15 October 2014

Vertu Motors plc ("Vertu", "Company" or "Group")

Unaudited interim results for the six months ended 31 August 2014

Record results: recently acquired businesses improving – acquisition pipeline strong

Vertu Motors plc, the automotive retailer with a network of 111 sales and aftersales outlets across the UK, announces its interim results for the six months ended 31 August 2014.

Financial Highlights

- Revenues increased by 29.5% to £1,083.9m (2013 H1 : £837.2m)
- Profit before tax up 48.8% to £12.8m (2013 H1 : £8.6m)
- Adjusted[(1)] profit before tax up 51.1% to £13.3m (2013 H1 : £8.8m)
- Period end net cash of £34.4m (2013 H1 : £25.7m)
- Balance sheet underpinned by freehold and long leasehold property portfolio of £109.1m (31 August 2013: £104.5m)
- Healthy operating cash inflow of £15.9m (2013 H1 : £30.4m)
- Earnings per share up 16.8% to 2.99p (2013 H1 : 2.56p)
- Adjusted[(1)] earnings per share up 18.7% to 3.11p (2013 H1 : 2.62p)
- Interim dividend up 16.7% to 0.35p per share (2013: 0.3p per share) to be paid in January 2015

[(1)] adjusted for exceptional charges, amortisation of intangible assets and share based payments charge

Operational Highlights

- Record trading performance driven by recently acquired businesses and favourable market conditions particularly in used cars and service areas
- Growth strategy progressed with addition of six further sales outlets since 1 March 2014
- Like-for-like new retail volume increase 11.8% and ahead of the market
- Like-for-like volumes of fleet cars rose 12.4% and commercial vehicles rose 28.6%, both with market share gains
- Like-for-like used vehicle volumes increased 11.6%
- Lower overall Group gross margin due to higher proportion of vehicle sales
- Lower core Group [(2)] gross margins in new retail, fleet and commercial vehicle sales as Manufacturer supply push into the UK increases volumes
- Increase in core Group used car gross profit per unit of 6.8% as pricing disciplines are maintained
- Service revenues up 4.4% in the core Group, reflecting ongoing success of customer retention strategy
- Service margins strengthened due to strong core Group margins, up to 76.4% from 75.7%

[(2)] Core : Dealerships that have traded for two full consecutive financial years.

Outlook Highlights

- The Board anticipates full year results will be in line with market expectations
- Continued strong trading performance in September, with a 9.3% like-for-like new retail volume increase against an increase in UK private registrations of 5.9% - market share gains continue
- September service revenues grew 8.6% in the core Group
- Peter Jones starts as Chairman on 1 January 2015
- Strong pipeline of acquisition opportunities

Commenting on the results, Robert Forrester, Chief Executive, said:

"The Board is delighted with this record first half performance. Recent acquisitions, the Farnell Land Rover business particularly, have made a strong contribution and the core business continues to benefit from management success in improving returns in the used car and servicing areas. We continue to deliver on the Group's strategy to recruit and retain motivated and talented people in every dealership to ensure the business is management driven not market driven."

"With the team we have in place, with the recently acquired businesses which should improve as our operating model is implemented, with a strong balance sheet and a healthy pipeline of acquisition opportunities, your Board looks to the future with confidence".

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INTRODUCTION

During the six months ended 31 August 2014, the UK automotive retail sector has continued to experience favourable market conditions. The new car market saw further growth, the used car market maintained stable pricing with more modest growth, and the total vehicle parc, which drives aftersales activities in dealerships, has also started to grow again.

Against this backdrop, the Group has performed strongly. As a result of the Group's acquisition based buy and build strategy, those previously underperforming dealerships acquired over the last four years are benefiting from the turnaround in their operational performance. Consequently, the Group's performance in both used cars and aftersales has seen growth in volumes, revenues and gross profits ahead of what could be attributed purely to the market conditions. This element of self-help is a positive feature of the Group's business model as acquisitions are integrated into the core business. In addition, the strong performing Farnell Land Rover business acquired in June 2013 has, as anticipated, made a substantial contribution to the Group's growth in profit.

Since 1 March 2014, the Group has continued its buy and build strategy, acquiring or opening six sales outlets and closing one.

The Board is therefore pleased to announce record profits for the period. Profit before tax rose 48.8% to £12.8m (2013 H1 : £8.6m).

The Board continues to identify, review and execute acquisition opportunities which will enhance shareholder returns and create a scaled automotive retail group with a balanced portfolio across franchises and UK regions.

FINANCIAL REVIEW

Revenues in the period grew by 29.5% (£246.7m) to £1,083.9m (2013 H1 : £837.2m). Acquisitions in the period accounted for £11.9m of revenue growth and those businesses acquired in the prior year contributed revenue growth of £125.3m. Core Group revenues grew by 14.9% (£118.6m), reflecting increases in both vehicle sales and aftersales revenues. Overall gross margins declined from 11.1% to 10.6% due primarily to the increase in the mix of lower margin vehicle sales and despite continued growth in aftersales operations.

