

PENDRAGON GROUP STRATEGY

INVESTOR PRESENTATION

SEPTEMBER 2020

Introduction

- **Pendragon** announces its **vision** and associated **strategy** to:

“Transform automotive retail through digital innovation and operational excellence”

- The strategy is underpinned by a comprehensive review of both external market dynamics and business performance by individual division
- There is a **strong case for change** and a **significant opportunity for upside** in profitability. The Group is well positioned to deliver transformational performance
- **Three strategic priorities for growth** have been identified:
 - 1. Unlock value in the franchised UK motor division**
 - 2. Grow and diversify Pinewood**
 - 3. Disrupt standalone used cars**
- Roadmap to deliver **target underlying PBT of c.£85 – 90m by 2025**
- This plan restores the Group to **sustainable profit growth** and delivers **attractive returns for stakeholders**

Leadership team & Board: Now stabilised, providing highly valuable skills and experience

Executive Board



Bill Berman, CEO & Interim Chairman

- Executive leadership of the Board. Driver of Group strategy and development
- Previously President and COO of AutoNation, the largest automotive retailer in the US
- 30+ years of automotive experience

Mark Willis, CFO



- 20+ years experience of accounting, finance and investor relations
- Previously CFO at Ten Entertainment Group which Mark took to successful IPO in 2017
- Prior to this, HRG PLC in roles as Argos FD and Group Finance and IR Director

Martin Casha, COO



- Following a successful career with Pendragon, Martin was appointed COO in 2001
- Strategic advisor to the Board and day-to-day management of the Group
- 30+ years of operational leadership

Non-Executive Directors



Mike Wright

- Joined Board in May 2018
- Retired from JLR in 2016 after 40 years in the sector
- Portfolio of NED, chair and advisory roles



Dietmar Exler

- Joined Board in April 2020
- Currently COO of AMB Sports & Entertainment
- Previously CEO of MB USA & region head for NAFTA



Nikki Flanders

- Joined Board in April 2020
- Divisional Managing Director at SSE PLC
- Previously COO of Opus Energy



Brian Small

- Joined Board in Dec 2019
- Previously CFO at JD Sports from 2004 to 2018
- NED at Boohoo.com and Mothercare PLC

Agenda

1. Division overview & outlook

2. COVID-19

3. Group strategy

4. Financial targets

5. Summary

Division overview & outlook

Franchised UK Motor

Franchised UK Motor

(e.g., Stratstone / Evans Halshaw)

Overview



New, and OEM approved used, vehicle sales and aftersales. Partners for 20 OEM brands across the UK

Scale



- c.215k vehicles sold in FY19
- c.150 retail points
- c.875k labour hours sold in FY19

