2 September 2024

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

Trading Update: Strong performance in Used cars and Aftersales against soft new retail market.

Vertu Motors, a leading UK automotive retailer with a network of 192 sales and aftersales outlets, announces the following trading update with regards to the five-month period to 31 July 2024 (the 'Period') ahead of its interim results for the six-month period ended 31 August 2024.

HIGHLIGHTS

- Full year FY25 adjusted[1] profit before tax expected to be broadly in-line with current market consensus. H1 profits will be lower than prior year levels as anticipated. Performance in H2 is expected to improve over prior year levels due to a stronger used car market and enhanced used vehicle trade values.
- Group aftersales operations delivered a robust performance with revenue and gross profit growth achieved in all areas on the back of strong execution and higher technician resources.
- Used vehicle like-for-like volume growth of 5.0% and gross margin increased to 7.2%. UK used vehicle values stable on increasingly constrained supply.
- Group new retail vehicle sales volumes down 5.8% in the Period, significantly outperforming UK market which saw a 12.1% decline; Manufacturers discounting and softening margins are evident in several franchises where there is oversupply.
- Supply of UK new vehicles is being pushed to the fleet channel, which including Motability, saw UK sales grow 19.3%. Group maintained strong margins on fleet and commercial vehicle sales, avoiding low margin short cycle registrations which saw significant growth.
- Inflationary cost pressures remain in salaries and wages and the Group continues to be highly focused on cost and efficiency.
- Execution of Group's strategy to grow its network, with acquisition of the Exeter Honda dealership from Hendy Group Ltd for £1.1m from existing cash resources, further strengthening our Honda relationship. The Group opened its first outlets with BYD, with further openings planned in H2, and Ducati.
- The Group's balance sheet remains below target gearing levels, providing the ability to allocate capital to drive shareholder value creation.

[1] Adjusted for share based payments charges and amortisation.

Robert Forrester, Chief Executive of Vertu Motors said:

''I am pleased with the Group's performance against a fast-shifting market backdrop. Our high margin, resilient aftersales business continues to thrive aided by higher technician numbers and strong execution of the Group's vehicle health check process.

The retail new car market remains weaker as the Government's regulation to transition to battery electric vehicles causes market volatility and negative impacts. The current dislocation in the market presents opportunities for Vertu Motors to capitalise on, assessed using strict investment return metrics, with our strong balance sheet providing financial flexibility, an excellent portfolio of strong brands, robust and scalable systems, and a strong and experienced leadership team with motivated colleagues."

	5-month period ended 31 July 2024 Var to 2023	
	Like-for-like	**SMMT UK registrations**
Group Revenues	3.3%	
Service Revenues[2]	8.4%	
Volumes:		
Used Retail Vehicles	5.0%	
New Retail Vehicles[3]	(5.8%)	(12.1%)
Motability Vehicles	26.5%	39.5%
New Fleet Cars[3]	9.4%	12.1%
New Commercial Vehicles	(15.6%)	2.0%

[2] includes internal and external revenues

[3] includes agency volumes

TRADING UPDATE

New retail car and Motability sales

The latest forecast from the SMMT expects a total UK new vehicle market of 1.968 million units for the 12 months ending December 31, 2024 (Source: SMMT Registrations Outlook, July 2024). Whilst this would represent a 3.4% improvement on 2023, this remains almost 15% back on 2019 levels. The latest forecast represents a 0.9% reduction from previous 2024 forecasts, reflecting a more cautious outlook on BEV (Battery Electric Vehicle) adoption, which are now expected to account for 18.5% of the overall market in 2024 against a headline Government target of 22% (rising to 28% in 2025) with associated significant fines for Manufacturers for non-compliance.

The UK new car market is increasingly driven by Fleet and Motability channels, which made up almost 60% of all new vehicle registrations in the Period, compared to 52% in 2023. Manufacturers are increasingly turning to these (lower margin) channels due to declining retail sales to shift rising stock levels.

New vehicle supply in the UK remains strong, particularly for BEVs, as Manufacturers aim to meet Government targets. This supply, coupled with weakening retail demand, has led to significant discounting and attractive financing offers, especially for electric models. Margins have been put under pressure and there has been a growth in the pipeline inventory of new vehicles held by Manufacturers and retailers.