Revenue Mix

	2014 H1 £'m	**2013 H1 £'m**	***2014 H1 Mix***	***2013 H1 Mix***
Vehicle sales	1,001.7	764.9	*92.4%*	*91.4%*
Aftersales	82.2	72.3	*7.6%*	*8.6%*
Total revenue	**1,083.9**	**837.2**	***100.0%***	***100.0%***

The higher levels of dealership revenues and improved operational performance resulted in a reduction in operating expenses as a percentage of revenues to 9.4% (2013 H1 : 10.0%). This measure has reduced consistently over the last few years from 10.7% in H1 2011. This reflects operational gearing as the Group grows both organically and through acquisitions while leveraging a central cost base which is growing more slowly. Operating profit has grown by 44.4% to £13.0m (2013 H1 : £9.0m).

Following the reduction in the UK Corporation Tax rate the Group's effective tax rate is 21% (2013 H1 : 22%). Profit after tax has increased by 50.7% to £10.1m (2013 H1 : £6.7m).

During the period, the Group's conversion of profits to cash was healthy generating £15.8m of operating cash inflow. The Group's net cash at 31 August 2014 stood at £34.4m (2013: £25.7m).

The Group has continued to grow adjusted earnings per share to 3.11p (2013 H1: 2.62p).

Dividend
The Board intends to maintain a progressive dividend policy. The interim dividend which will be payable on 23 January 2015 will be increased by 16.7% to 0.35p per share (2013: 0.3p per share). The ex-dividend date will be 29 December 2014 and the associated record date 30 December 2014.

CURRENT TRADING AND OUTLOOK

The UK economy is growing strongly and is enjoying growth rates significantly ahead of those prevalent in Continental Europe. This is likely to continue to lead Manufacturers to direct high volumes of new vehicles to the UK as they seek to manage European factory overcapacity. This trend is further encouraged by the strength of Sterling since it enhances Manufacturers' margins on sales to the UK for many European based Manufacturers. This trend, now well established, is likely to create further pressure on new vehicle margins as such margins are sacrificed to generate volume to achieve higher Manufacturer volume targets. The latest SMMT forecast for the total UK new car market for 2014 has been increased to 2.45m and the forecast for 2015 is set at 2.47m. The 2014 market now represents a 26.2% increase since 2011.

September is a key month for Group profitability in the second half of the financial year, being a new vehicle plate change month. The Group has continued to trade ahead of prior year levels in the month, driven by growth in used car and aftersales profits and contribution from newly acquired businesses.

New retail sales volumes rose on a like-for-like basis in September 2014 by 9.3% against an increase in UK private registrations of 5.9%. Margins continued to be under pressure as volumes increased and core Group new car gross profit generation grew modestly.

Used car demand continues to be robust as higher employment levels lead to an expansion in the number of cars required by families. This is reversing the trend seen in the 2007-2009 period and offsets the impact of highly favourable new car offers leading to migration out of the used car market into new cars for some customers. Used car pricing remains stable. Used car sales volumes continued to be strong in September with like-for-like growth of 11.3%.

Servicing demand is increasing as the recent years' resurgence in new car sales flow back into service departments for regular service and warranty work. More and more used car customers are being retained for servicing due to the sales of increasing numbers of service plans where customers pay for services either upfront or on a monthly basis so significantly increasing retention. Higher used car sales also increase demand in service as used cars are serviced and prepared for sale. Service revenues in September grew 8.6% in the core Group.

The Group continues to have a strong pipeline of acquisition opportunities across a number of Manufacturer partners and further acquisitions are anticipated to be undertaken in the coming months.

The Board anticipates that, given the current performance of the Group and market trends, the full year results will be in line with current market expectations.

OPERATING REVIEW

Growth strategy and portfolio development

The Group has continued both to review its portfolio and grow the business with the addition of six new sales outlets and the closure of one non-franchised operation since 1 March 2014. The Group now operates 111 sales outlets at 89 locations across the United Kingdom. By revenue, the Group is the sixth largest automotive retailer in the UK and the eleventh in Europe.

During the period, the Group has continued to invest both in acquiring new businesses, most notably the Hillendale Land Rover and Jaguar Bolton business, but also in the property assets of the ongoing business. For example, an adjacent freehold dealership and additional land was acquired to expand dealership activities in Waltham Cross for Vauxhall and a substantial freehold vehicle compound was acquired in Gloucester to grow the capacity of Group's fleet operations.

In addition, the Group disposed of a disused former dealership property in Nottingham for cash proceeds of £0.6m, equating to the net book value of that property.

Significant capital investments continue to be made across the Group to ensure the Group's dealerships are developed to a high standard to reflect the brand aspirations of our Manufacturer partners and provide an outstanding customer retail experience. For example, the first of the Group's Volkswagen dealerships at Boston has now undergone a complete refurbishment to latest standards and the remaining four will be completed over the next twelve months. Durham Ford is currently undergoing a major rebuild and several Vauxhall dealerships have also been refurbished in the period. Such spend will be a continuing feature in the business in the coming periods as Manufacturers seek investment by partners.

On 6 May 2014, the Group acquired the entire issued share capital of Hillendale Group Limited, comprising a Land Rover dealership in Nelson, Lancashire and a Jaguar dealership, the Group's first, in Bolton. The purchase consideration of £7.9m included £2.0m of shares in the Company. This high performing business has been successfully integrated into the Group's Farnell business.

On 1 July 2014, the Group acquired a leasehold property in Newcastle which it opened on 26 August 2014 as a Fiat Brand Centre, representing Fiat, Alfa Romeo and Jeep, having acquired the business and certain assets of these franchises for a consideration of £0.4m. The Group now has three significant dealerships in the Scotswood Road area of Newcastle.