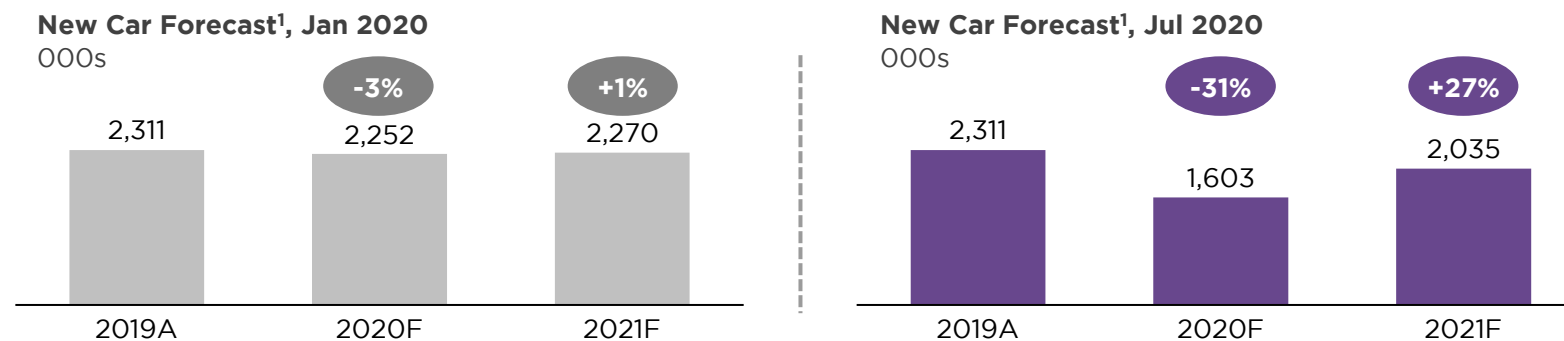
Highlights



- **Historically stable and consistent financial returns**
- **Strong cash generation**
- **Supply source for standalone used cars**

Outlook

'V-Shaped' recovery in new vehicle sales is forecast



Longer term structural drivers are positive for the sector



Shift to personal transport

- Reluctance to use public transport following the COVID-19 crisis is expected to lead to a rise in demand for personal transportation
- Initial pick up in demand seen as a result of this, in both new and used vehicles



Environmental concerns

- Rising environmental concerns has led to motorists seeking more fuel-efficient vehicles
- Government schemes in place to support new alternative fuel vehicle sales (e.g., Plug-In Car Grants)



Long term reduction in oil prices

- Fuel is a significant running cost, and a price reduction improves vehicle affordability
- Estimates for future Brent crude prices have been reduced as prices are anticipated to reach \$60 per barrel by 2022²



Shift to digital channels

- COVID-19 has accelerated the shift in sales across many industries to online
- Prior to COVID-19 UK online retail was growing at 3x in-store sales³, this presents many opportunities for dealerships

Standalone used cars

Overview



Standalone used cars

Currently operating under the Car Store banner, digitally-led used vehicle sales to UK consumers

- Business unit was right-sized in 2019
 - Significant digital potential
 - Potential to scale, addressable market of c.3m sales p.a.
-
- Strategic freedom to operate
 - Fragmented sector that is suitable for disruption
 - Higher margin potential

Scale



Highlights



Outlook

Used impact not likely to be as severe as new



Relative cost

- Less expensive form of transportation vs. new, actively encouraged by the Government



Supply

- Supply expected to be stable given peak new cars market 3 to 4 years ago and fleet de stocking by rental & leasing companies



New finance

- Access to financing for new cars could become tougher for consumers, leading people to switch to used cars



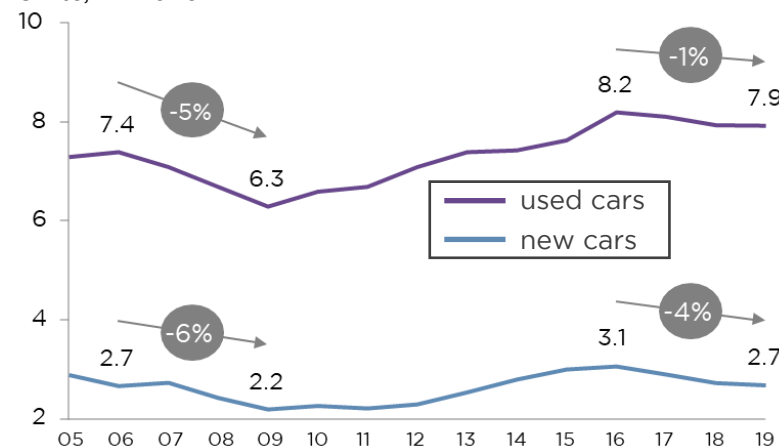
Strong start

- Used car prices have proved resilient, showing their largest monthly price rise for two years on Auto Trader, with values rising 4.6% in July

The UK is the most attractive used market, globally

UK Automotive Sales¹, 2005 - 2019A

Units, millions



- The new car market has declined from its historical peaks, impacted by Brexit uncertainty
- Used market has also declined, but at a much reduced pace
- Used market is a large, highly-fragmented, market with a total of c.8m transactions p.a.
- c.3 : 1, used to new, market transaction ratio is the most attractive, globally

Pinewood

Pinewood

Overview



Software business providing a dealer management system (DMS) to the Group and other UK / international customers¹

