1 March 2017

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

Pre-close Trading Update

Trading in line with expectations with continued growth in revenues and profits

Vertu Motors, the automotive retailer with a network of 125 sales and aftersales outlets across the UK, is pleased to announce the following update ahead of its preliminary results for the year ended 28 February 2017.

Overview

- The Board expects trading performance for the year ended 28 February 2017 to be in line with current market expectations, anticipating continued growth in revenues and profits.
- In the five months ended 31 January 2017 ("the Period") the Group saw continued growth in volumes, revenue and profits:

	Increase (decrease) year-on-year	
	Total	Like-for-like
Group Revenues	+16.6%	+4.8%
Service Revenues	+23.0%	+6.0%
Volumes:		
Used retail vehicles	+13.1%	+7.8%
New retail vehicles	+1.5%	(9.3%)
Motability vehicles	+0.7%	(4.5%)
New fleet cars	+13.9%	+6.1%
New commercial vehicles	(11.1%)	(10.7%)

- High quality, recurring, high margin aftersales business continues to grow on a like-for-like basis with revenues, margins and profits increasing in the core vehicle servicing activity (38.2% of gross profit earned from aftersales in the Period).
- Used vehicle volumes grew on a like-for-like basis demonstrating five years of continuous growth.
- Used car margins increased combining with higher volumes to deliver significant profit growth (30.0% of gross profit earned from used vehicles in the Period).
- Acquisitions undertaken in the current and prior year performed well and have been fully integrated making a substantial contribution to Group profit growth.
- New retail vehicle volumes continued to soften in the period as expected: margins strengthened reflecting pricing discipline.

Robert Forrester, Chief Executive of Vertu said:

"We are delighted with the Group's performance during the period, particularly in used vehicles and our high margin aftersales business and we expect our full year results to show continued growth in revenues and profits. Vertu has an excellent team, a strong balance sheet and a proven growth strategy, and as such the Board is confident of the Group's future prospects."

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. This resulted in continued like-for-like growth of 6.0% in vehicle servicing revenues. Like-for-like gross profits also grew by 6.9%. This represented the seventh consecutive year of similar growth. This strong performance ensured that the Group's service activities continued to provide a resilient, recurring and growing base of profitability to the Group's results.

New Cars

The UK new vehicle market recorded a record level of 2.7 million registrations in the year ended 31 December 2016 (SMMT). Private new vehicle registrations, which had grown for over three years until March 2016, began to record slight year-on-year declines from April 2016, and during the Period the SMMT private new vehicle registrations fell by 1.1%. Amongst the Group's Manufacturer Partners there have been mixed responses to the post-referendum currency conditions. Some Manufacturers maintained prices, supported customer offers and grew market share, whilst others have sought to increase prices or reduce consumer offers and lost share as a result. Overall new car prices are reported to have risen by 5.2% in the seven months following the referendum (source: What Car?).

As the private new vehicle market has softened, there have been higher levels of self-registration of vehicles by retailers to bridge the gap between genuine retail demand and the volume aspirations of Manufacturers. These vehicles are registered as "retail" as measured by the SMMT registration data and are then sold to customers as used cars. In these circumstances the Group's new retail sales volume trends will tend to lag the SMMT registration data. The Group's strategy during this period has been to work to achieve Manufacturer performance targets at high levels while also maintaining strong pricing disciplines.

The Group's total new retail vehicle volumes grew by 1.5% during the Period while like-for-like volumes fell by 9.3% during the Period. This was partially offset by higher like-for-like gross margins which strengthened from 7.9% to 8.0%. Like-for-like gross profit per unit increased by 6.5%, from £1,243 to £1,324, more than offsetting the impact of higher sales prices on margins.

Used Vehicles

The used car market has continued to demonstrate market growth (augmented by higher levels of retailer self-registration sales) and continued price stability during the Period. The Group has continued to invest in increased multi-channel marketing, as well as maintaining a focus on inventory management and pricing disciplines. As a consequence, like-for-like used vehicle volumes have increased in the Period by 7.8%, combined with stronger gross margins at 10.1% (2016: 9.9%). This combination resulted in significantly higher profits generated from used vehicles.

Fleet & Commercial

The Group's fleet car business has returned to growth during the Period with like-for-like sales volumes increasing by 6.1%, ahead of the UK market growth of 4.1% (SMMT). As new car retail volumes have softened, so fleet sales have grown in importance to Manufacturers as a distribution channel in the UK.

The UK light commercial van market declined by 1.4% during the Period (SMMT) following several years of strong growth. One of the key drivers of this was the change in diesel engine specification in June 2016 from Euro5 to Euro6. The Euro6 models are more expensive, so many fleet operators accelerated purchases prior to the change so benefiting from advantageous pricing on the run out of Euro 5 models. This has resulted in a market slow-down after June 2016. The Group's like-for-like van sales fell by 10.7% during the Period after a number of periods of very strong growth.

The changing mix between car and van sales resulted in a reduction in like-for-like fleet and commercial margins to 3.1% (2016: 3.3%).

Operating Expenses

In common with all UK retailers there are several cost pressures facing the Group. The main drivers of cost growth during the Period have been employment and property related costs. While the Group maintained the ratio of operating expenses to revenue in the Period at 9.7%, these pressures will continue with the forthcoming introduction of further taxes such as the apprenticeship levy, increases in the minimum wage rates and well documented rises in business rates.

The Group is maintaining strong cost control disciplines and a focus upon productivity improvement in all areas of the business to seek to mitigate these effects.

Balance Sheet

The Group has a strong balance sheet with a significant freehold property portfolio, a used car inventory largely unencumbered and very low levels of debt, providing considerable firepower for growth. On 27 February 2017 the Group entered into a new 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 new 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.

Future Prospects

Following the record 2016 UK new car market, the SMMT has forecast a fall in 2017 registrations of 5% and this remains the Board's central forecasting assumption for the new car market. This takes account of the post-Referendum fall in Sterling exchange rates and the consequent impact on the Manufacturers which export vehicles from other countries into the UK. The forecast new car market would still represent an historically very strong new car market.

March normally represents the largest registration month for new vehicles in the UK due to the registration plate change in the month. A further potential distortion may occur in March 2017 from the changes in Vehicle Excise Duty (VED) which will come into force on 1 April 2017. These changes increase the VED costs over the lifetime of many vehicles, and as a consequence of the timing of the changes, customers may seek to purchase new vehicles before 1 April 2017. This may result in a pull-forward of registrations and retailer self-registrations into March 2017, further distorting the new vehicle registration data trends. Consequently, March 2017 may turn out to be a record registration month in the UK whereas the immediate months thereafter may experience weakness in the new car market.

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 now has over 100,000 customers paying monthly for the Group's own three year service plans.

The Board believes the used car market provides a substantial opportunity to continue to grow profits underpinned by strong consumer demand and pricing stability.

The Board is therefore confident of the prospects for the Group as a whole, likely to be driven by strong aftersales and used vehicles segments which typically generate 70% of Group profits, but is more cautious about the new vehicle market.

The Group will announce its preliminary results for the year ended 28 February 2017 on 10 May 2017.

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 fifth largest automotive retailer in the UK with a network of 125 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 122 franchised sales outlets and 3 non-franchised sales operations from 105 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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