On 9 July 2014, the Group acquired a leasehold property in Silverlink, Newcastle which it opened on 18 September 2014 as the Group's first Infiniti dealership. This dealership is located 10 miles from the Nissan factory in Sunderland where the Infiniti Q30 model range is to be manufactured from next year. This dealership is the sole Infiniti sales outlet in the North East of England.

In July 2014, the Group closed the operations of an accident repair centre in Birmingham to allow capacity to be increased for retail vehicle sales operations at the central Birmingham location. The Group continues to operate 10 accident repair centres.

Since the end of the period

On 12 September 2014, the Group acquired a significant freehold dealership property in Leeds for £5.0m. The dealership is currently leased to another automotive retailer and at the end of this lease in 2015, the dealership will be refurbished as the Group's premier Land Rover dealership allowing the existing, highly successful operation to be relocated.

On 28 September 2014, the Group closed its Bristol Street Motor Nation Used Car operation in Birmingham. The closure of this dealership has freed up the premises to be used as an additional vehicle compound for the Group's growing Ford commercial fleet activities which are adjacent. This closure brings to an end the operation by the Group of non-franchised used car operations under the Motor Nation brand and allows the Group to concentrate on its core activity of operating franchised dealerships.

Dealership Operations

Vehicle Sales Analysis
Six months ended 31 August 2014

Number of vehicles sold	HY2015 Core	HY2015 Acq**	HY2015 Total	HY2014 Total	Like-for-like* % Increase
New retail cars	17,116	2,297	19,413	15,521	11.8
Motability cars	4,835	465	5,300	4,584	5.7
Fleet and commercial vehicles	15,643	478	16,121	13,704	17.9
Used retail vehicles	30,111	3,053	33,164	27,272	11.6
	67,705	**6,293**	**73,998**	**61,081**	**12.6**

* Dealerships are included in like-for-like comparisons in the first month anniversary following acquisition into the Group
** Dealerships acquired since 1 March 2014

Revenue and margins

	New car retail and Motability	New Fleet and Commercial	Used cars	Aftersales***	Total
Six months ended 31 August 2014					
Revenue (£'m)	356.4	267.1	378.2	82.2	**1,083.9m**
Revenue mix (%)	33%	25%	35%	7%	**100.0%**
Gross Margin %	7.3%	2.1%	10.4%	44.0%	**10.6%**
Six months ended 31 August 2013					
Revenue (£'m)	263.9	218.3	282.7	72.3	**837.2**
Revenue mix (%)	31%	26%	34%	9%	**100.0%**
Gross Margin %	7.5%	2.2%	10.8%	42.4%	**11.1%**

Year ended 28 February 2014					
Revenue (£'m)	534.4	420.4	582.6	147.1	**1,684.5**
Revenue mix (%)	32%	25%	34%	9%	**100%**
Gross Margin %	7.6%	2.4%	10.8%	43.1%	**11.4%**

***margin in aftersales expressed on internal and external turnover

Aftersales

Aftersales activities, including servicing, supply of parts and accident repairs, are a vital part of the Group's business model and generate significantly higher returns than those earned in vehicle sales. During the period the core Group's gross margin on aftersales rose to 43.1% (2013 H1 : 42.5%). The margin increase in aftersales was predominantly in the service arena as volume increases again led to higher technician utilisation and efficiency. Core Group service revenues grew by 4.4% reflecting the impact of higher volumes of preparation work as used car volumes grow and the continued success in enhancing customer retention. In addition, further growth came from increasing customer spend per visit through the improved sale conversion of identified and required repair work. New technologies, such as video, are increasingly being utilised across the Group to help customers understand visually the repair and maintenance work required to be undertaken on their vehicles. It is envisaged that further roll out of this technology will aid the growth of repair work and customer spend per visit. Recent higher volumes of car sales should also boost future aftersales growth as Group customer retention strategies are applied to increased customer databases, growing further this resilient area of the Group's operations.

A key element of the improvement in service customer retention is the increasing sales of service plans to new and used car customers to provide competitive, monthly payments to consumers so that they can budget their annual service costs. The Group had 64,321 live own-branded Motor Assured service plans as at 31 August 2014 (31 August 2013 : 39,040), in addition to those customers who have purchased Manufacturer branded service plans from the Group. Increasing service plan penetration is a key objective of the Group as a means to secure future service revenue growth and to take market share from the non-franchised service sector. This strategy is increasing the resilience of aftersales revenue and profit streams.

The Group also achieved growth in core Group revenues in accident repair centres (up 7.0%) and its parts operations (up 1.9%) during the period. Core Group profits rose in both these channels in the period and margins increased again in the accident repair centres. The latter reflects the higher quality of the Group's remaining accident repair centre operations following a series of closures together with enhanced operational processes and systems now in place.

New retail

The Group's new car retail sales volumes, excluding Motability sales, increased by 11.8% on a like-for-like basis in the period. UK new car private registrations rose by 11.3% in comparison. The Group has continued to gain market share in the period and overall the Group accounted for 3.1% of UK private registrations (2013 H1 : 2.7%). This low market share reflects the fragmented nature of UK franchise dealership ownership.