Scale



- **Integration with over 50 manufacturers**
- **Microsoft gold partner**
- **All in one DMS solution**

Highlights



- **Sticky customer base**
- **>70% profit margin**
- **Enabler and accelerator of digital capability for Group**

Outlook

Shift to omni-channel supports software growth

- As car dealerships shift to omni-channel propositions to meet consumer demands and trends, software, such as Pinewood, will become increasingly important and differentiate certain dealers
- The physical aspects of car buying remain important as 74% of consumers would not buy a car without speaking to a retailer, but an increasing number are performing more of the car acquisition process online
- Having an end-to-end DMS that can manage both the online and physical aspects of the transaction will be critical to dealers to meet consumer needs going forwards

Pendragon Vehicle Management

Pendragon Vehicle Management (PVM)

Overview



Fleet and contract hire provider. Source of used vehicles for UK Motor / Used Car proposition

Scale



- **Stable contribution, £13m in FY19**
- **FY19 fleet growth of 5.5%**

Highlights



- **Leverages Group purchasing power to source vehicles**
- **Supply source for standalone used cars**

Outlook

Medium-term prospects positive for leasing

- Enterprise leasing volumes are expected to grow at a CAGR of 4%¹
- Technological advances have led to car rental and leasing prices becoming increasingly transparent and convenient
- Expected medium-term recovery in business confidence following COVID-19, coupled with deferred CapEx requirements, could lead to a medium term rise in demand for enterprise leasing options
- Change in Government policy has meant that electric cars are not taxed as a benefit-in-kind from 2020-21. This has encouraged industry players to move to electric vehicle purchases

PVM: A stable, high-performing asset and will continue to contribute on a steady-state basis

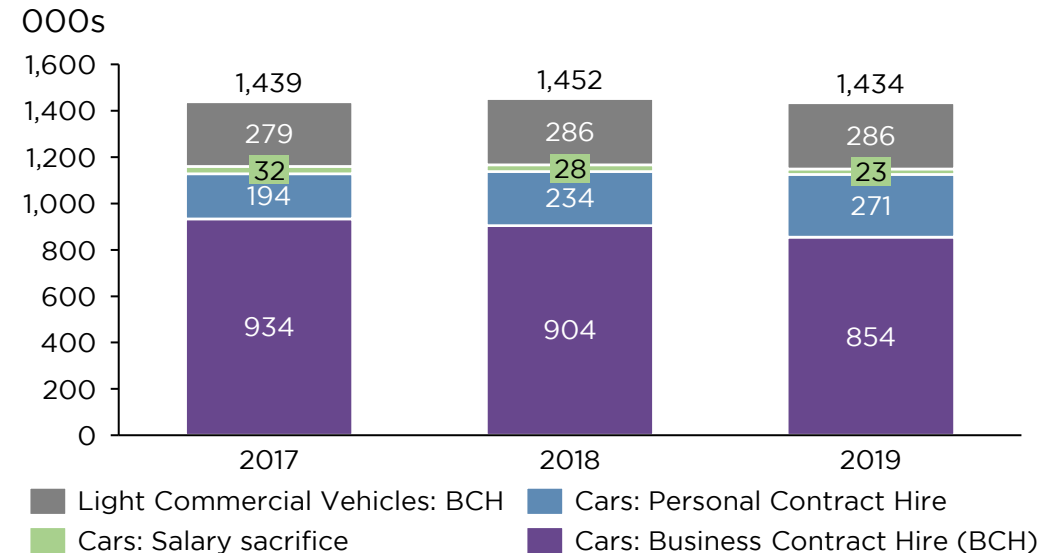
Key Performance Indicators

	2018	2019	Change
Revenue	£57.3m	£64.4m	+12.4%
Gross profit	£18.8m	£17.1m	-9.0%
Underlying operating profit	£14.8m	£12.8m	-13.5%

- A stable, high performing asset that will continue to contribute to the Group on a steady-state basis
- 2018 gross profit included the release of a provision in respect of loss-making disposals totalling £2.8m