According to SMMT data, UK private registrations fell by 12.1% during the five-month period ending July 31, 2024, a figure likely inflated by pre-registration activities. In comparison, the Group's like-for-like new retail vehicle sales volumes declined by 5.8%, significantly outperforming the overall retail market trend. The Core Group's share of the UK retail market was 4.8%, up from 4.4% in FY24.

The Group is seeing a dampening effect on new vehicle margins because of the above trends and increased mix of Motability sales. Core Group gross profit margins on new retail and Motability vehicle sales were 7.9% (FY24: 8.8%). Like-for-like gross profits from the sale of new retail and Motability vehicles consequently declined compared to the same Period last year on reduced volumes and margins.

Fleet & Commercial vehicle sales

The Group’s like-for-like volumes in the fleet car channel grew by 9.4% in the Period. The Group’s like-for-like sales of new commercial vehicles fell 15.6%. The Group’s fleet and commercial activity does not include significant volume through the low margin daily rental channel, which is a key part of the strong growth in the UK market trends.

The Core Group’s margins in this channel remained strong at 5.3% (FY24: 5.2%) and the Core Group again delivered gross profit growth in this channel compared to the prior year.

Used vehicle sales

UK used vehicle market dynamics were stable over the Period with wholesale pricing showing normal seasonal trends. A weaker new retail market has led to reduced numbers of three- to five-year-old used vehicles coming in part exchange whilst increasing supply of nearly new vehicles from demonstrator and pre-registration channel is evident. Reduced overall used vehicle supply should continue to underpin residual values and therefore wholesale price stability in the months ahead, supporting used car margins.

The Group effectively applies its Vertu Insights real time pricing algorithm to drive pricing updates, reacting quickly to market conditions to optimise volume and margin and speed of inventory turn. Group like-for-like used vehicle volumes grew 5.0% in the Period and margins strengthened to 7.2% (FY24: 7.0%). Core Group gross profit generation from used car sales consequently improved compared to the prior year period.

Aftersales

Our high margin and predictable Aftersales business is a vital contributor to overall Group profitability and delivered the following trends in the Period, compared to FY24:

- *Service*

  Core Group service revenue (including internal revenues) in the Period grew 8.4%

  Improved resource levels, together with a strong focus on the Group’s vehicle health check process aided by the Group’s Pay Later product increasing sales conversion, have helped to drive up average invoice values and therefore revenues. Like-for-like service gross margins grew to 72.5% (FY24: 72.1%) in the Period reflecting improved average invoice values and efficiency despite higher technician costs.

- *Parts*

  The Group successfully grew like-for-like revenue and gross profits from the sale of parts in the Period compared to FY24, aided by the improvements in service performance. Parts margins reduced slightly to 21.4% in the Period (FY24: 22.3%) due to an increase in the mix of warranty sales in the period (which are at lower margins than retail or wholesale supply).

- *Accident and Smart Repair*

  The Group's Accident and Smart Repair operations continue to deliver growth in revenues and in gross profit compared to the prior year period. The Group's new start-up operation, Bristol Street Motors Repair Master, providing smart repair services to fleet customers has made an excellent start with further expansion expected in the coming months.

Overall, Core Group aftersales margins were stable at 43.5%.

Operating expenses and interest costs

The Group faces several cost pressures, particularly in the areas of salary costs, vehicle expenses, and new vehicle Manufacturer stocking interest. As anticipated, these challenges led to an increase in operating expenses as a percentage of revenues, and interest costs compared to the previous year in the Period.

A significant factor contributing to the rise in salary costs was the increase in the national minimum wage on 1 April 2024. Approximately 25% of Group colleagues are now paid at or within 5% of the minimum wage. To retain skilled colleagues, such as parts advisors and vehicle administrators, the Group has recently further increased pay for such roles to increase the differential to the national minimum wage. Additionally, the Group is progressing with the automation of administrative and finance process tasks, with pilots underway which should deliver cost savings when rolled out in the coming months.