The main driver of the UK new vehicle market during the period continued to be the supply push of volume from Manufacturers who are facing sustained low levels of sales in Continental European markets. In addition, the increasing strength of Sterling has made supply push into the UK more profitable for Manufacturers. UK consumers continue to react positively to the attractive offers with which the Manufacturers are stimulating the UK new vehicle market. These offers are typically finance led, and consumers are taking up increasing numbers of finance products such as personal contract purchase (PCP) which provide competitive monthly payments. Affordability of new cars has improved, with monthly payments at similar levels to 2008 despite enhanced specification, fuel efficiency and design. Changing to a new car with enhanced fuel efficiency can reduce household monthly motoring expenditure with all the benefits of having a better, newer car.

Core Group new car margins fell both on a per unit basis (2014 H1 : £938; 2013 H1 : £978) and on a percentage basis (2014 H1 : 7.0%; 2013 H1 : 7.5%) as anticipated at the start of the financial period. This is a consequence of sacrificing margin as vehicle sales volumes have risen in a highly competitive marketplace. The Group has continued to meet high levels of achievement of Manufacturer volume targets, and higher volumes have resulted in higher absolute levels of gross profit.

Group Motability volumes in the period returned to growth with like-for-like volumes rising by 5.7%. Motability represents 15.1% of all Group new car sales and is a vital market due to its positive impact on aftersales demand for three years following purchase.

Fleet and Commercial Vehicles

New fleet car like-for-like volumes grew by 12.4% compared to market growth of 9.4% (source: SMMT) as the Group's supply to rental fleets increased during the period. New commercial van volumes grew by 28.6% compared to market growth of 13.6% (source: SMMT) as the growth in UK economic activity continues to improve demand for vans. Overall margins slipped marginally to 2.1% (2013 H1 : 2.2%), however, this remains an attractive area of business and one where the Group has scale and expertise. As Manufacturers have refined their approach to this low margin segment, the Group has maximised its ability to generate profitability and grow business in this area. Substantial market share has been gained in recent periods and the Group remains committed to fleet supply and continues to invest in capacity. Dealerships are increasingly employing dedicated local business specialists to provide additional sales and aftersales opportunities to dealerships.

Used Cars

The used car market has remained stable during the period, and the latest market data suggests that demand has increased for used cars despite the twin effects of constraints on supply and highly competitive new car offers, which has certainly led to a substitution effect. During the period, Group like-for-like used car volumes rose 11.6% which the Board believes is considerably ahead of the market.

Market share gains have been driven by the Group's marketing strategy, including TV, Radio, press and internet. The Group's websites, when measured by Hitwise for the monthly number of sales and aftersales visits, rank regularly in the top three in the UK and in certain months have led the franchised sector. This web traffic is driven by both pay for clicks campaigns and a sophisticated search engine optimisation methodology which seeks to maximise the return on investment for this channel of marketing spend. In addition, the Group measures on an ongoing basis the return on investment for each advertising channel to ensure that the mix of spend is optimised and this innovative approach has led to changes in Group marketing spend allocation and aided strategic consideration of this important area.

Used car pricing has continued to be affected by the reduced levels of new vehicle sales in the period of 2008-2010. With supply constrained, average used car prices have increased. The core Group saw average used car selling prices rise 4.2% to £10,371. The introduction of franchises such as Land Rover and Volkswagen further increased the average total Group selling price to £11,404 and this trend is likely to continue as the year on year impact of franchise mix comes through.

Used vehicle gross profit per unit strengthened in the period from £1,120 to £1,187 being an increase of 6.0%. Despite this, the increase in selling prices reduced the gross margin percentages from 10.8% to 10.4% due principally to the change in franchise mix. The core Group's gross margin strengthened to 11.4% (2013 H1 : 11.1%) and core used vehicle gross profit per unit increased to £1,184 (2013 H1 : £1,109). Gross profit was augmented by profits on trade disposal of part exchange vehicles and the benefit of continued improvements in stock management and sales process. As a consequence, return on investment in used cars in those businesses owned for more than four years has remained at a very high level of 153% (2013 H1 : 154%). This critical industry KPI, which measures both profitability and inventory management, enables the Group to track the very important improvements in the operational performance of newly acquired businesses. Operations acquired in the 2013 financial year, for example, saw used car return on investment rise from 105%, at 31 August 2013, to 111%. This is still significantly below long term Group levels and used cars continue to represent a major opportunity to drive the future profit growth of the Group.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 31 August 2014