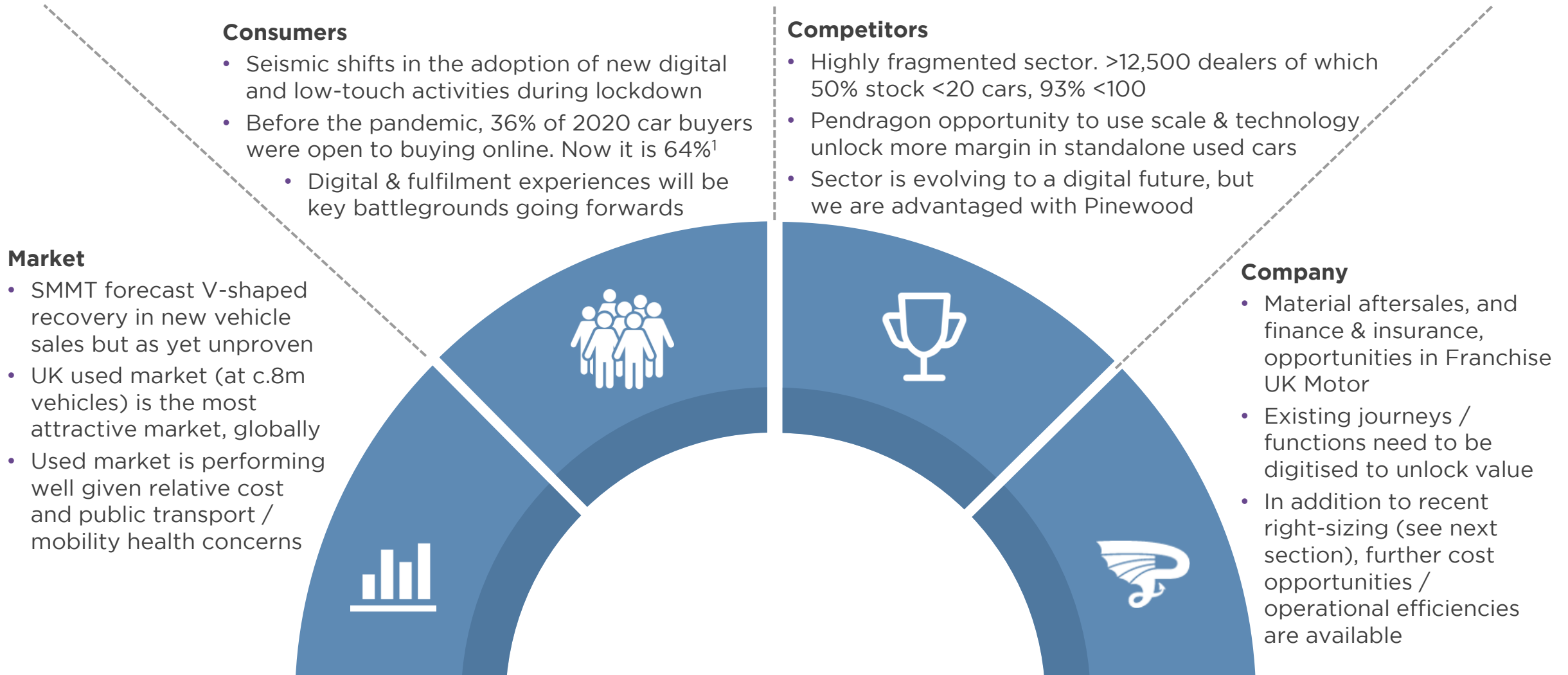
Market Headroom Opportunity

UK New Vehicle Leasing Market¹, 2017 - 2019



- Historically stable market that is forecast to grow at a CAGR of 4%²
- BCH principal driver of growth given new company car tax rates and support for hybrid / electric vehicles
- PVM only has c.1% market share at present