The cost of the Core Group's demonstrator vehicle and courtesy fleet has increased significantly compared to the prior year period. The Group saw increased numbers of higher priced demonstrators, particularly BEV mandated by Manufacturers as product ranges have expanded and Manufacturers seek to reach their mandated BEV registration targets through increased retailer registrations.

In response to the downturn in the new retail market, the Group has targeted reductions in new vehicle marketing costs and is seeking increased efficiency of other marketing spend. The Group has achieved savings in the Period compared to prior year. Energy costs, a significant burden in the prior year, decreased due to the successful implementation of the Group's energy strategy and falling market prices.

Increased supply of new vehicles and a drop in retail registrations have led to extended new vehicle inventory pipelines, contributing to higher new vehicle stocking charges, exacerbated by continued high rates of interest. These costs have now stabilised year-on-year and should now reduce as interest rates decline.

PORTFOLIO MANAGEMENT

On Monday 22 July 2024, the Group added a Honda dealership in Exeter to its portfolio, following the purchase of the trade and assets of the site from Hendy Group Limited. The acquisition included leasehold dealership premises and total consideration, funded from the Group's existing cash resources was £1.1m. This acquisition further solidified the Group's position as Europe's largest Honda retailer, now representing a total of 17 Honda dealerships across the UK. The outlet augments the Group's existing Honda dealerships in Plymouth and Truro, further expanding the Group's significant presence in the South-West of England.

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

- In July 2024, the Peugeot franchise opened in Carlisle, alongside the Group's existing Vauxhall, MG, SEAT and Cupra dealerships.
- In August 2024, the first of the Group's BYD outlets opened in Worcester, alongside the Group's existing Ford and Citroen dealerships. A further two BYD outlets are expected to open in the coming months.
- Also in August, the Group opened a flagship outlet for Ducati motorbikes in Sunderland bringing the franchise to the Group for the first time.

The Board continues to actively manage the Group's portfolio of dealerships and assess a growing potential pipeline of further growth opportunities, utilising strict investment return metrics to ensure discipline in capital allocation. The franchised retail market remains very fragmented with the Group representing around 5% of the sector.

The Group previously disclosed that cash receipts of over £10m were anticipated in FY25 from surplus property disposals. The largest of these property disposals in Glasgow has been subject to renegotiation, due to the prospective implementation of rent control legislation in Scotland, such that £2.7m of the anticipated proceeds have now been deferred for approx. 2 years until completion of the build project.

OUTLOOK

Full year FY25 adjusted[4] profit before tax is expected to be broadly in-line with current market consensus. First half profits will be lower than prior year levels, as anticipated. Performance in the second half is expected to improve over prior year levels due to a stronger used car market and enhanced used vehicle trade values.

Manufacturers of new vehicles selling in the UK are actively managing volumes and mix of Internal Combustion Engine (ICE) and Battery Electric vehicles (BEV) to meet legislative targets around BEV mix. Retail demand for new vehicles, particularly of BEV is likely to remain weak, driven in part by high vehicle prices and the lack of Government financial incentives. The Group's new vehicle order-take for the important plate change month of September is currently tracking at levels below prior year reflective of the weakening retail market in 2024.

Reduced supply of used vehicles should mean that used car pricing will remain stable. Reduced interest rates should aid the future affordability of used cars and reduce Group interest costs. The Group has increased used inventory levels from the levels at 29 February 2024 to ensure sufficient stock is available for September, given the supply dynamics in used vehicles, and likely weakness in the September new retail market. Nonetheless used vehicle stock levels remain reduced on a year ago.

The Group is delivering on its stated strategy and is well-positioned to take advantage of opportunities that arise whilst the market remains in an adjustment period, given the Group's track record of execution and strong financial position. The Board remains highly confident in the Group's long-term prospects.

The Group will announce its interim results for the six-month period ended 31 August 2024 on 16 October 2024.

[4] Adjusted for share based payments charges and amortisation.

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Notes to Editors

Vertu Motors is the fourth largest automotive retailer in the UK with a network of 192 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 188 franchised sales outlets and 4 non-franchised sales operations from 144 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