	Note	Six months ended 31 August 2014 £'000	Six months ended 31 August 2013 £'000	Year ended 28 February 2014 £'000
Revenue				
Continuing operations		1,071,959	837,169	1,684,532
Acquisitions		11,892	-	-
		1,083,851	**837,169**	**1,684,532**
Cost of sales				
Continuing operations		(957,929)	(744,088)	(1,492,335)
Acquisitions		(10,543)	-	-
		(968,472)	**(744,088)**	**(1,492,335)**
Gross profit				
Continuing operations		114,030	93,081	192,197
Acquisitions		1,349	-	-
		115,379	**93,081**	**192,197**
Operating expenses				
Continuing operations		(100,609)	(83,862)	(174,293)
Acquisitions		(1,339)	-	-
		(101,948)	**(83,862)**	**(174,293)**
Operating profit before amortisation, share based payments charge and exceptional charges				
Continuing operations		13,421	9,219	17,904
Acquisitions		10	-	-
		13,431	**9,219**	**17,904**
Amortisation of intangible assets		(173)	(170)	(293)
Share based payments charge		(287)	(40)	(195)
Exceptional charges	5	-	-	(1,180)
Operating profit		**12,971**	**9,009**	**16,236**
Finance income	4	177	131	331
Finance costs	4	(330)	(526)	(725)
Profit before tax, amortisation, share based payments charge and exceptional charges		13,278	8,824	17,510
Amortisation of intangible assets		(173)	(170)	(293)
Share based payments charge		(287)	(40)	(195)
Exceptional charges	5	-	-	(1,180)
Profit before tax		**12,818**	**8,614**	**15,842**
Taxation	6	(2,695)	(1,873)	(3,414)
Profit for the period attributable to equity holders		**10,123**	**6,741**	**12,428**
Basic earnings per share (p)	7	**2.99**	**2.56**	**4.15**
Diluted earnings per share (p)	7	**2.94**	**2.54**	**4.11**
Adjusted earnings per share (p)	7	**3.11**	**2.62**	**4.69**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 31 August 2014

	Note	Six months ended 31 August 2014 £'000	Six months ended 31 August 2013 £'000	Year ended 28 February 2014 £'000
Profit for the period		**10,123**	**6,741**	**12,428**
Other comprehensive income/(expense)				
Items that will not be reclassified to profit or loss:				
Actuarial gain/(loss) on retirement benefit obligations	11	63	(265)	(1,558)
Deferred tax relating to actuarial gain/(loss) on retirement benefit obligations		(10)	53	450
Items that may be reclassified subsequently to profit or loss:				
Cash flow hedges	8	30	66	102
Deferred tax relating to cash flow hedges	8	(6)	(19)	(25)
Other comprehensive income/(expense) for the period, net of tax		**77**	**(165)**	**(1,031)**
Total comprehensive income for the period attributable to equity holders		**10,200**	**6,576**	**11,397**

CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 31 August 2014

	Note	31 August 2014 £'000	31 August 2013 (As restated (Note 13)) £'000	28 February 2014 (As restated (Note 13)) £'000
Non-current assets				
Goodwill and other indefinite life assets	10, 14	50,011	41,198	43,152
Other intangible assets		1,190	1,250	1,209
Retirement benefit asset	11	3,339	4,149	3,069
Property, plant and equipment		119,130	114,800	116,188
Trade and other receivables		192	-	192
		173,862	**161,397**	**163,810**
Current assets				
Inventories		319,833	238,269	334,452
Trade and other receivables		39,868	35,384	42,971
Cash and cash equivalents		38,960	32,184	36,948
Total current assets		**398,661**	**305,837**	**414,371**
Total assets		**572,523**	**467,234**	**578,181**
Current liabilities				
Trade and other payables		(374,834)	(281,128)	(391,772)
Deferred consideration		(1,300)	(1,300)	(1,300)
Current tax liabilities		(6,287)	(4,735)	(5,161)
Borrowings		(2,000)	(2,000)	(2,000)
Total current liabilities		**(384,421)**	**(289,163)**	**(400,233)**
Non-current liabilities				
Borrowings		(2,554)	(4,470)	(3,512)
Derivative financial instruments		(43)	(110)	(74)
Deferred consideration		(1,300)	(2,600)	(1,300)
Deferred income tax liabilities		(4,246)	(5,403)	(4,049)
Deferred income		(5,738)	(6,075)	(5,634)
		(13,881)	**(18,658)**	**(14,569)**
Total liabilities		**(398,302)**	**(307,821)**	**(414,802)**
Net assets		**174,221**	**159,413**	**163,379**
Capital and reserves attributable to equity holders of the Group				
Ordinary shares		34,033	33,678	33,678
Share premium		96,778	96,729	96,729
Shares to be issued		-	-	-
Other reserve		10,479	8,820	8,820
Hedging reserve	8	(32)	(86)	(56)
Retained earnings		32,963	20,272	24,208
Shareholders' equity		**174,221**	**159,413**	**163,379**

CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 31 August 2014

	Note	Six months ended 31 August 2014 £'000	Six months ended 31 August 2013 £'000	Year ended 28 February 2014 £'000
Operating profit		12,971	9,009	16,236
Loss on sale of tangible fixed assets		5	-	40
Amortisation of intangible assets		173	170	293
Depreciation of property, plant and equipment		2,701	2,557	5,670
Impairment of freehold property		-	-	1,180
Movement in working capital	12	(283)	18,636	23,778
Share based payments charge		287	40	195
Cash generated from operations		**15,854**	**30,412**	**47,392**
Tax received		-	35	35
Tax paid		(1,942)	(185)	(2,385)
Finance income received		110	36	137
Finance costs paid		(302)	(527)	(658)
Net cash generated from operating activities		**13,720**	**29,771**	**44,521**
Cash flows from investing activities				
Acquisition of businesses, net of cash, overdrafts and borrowings acquired		(5,588)	(34,261)	(39,438)
Acquisition of freehold land and buildings		(2,049)	(4,509)	(4,509)
Proceeds from disposal of business (net of cash, overdrafts and borrowings)		-	1,868	1,926
Purchases of intangible assets		(154)	(169)	(443)
Purchases of property, plant and equipment		(1,874)	(6,913)	(9,577)
Proceeds from disposal of property, plant and equipment		602	-	82
Net cash outflow from investing activities		**(9,063)**	**(43,984)**	**(51,959)**
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		57	47,673	47,672
Repayment of borrowings	9	(1,000)	(7,000)	(8,000)
Dividends paid to equity shareholders		(1,702)	(1,516)	(2,526)
Net cash (outflow)/inflow from financing activities		**(2,645)**	**39,157**	**37,146**
Net increase in cash and cash equivalents	9	**2,012**	**24,944**	**29,708**
Cash and cash equivalents at beginning of period		36,948	7,240	7,240
Cash and cash equivalents at end of period		**38,960**	**32,184**	**36,948**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31 August 2014

