as will the Plymouth used cars outlet with three franchises to be introduced to the city in the coming months. In addition, a surplus freehold property acquired located in Hayle was sold In January 2024, generating cash proceeds of £1.35m.

The Group continued to actively manage its dealership portfolio in the Period:

- On 12 September 2023, the MG franchise opened in Chesterfield, alongside the Group's existing Vauxhall dealership. This marked the fourth sales outlet for the MG brand (owned by SAIC of China) operated by the Group.
- In October 2023 the Group opened a relocated Vauxhall sales outlet in Newcastle upon Tyne in newly leased premises in the city. The substantial freehold dealership vacated by Vauxhall opened as a Ford car and commercial vehicle operation on 1 December 2023. This followed the award by Ford of Newcastle as a new area of operation for the Group. This additional significant Ford operation augments the existing representation of the brand by the Group in nearby Morpeth, Durham, and Hartlepool.
- On 28 November 2023, Bristol Street Motornation Stockton was re-franchised to Nissan, providing a substantial dealership for this brand in Teesside and augmenting the existing representation of the brand by the Group in nearby Darlington.
- The Group continued its pruning activities, closing its SEAT Cupra operation in Birmingham in January 2024 and relinquishing the Renault/Dacia franchises in Mansfield and the Hyundai Franchise in Morpeth. No material costs were incurred in these actions.
- 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. Strong cash receipts in the next 12 months of over £10m are anticipated from surplus property disposals. Proceeds are anticipated to be above net book value.

**Net Debt**

Year-end net debt (excluding lease obligations) is expected to be reduced on market expectations to £60m-£65m (FY23: £75.4m). This performance reflects strong working capital management, including a significant reduction in used vehicle stock in the second half. At the year end date, the Group had no utilisation of used vehicle stocking loans.

**OUTLOOK**

Full year FY24 adjusted[7] profit before tax expected to be broadly in-line with current consensus.

The significant used vehicle pricing correction which impacted performance in the Period has now largely stabilised with the latest valuation movements more in line with seasonal norms (Source: CAPHPI). The Group has worked hard and proactively to increase used vehicle stock turn and reduce overall inventory levels. Consequently, in recent weeks, improved used vehicle gross profit per unit has been generated by the Group.

Manufacturers of new vehicles selling in the UK face a daunting task to manage volumes and mix of Internal Combustion Engine (ICE) and Battery Electric vehicles (BEV) in the light of the new VETS legislation introduced by the UK Government to reduce emissions on new vehicles. Manufacturers will be seeking to avoid heavy fines due to non-compliance and this may lead to significant supply and pricing disruption as they balance manufacturing and supply into the UK. High new vehicle prices, particularly of battery electric vehicles, has impacted retail demand. Customers may choose to purchase a used vehicle rather than a new one, particularly as prices of used vehicles are more attractive following the market pricing correction. The Group's new vehicle order-take for the important plate change month of March is currently tracking at levels below prior year level as order banks have been satisfied and the UK moves to a supply push market. These trends have the potential to impact margin and volumes and leads to an uncertainty for the new retail market.

The Group's current focus is on continuing to successfully manage this period of adjustment in the market, where the consumer is impacted by high interest rates and the sector trends above. Recent pressures on short-term profitability have impacted the sector, but they do not change the longer-term fundamentals of our business. We are delivering on our stated strategy and are well-positioned to take advantage of opportunities that arise when the market is in an adjustment period, given the Group's track record of execution and strong financial position.

The Group will announce its preliminary results for the year ended 29 February 2024 on 15 May 2024.

[7] Adjusted for exceptional items, share based payments charges and amortisation.

**For further information please contact:**


**Vertu Motors plc**

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**Notes to Editors**

Vertu Motors is the fourth largest automotive retailer in the UK with a network of 188 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 184 franchised sales outlets and 4 non-franchised sales operations from 143 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