25 January 2018

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

Trading Update

Toughening market conditions: extension of share buy-backs

Vertu Motors, the automotive retailer with a network of 121 sales and aftersales outlets across the UK, announces the following update ahead of its preliminary results for the year ended 28 February 2018.

Overview

- The Board expects trading performance for the year ending 28 February 2018 to be moderately below current market expectations, following further declines in the new car market resulting from the depreciation of sterling and a softer general consumer environment.
- In the four months ended 31 December 2017 (the "Period") the Group saw the following trends in its key channels:

	Increase (decrease) period-on-period		
	Total	Like-for-like	SMMT UK Registrations
Group Revenues	(2.4%)	(0.1%)	-
Service Revenues	+1.9%	+3.7%	-
Volumes:			
Used retail vehicles	(5.0%)	(3.2%)	-
New retail vehicles	(15.7%)	(13.2%)	(9.5%)
New fleet cars	+10.7%	+12.4%	(11.8%)
New commercial vehicles	+0.3%	+0.4%	(4.9%)

- The high quality, high margin aftersales business continues to grow on a like-for-like basis with revenues and gross profits increasing in the core vehicle servicing activity, 38.1% of gross profit was earned from aftersales in the Period.
- Used vehicle volumes fell back slightly on a like-for-like basis following a period of over five years of continuous growth, reflecting a more subdued consumer environment and a substantial reduction in the sale of pre-registered vehicles as supply to the UK of new vehicles tightened.
- Used car like-for-like margins reduced slightly as residuals of nearly new vehicles in premium franchises came under renewed pressure.
- New retail vehicle volumes continued to soften in the period, particularly in volume franchises: margins were stable reflecting pricing discipline and an achievement of manufacturer targets.
- New fleet cars and light commercial vehicles gained significant market share against a declining market.
- Strong, property-rich balance sheet with very low levels of debt.
- Share buy-back programme: The Group has purchased 9.7 million shares (2.4% of the issued capital) for £4.3m and intends to continue this programme in line with its authority to do so.

Robert Forrester, Chief Executive of Vertu Motors said:

"The Group has experienced tougher trading conditions compared to recent years as Sterling's devaluation places pressure on new car pricing and supply. This has coincided with a slightly softer general consumer environment in the run up to Christmas which has been well-reported.

The Group continues to be very well positioned to take full advantage of weaker markets which, in previous sector downturns, have proven to provide opportunities. At the year-end we expect to have a strong balance sheet underpinned by a property-rich asset base with low levels of debt. We fully intend to continue our share buy-back programme as we believe this creates value and does not impact our ability to undertake value-enhancing investments in the business or undertake suitable acquisitions."

Aftersales

In the Period, the Group's aftersales focus continued to be on improving customer retention in the vehicle servicing departments (through selling service plans to customers, buying vehicles and enhancing the customer experience) and ensuring that the Group had the right and expanding level of technician resource. Technician vacancies in the Group are now at their lowest level for 18 months and aftersales colleague retention levels are set to improve following enhancements to the earnings packages of both technicians and service advisors. The Board is therefore delighted to report a continued like-for-like growth of 3.7% in our high margin vehicle servicing revenues. Whilst service margins declined slightly as expected driven by increased labour costs, overall like-for-like aftersales gross profits grew by 2.2% as parts margins strengthened. This represented the eighth consecutive year of similar growth and demonstrates that the Group's aftersales activities continue to provide a resilient and recurring base of profitability to the Group's results.

Used Vehicles

The used car market has recorded slight declines during 2017 reflecting two factors: a softening consumer environment and lower levels of pre-registration undertaken generally in the sector as new car supply into the UK declined (particularly in volume franchises) due to weaker Sterling. Media coverage of diesel cars may also be impacting the confidence of the consumer and the second half of the Period saw pressure on residuals, particularly in premium franchises, linked to strong manufacturer new car campaigns impacting nearly new product. As a consequence of these trends, the Group has seen a 3.2% reduction in like-for-like used vehicle volumes and a slight reduction in like-for-like gross margin in the Period.

New Cars

The UK new vehicle market recorded 2.54 million registrations in the 12 months to 31 December 2017 (SMMT), the third highest market in the last 10 years. Private car new vehicle registrations fell by 6.8% reflecting the impact of currency on the profitability of manufacturers importing vehicles into the UK. Price rises and transfer of supply to other markets have been witnessed particularly impacting volume manufacturers who have lost market share to premium marques. A number of major motor manufacturers have seen significant double-digit declines in their UK registrations.

The Group's like-for-like new retail vehicle volumes declined by 13.2% during the Period, reflecting the Group's franchise mix, while the SMMT data showed an overall fall of 9.5%. The Group achieved its manufacturer volume targets in the period, like-for-like gross margins were stable and like-for-like gross profit per unit increased by 2.9%, from £1,408 to £1,450.