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total Equity £'000
As at 1 March 2014	**33,678**	**96,729**	**8,820**	**(56)**	**24,208**	**163,379**
Profit for the period	-	-	-	-	10,123	10,123
Actuarial gain on retirement benefit obligations	-	-	-	-	63	63
Tax on items taken directly to equity	-	-	-	(6)	(10)	(16)
Fair value gains	-	-	-	30	-	30
Total comprehensive income for the period	**-**	**-**	**-**	**24**	**10,176**	**10,200**
New ordinary shares issued	355	49	1,659	-	(6)*	2,057
Dividend paid	-	-	-	-	(1,702)	(1,702)
Share based payments charge	-	-	-	-	287	287
As at 31 August 2014	**34,033**	**96,778**	**10,479**	**(32)**	**32,963**	**174,221**

* Represents the reversal of a reserve created in respect of share options exercised in the period.

The other reserve is a merger reserve, arising from shares issued for shares as consideration, to the former shareholders of acquired companies. The addition to this reserve during the year reflects the excess over nominal value of the shares issued as part consideration for the acquisition of Hillendale Group Limited (note 10).

For the six months ended 31 August 2013

	Ordinary share capital £'000	Share premium £'000	Shares to be Issued £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total Equity £'000
As at 1 March 2013	**20,008**	**60,727**	**2,000**	**8,820**	**(133)**	**15,219**	**106,641**
Profit for the period	-	-	-	-	-	6,741	6,741
Actuarial losses on retirement benefit obligations	-	-	-	-	-	(265)	(265)
Tax on items taken directly to equity	-	-	-	-	(19)	53	34
Fair value gains	-	-	-	-	66	-	66
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**47**	**6,529**	**6,576**
New ordinary shares issued	13,670	38,330	(2,000)	-	-	-	50,000
Costs associated with issuance of ordinary shares	-	(2,328)	-	-	-	-	(2,328)
Dividend paid	-	-	-	-	-	(1,516)	(1,516)
Share based payments charge	-	-	-	-	-	40	40
As at 31 August 2013	**33,678**	**96,729**	**-**	**8,820**	**(86)**	**20,272**	**159,413**

For the year ended 28 February 2014

	Ordinary share capital £'000	Share premium £'000	Shares to be issued £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2013	**20,008**	**60,727**	**2,000**	**8,820**	**(133)**	**15,219**	**106,641**
Profit for the year	-	-	-	-	-	12,428	12,428
Actuarial gains on retirement benefit obligations	-	-	-	-	-	(1,558)	(1,558)
Tax on items taken directly to equity	-	-	-	-	(25)	450	425
Fair value gains	-	-	-	-	102	-	102
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**77**	**11,320**	**11,397**
New ordinary shares issued	13,670	38,330	(2,000)	**-**	**-**	**-**	50,000
Costs associated with issuance of ordinary shares	-	(2,328)	**-**	**-**	**-**	**-**	(2,328)
Dividend paid	-	-	-	-	-	(2,526)	(2,526)
Share based payments charge	-	-	-	-	-	195	195
As at 28 February 2014	**33,678**	**96,729**	**-**	**8,820**	**(56)**	**24,208**	**163,379**

NOTES

For the six months ended 31 August 2014

1. Basis of Preparation

Vertu Motors plc is a Public Limited Company which is quoted on the AiM Market and is incorporated and domiciled in the United Kingdom. The address of the registered office is Vertu House, Kingsway North, Team Valley, Gateshead, Tyne and Wear, NE11 0JH. The registered number of the Company is 05984855.

The financial information for the period ended 31 August 2014 and similarly the period ended 31 August 2013 has neither been audited nor reviewed by the auditors. The financial information for the year ended 28 February 2014 has been based on information in the audited financial statements for that period.

The information for the year ended 28 February 2014 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that period has been delivered to the Registrar of Companies. The Auditors' Report on those accounts was not qualified and did not contain an emphasis of matter statement under section 498 of the Companies Act 2006.

2. Accounting policies

The annual consolidated financial statements of Vertu Motors plc are prepared in accordance with IFRSs as adopted by the European Union. The annual report has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, share based payments and financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

The accounting policies adopted in this interim financial report are consistent with those of the Group's financial statements for the year ended 28 February 2014 and can be found on the Group's website, www.vertumotors.com.

In addition, this unaudited interim financial report does not comply with IAS 34 Interim Financial Reporting, which is not required to be applied under the AiM Rules.