The landscape



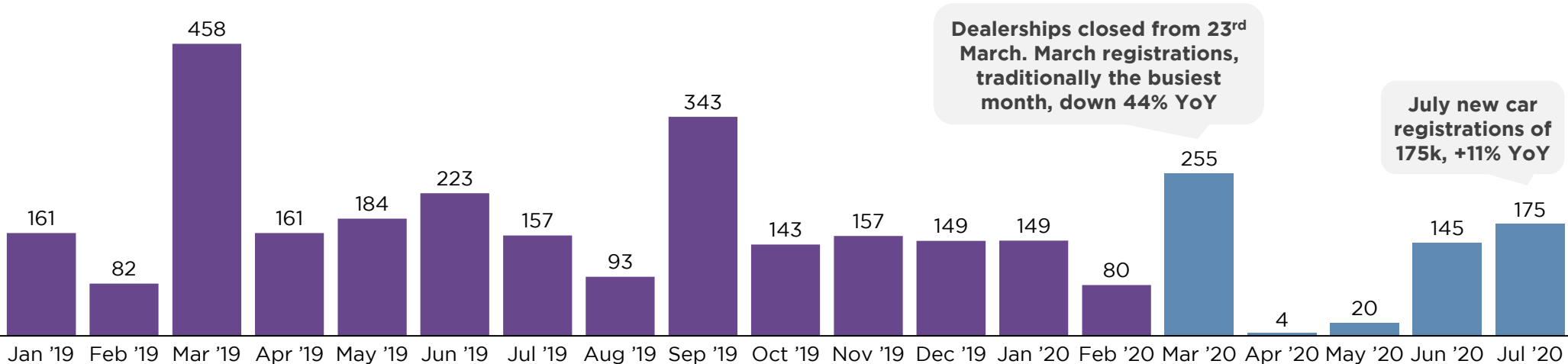
COVID-19

COVID-19: Sector impact

Impact of COVID-19 on UK automotive retail

- Social distancing measures and Government restrictions led to a closure of all retail sites on March 23rd, for Pendragon and all UK peers
- Cost cutting measures were implemented by many across the sector including making use of the Government's Coronavirus Job Retention Scheme, reducing CapEx, VAT deferrals and negotiating payment terms with OEMs
- New car registrations declined 44% YoY in March
- Since re-opening, market volumes have improved. New car registrations in July were 175k, up 11% YoY
- The total new market to the end of July is 42% down vs. the same period in 2019

UK New Car Registrations¹, 2019 – 2020 YTD
000s



Source: 1 – SMMT

COVID-19: Pendragon's response

1. Protect cash position



- Received UK government support: 85% of employees were furloughed; business rates holiday to 2021; VAT deferral
- OEM / funding partners provided stocking finance support
- c.200 senior leaders took an average 20% voluntary pay reduction
- CapEx reviewed and reduced

2. Accelerate right-sizing intent



- 15 stores did not fit with the portfolio or had no path to sustainable profitability and will be closed. Closures will be by year end and c.400 roles impacted
- c.20% further roles removed given market impacts from the pandemic / workflow efficiencies gained
- Annual benefit from cost reduction of c.£37m

3. Advance digital & fulfilment capabilities



- Accelerated digital development and fulfilment capabilities given material shifts in consumption habits
- Online payment on [evanshalshaw.com](https://www.evanshalshaw.com) and [stratstone.com](https://www.stratstone.com) enabled
- Home delivery flow implemented across all websites

Group strategy

Our vision

**“Transform automotive retail
through digital innovation
and operational excellence”**

Strategy

1. Unlock value in Franchised UK Motor



- Accelerate digital innovation
- Drive operational excellence & best practice
- Lean and efficient cost base

2. Grow and diversify Pinewood



- Deliver material existing order pipeline
- Geographic expansion
- Digital product extension