Fleet & Commercial

The Group's fleet car and light commercial van business has continued to gain market share during the Period, with new like-for like fleet cars growing by 12.4% (SMMT – decline of 11.8%) and new light commercial vans up 0.4% (SMMT – decline of 4.9%). This is a very strong performance from this important part of the Group's business, which demonstrates the underlying quality of service which the Group's teams provide to business customers.

The changing mix between car and van sales resulted in a reduction in like-for-like fleet and commercial margins to 3.3% (2017: 3.7%).

Portfolio changes

The Group continues to focus on areas of under-performance in its' dealership portfolio with its strategy of "Fix, Re-franchise, sell or close". This strategy improves Group profitability by removing loss-making businesses, and on sale or closure of a business cash is released for reinvestment.

The Group has now completed its exit from the Fiat Group business with the closure of Worcester Fiat and Alfa Romeo. In addition, in January 2018 the Group disposed of a dealership in Boston which was loss-making, realising an estimated £1.7 million in cash including a freehold property.

Balance Sheet

The Group has a very strong balance sheet with a significant freehold property portfolio, a used car inventory largely unencumbered and very low levels of debt, providing considerable resilience and firepower for future growth. The Group has in place a five year banking facility with Barclays Bank plc and The Royal Bank of Scotland plc. This acquisition facility provides the Group with £40 million of committed borrowing capacity with the potential to add a further £30 million which is currently uncommitted. These arrangements provide the Group with the financial capacity to continue to expand the Group's dealership portfolio as opportunities arise. The Board continues to assess further acquisition opportunities, utilising strict investment return metrics to ensure discipline in capital allocation.

Extension of Share buy-back Programme

Following the July 2017 Annual General Meeting (AGM) the Group commenced a share buy-back programme, and since then the Group has bought-back 9.7 million shares (2.4% of the issued share capital) at a cost of £4.3m. The average purchase price of these shares purchased was 44p.

It is the Board's intention to continue to purchase shares in the market for cancellation, utilising the current shareholders' approval for the purchase of up to 10% of the issued share capital. Permission will be sought at the 2018 AGM, to be held in July 2018, to renew the 10% authority. It is the Board's intention to continue to re-purchase shares at what it considers to be low prices compared to the Group's intrinsic value on the grounds that this is in the best interest of shareholders. In the Board's view this programme does not impact investment in the acquisition and growth of new businesses.

Future Prospects

The market for aftersales, the Group's highest margin activity, remains strong as the UK vehicle parc has continued to grow following several years of strong new vehicle markets. The Group's aftersales performance during the Period, particularly in vehicle servicing, confirms the Board's confidence regarding the continuation of a strong aftersales performance. The Group has over 100,000 customers paying monthly for the Group’s own three-year service plans and has higher levels of technician resource than a year ago to maximise the opportunity.

The Board believes that the used car market will be more buoyant than the new car market in the months ahead. The Group is very focused on driving improved volumes and profits from its used car operations through enhanced marketing and pricing disciplines. This represents a major opportunity in the year ahead.

In the 12 months ended 31 December 2017 the UK new car retail market declined by 6.8% driven by manufacturers’ differing responses to the weakening of sterling, despite this decline 2017 was the third highest UK market in 10 years. The SMMT has forecast a further decline in volumes of 5.4% for 2018 and the Board remains cautious in this area ahead of further expected updates from the SMMT.

UK new car volumes in the quarter ending 31 March 2018 are likely to reflect the wider trading environment and are likely to be significantly lower than the comparative period, which will include the strong pull-forward impact in the month of March of the changes to Vehicle Excise Duty which took effect in April 2017.

While positive on the performance of aftersales and used car channels, the Board is cautious on the outlook for the next financial year as new car profitability remains under pressure and cost increases continue. The Board is implementing plans to deliver the inherent opportunities for improvement of operational performance and profitability that exist within the current dealership portfolio.

The Group’s very strong balance sheet and financial position enables the Board to have confidence that, as in previous sector downturns, it can take advantage of opportunities to enhance shareholder value.

The Group will announce its preliminary results for the year ending 28 February 2018 on 8 May 2018.

This announcement contains inside information.

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Notes to Editors

Vertu Motors, the UK automotive retailer with a proven growth strategy, is the sixth largest automotive retailer in the UK with a network of 121 sales outlets across the UK. Its dealerships operate predominantly under the Bristol Street Motors, Vertu, Farnell 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 118 franchised sales outlets and 3 non-franchised sales operations from 104 locations across the UK.

Vertu Motors Group websites – www.vertumotors.com / www.vertucareers.com

Vertu brand websites – www.bristolstreet.co.uk / www.vertuhonda.com / www.vertutoyota.com / www.macklinmotors.co.uk / www.farnelllandrover.com / www.farnelljaguar.com / www.vertuvolkswagen.com / www.vertumercedes-benz.com

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