3. Segmental information

The Group complies with IFRS 8 "Operating Segments", which determines and presents operating segments based on information provided to the Group's Chief Operating Decision Maker ("CODM"), Robert Forrester, Chief Executive. As such, the Group has only one reportable business segment, since the Group is operated and is managed on a dealership by dealership basis. Dealerships operate a number of different business streams such as new vehicle sales, used vehicle sales and aftersales operations. Management is organised based on the dealership operations as a whole rather than the specific business streams.

These dealerships are considered to have similar economic characteristics and offer similar products and services which appeal to a similar customer base. As such, the results of each dealership have been aggregated to form one reportable business segment.

The CODM assesses the performance of the operating segment based on a measure of both revenue and gross profit. Therefore, to increase transparency, the Group has decided to include additional voluntary disclosure analysing revenue and gross profit within the reportable segment.

	New car retail and Motability	New fleet and commercial	Used vehicles	Aftersales*	Total
Six months ended 31 August 2014					
Revenue (£'m)	356.4	267.1	378.2	82.2	**1,083.9**
Revenue (%)	33	25	35	7	**100**
Gross Margin %	7.3	2.1	10.4	44.0	**10.6**
Six months ended 31 August 2013					
Revenue (£'m)	263.9	218.3	282.7	72.3	**837.2**
Revenue (%)	31	26	34	9	**100**
Gross Margin %	7.5	2.2	10.8	42.4	**11.1**
Year ended 28 February 2014					
Revenue (£'m)	534.4	420.4	582.6	147.1	**1,684.5**
Revenue (%)	32	25	34	9	**100**
Gross Margin %	7.6	2.4	10.8	43.1	**11.4**

*margin in aftersales expressed on internal and external turnover

4. Net finance costs

	Six months ended 31 August 2014 £'000	Six months ended 31 August 2013 £'000	Year ended 28 February 2014 £'000
Interest on short term bank deposits	47	36	55
Vehicle stocking interest	63	-	82
Net finance income relating to Group pension scheme	67	95	194
Finance income	**177**	**131**	**331**
Bank loans and overdrafts	(319)	(391)	(703)
Vehicle stocking interest	-	(125)	-
Other finance costs	(11)	(10)	(22)
Finance costs	**(330)**	**(526)**	**(725)**

5. Exceptional charges

	Six months ended 31 August 2014 £'000	Six months ended 31 August 2013 £'000	Year ended 29 February 2014 £'000
Impairment of fixed assets	-	-	1,180
	-	**-**	**1,180**

6. Taxation

The tax charge for the six months ended 31 August 2014 has been provided at the effective rate of 21% (Six months ended 31 August 2013: 22%).

From 1 April 2014 the main rate of Corporation tax was 21%.

7. Earnings per share

Basic and diluted earnings per share are calculated by dividing the earnings attributable to equity shareholders by the weighted average number of ordinary shares during the period or the diluted weighted average number of ordinary shares in issue in the period.

The Group only has one category of potentially dilutive ordinary shares, which are share options. A calculation has been undertaken to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the Group's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Adjusted earnings per share is calculated by dividing the adjusted earnings attributable to equity shareholders by the weighted average number of ordinary shares in issue during the period.

	Six months ended 31 August 2014 £'000	Six months ended 31 August 2013 £'000	Year ended 28 February 2014 £'000
Profit attributable to equity shareholders	10,123	6,741	12,428
Amortisation of intangible assets	173	170	293
Share based payments charge	287	40	195
Exceptional charge	-	-	1,180
Tax effect of adjustments	(37)	(37)	(68)
Adjusted earnings attributable to equity shareholders	**10,546**	**6,914**	**14,028**
Weighted average number of shares in issue ('000s)	338,973	263,760	299,367
Potentially dilutive shares ('000s)	5,872	1,679	3,263
Diluted weighted average number of shares in issue ('000s)	**344,845**	**265,439**	**302,630**
Basic earnings per share	**2.99p**	**2.56p**	**4.15p**
Diluted earnings per share	**2.94p**	**2.54p**	**4.11p**
Adjusted earnings per share	**3.11p**	**2.62p**	**4.69p**
Diluted adjusted earnings per share	**3.06p**	**2.60p**	**4.64p**

8. Hedging reserve

	31 August 2014 £'000	31 August 2013 £'000	28 February 2014 £'000
Cash flow hedge:			
At beginning of period	(56)	(133)	(133)
Fair value gains on derivative financial instruments during the period	30	66	102
Deferred taxation on fair value gains during period	(6)	(19)	(25)
At end of period	**(32)**	**(86)**	**(56)**

9. Reconciliation of net cash flow to movement in net cash

	31 August 2014 £'000	31 August 2013 £'000	28 February 2014 £'000
Net increase in cash and cash equivalents	2,012	24,944	29,708
Cash outflow from repayment of borrowings	1,000	7,000	8,000
Cash movement in net cash	**3,012**	**31,944**	**37,708**
Capitalisation of loan arrangement fees	38	30	30
Amortisation of loan arrangement fee	(79)	(46)	(88)
Non cash movement in net cash	**(41)**	**(16)**	**(58)**
Movement in net cash	**2,971**	**31,928**	**37,650**
Opening net cash/(debt)	**31,436**	**(6,214)**	**(6,214)**
Closing net cash	**34,407**	**25,714**	**31,436**

10. Acquisitions

On 6 May 2014 the Group acquired the entire issued share capital of Hillendale Group Limited, representing a Land Rover dealership in Nelson, Lancashire and a Jaguar dealership in Bolton, Lancashire for total consideration of £7,921,000 including £2,000,000 of shares in Vertu Motors plc issued at 58.64p per share (3,410,475 shares) with the remainder met from the Group's existing cash resources. The excess over the provisional fair value of net assets acquired is £6,859,000, of which £1,749,000 has been allocated to franchise relationships.

On 26 August 2014 the Group acquired part of the business and certain assets of Addison Motors Limited trading as Benfield Alfa Romeo, Benfield Chrysler, Benfield Jeep and Benfield Fiat Service Centre in Newcastle for total consideration of £398,000 met from the Group's existing cash resources.

11. Retirement benefits

During the six month period ended 31 August 2014, there was a gain on assets of £1,594,000. There have also been changes in the financial assumptions underlying the calculation of the liabilities in the same period. In particular, the discount rate has decreased in line with a fall in corporate bond yields over the six month period. The effect of these changes in financial assumptions was an increase in liabilities of £1,686,000 and further a change in demographic assumptions decreased liabilities by £155,000, therefore the net increase in liabilities was £1,531,000. In total, there was an actuarial gain in the period of £63,000 before deferred taxation, recognised in the Consolidated Statement of Comprehensive Income.

12. Cash flow from movement in working capital

The following adjustments have been made to reconcile from the movement in working capital balance sheet headings to the amount presented in the cash flow from the movement in working capital. This is in order to more appropriately reflect the cash impact of the underlying transactions.

For the six months ended 31 August 2014

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(374,834)	
Deferred consideration			(2,600)	
Deferred income			(5,738)	
At 31 August 2014	319,833	39,868	(383,172)	
At 28 February 2014	334,452	42,971	(400,006)	
Balance sheet movement	**14,619**	**3,103**	**(16,834)**	
Acquisitions	4,559	1,263	(6,614)	
Movement excluding business combinations	**19,178**	**4,366**	**(23,448)**	**96**
Pension related balances				(140)
Increase in capital creditor				(254)
Decrease in interest accrual				15
Movement in working capital				**(283)**

For the six months ended 31 August 2013

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(281,128)	
Deferred consideration			(3,900)	
Deferred income			(6,075)	
At 31 August 2013	238,269	35,384	(291,103)	
At 28 February 2013	250,443	43,939	(304,355)	
Balance sheet movement	**12,174**	**8,555**	**(13,252)**	
Acquisitions	11,738	469	(642)	
Disposals	(2,765)	-	679	
Deferred consideration for disposal	-	150	-	
Movement excluding business combinations	**21,147**	**9,174**	**(13,215)**	**17,106**
Pension related balances				(141)
Decrease in capital creditor				1,658
Decrease in interest accrual				13
Movement in working capital				**18,636**

For the year ended 28 February 2014

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(391,772)	
Deferred consideration			(2,600)	
Deferred income			(5,634)	
At 28 February 2014	334,452	42,971	(400,006)	
At 28 February 2013	250,443	43,939	(304,355)	
Balance sheet movement	**(84,009)**	**968**	**95,651**	
Acquisitions	15,517	1,648	(5,965)	
Disposals	(2,765)	-	619	
Deferred consideration for disposal	-	150	-	
Movement excluding business combinations	**(71,257)**	**2,766**	**90,305**	**21,814**
Pension related balances				(255)
Decrease in capital creditor				2,228
Increase in interest accrual				(9)
Movement in working capital				**23,778**

13. Measurement period adjustment

On 12 June 2013 the Group acquired the entire issued share capital of Albert Farnell Limited. The Group recognised in the 2014 financial statements a provisional fair value for net assets acquired of £13,737,000 and a provisional value for goodwill of £17,439,000.

Within the measurement period following acquisition and in accordance with IFRS3, the purchase price allocation has been finalised. This included an exercise to search for other material separately identifiable intangible assets such as brand value, supplier agreements, franchise relationships and customer relationships. As a result of this, a value of £7,373,000 has been ascribed to franchise relationships reflecting the ability to sell manufacturer vehicles and to offer manufacturer standard aftersales services in a particular geographic area. This amount has been reclassified from goodwill to other indefinite life assets, and a corresponding deferred tax liability of £1,475,000 has been recognised. The directors' judgement is that this intangible asset has an indefinite useful life and therefore will be reviewed for impairment on an annual basis.

The finalisation of the purchase price allocation also resulted in a reduction in the fair value of tangible fixed assets acquired of £488,000.

In accordance with IFRS3, this measurement period adjustment has been reflected in these interim financial statements as if accounting for the business combination had been completed at the acquisition date. The impact of this has been to increase the value of 'Goodwill and indefinite life assets' by £1,963,000, decrease the value of 'Property, plant and equipment' by £488,000 and increase the value of 'Deferred income tax liabilities' by £1,475,000 as at 28 February 2014 and 31 August 2013.

14. Goodwill and other indefinite life assets

	31 August 2014 £'000	31 August 2013 (Note 13) £'000	28 February 2014 (Note 13) £'000
Goodwill	40,889	33,825	35,779
Other indefinite life assets – Franchise relationships (Note 13)	9,122	7,373	7,373
At end of period	**50,011**	**41,198**	**43,152**