3. Disrupt standalone used cars



- Re-brand
- Differentiate value proposition
- Scale the physical estate

1. Unlock significant value in Franchised UK Motor (1/3)

1. Accelerate digital innovation

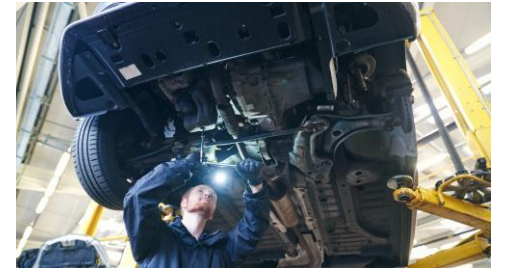
- **Embed finance & insurance products across all digital channels by year end**
- **Develop a used vehicle acquisition and management platform to improve current part exchange / Sell Your Car journeys**
- **Utilise data and strength of Pinewood systems to build dynamic pricing capability in order to optimise margin**
- **Leverage online proposition to unlock further demand**



1. Unlock significant value in Franchised UK Motor (2/3)

2. Drive operational excellence & best practice

- Improved vehicle preparation efficiency and salesforce effectiveness
- Digital capability and improved execution to drive finance and insurance penetration levels
- Significant aftersales and warranty potential from revised structure / focus, process execution and new products



1. Unlock significant value in Franchised UK Motor (3/3)

3. Operate from a lean and efficient cost base

- **Restructured regional leadership team**
- **Store closures / efficiency gains resulting in 1,400 roles being removed, driving c.£37m annual benefit**
- **Further cost opportunities available to improve long-term profitability**



2. Grow and diversify Pinewood (1/3)

1. Deliver material existing order pipeline

- **Deliver existing orders over the next 18 months**
- **Growing scale in international user base**
- **Existing orders add c.80% to current international base and c.10% to total base**



2. Grow and diversify Pinewood (2/3)

2. Geographic expansion

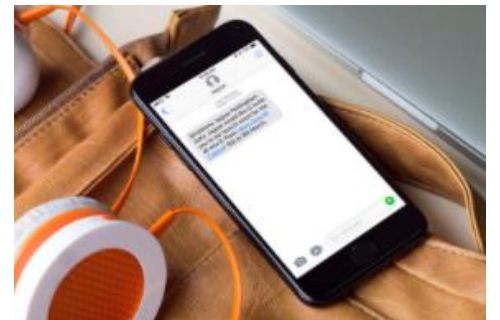
- Existing orders unlock further opportunity with a) dealer groups and b) OEMs to be the single in-market DMS provider
- Conversations ongoing
- Significant growth potential in international users in next 3-5 years



2. Grow and diversify Pinewood (3/3)

3. Digital product extension

- **Deliver product extension (e.g., used platform) capability, via a cross-functional taskforce, to enable Pendragon**
- **Sell enhanced capability to existing / new Pinewood customers**
- **Explore enabling turn-key digital retail for others**



3. Disrupt standalone used cars (1/3)

1. Re-brand

- Existing branding not appropriate (i.e., Store) for a digitally-led proposition
- Revise brand, launch, and implement across existing sites



3. Disrupt standalone used cars (2/3)

2. Differentiate the value proposition

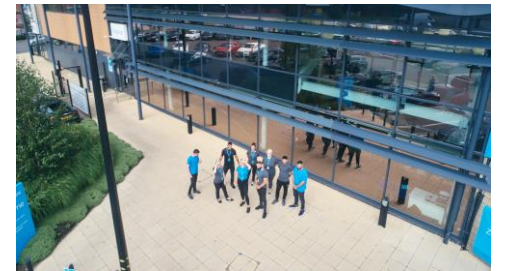
- **Determine revised customer proposition and operating model to underpin repositioned branding**
- **Clear operational separation of the business unit from all others in the UK, whilst benefitting from Group synergy**
- **Embed digital product extension from Pinewood**



3. Disrupt standalone used cars (3/3)

3. Scale the physical estate

- **Build an additional 8 physical locations, differentiated vs. today, over the period to 2024**
- **Gain further share of addressable market that totals c.3m vehicles p.a.**
- **CapEx per site of c.£7.5m. Phasing: 1 in 2021, 1, 2, 4**



Pendragon's advantages

Strategic pillars

1. Unlock value in Franchised UK Motor



2. Grow and diversify Pinewood



3. Disrupt standalone used cars



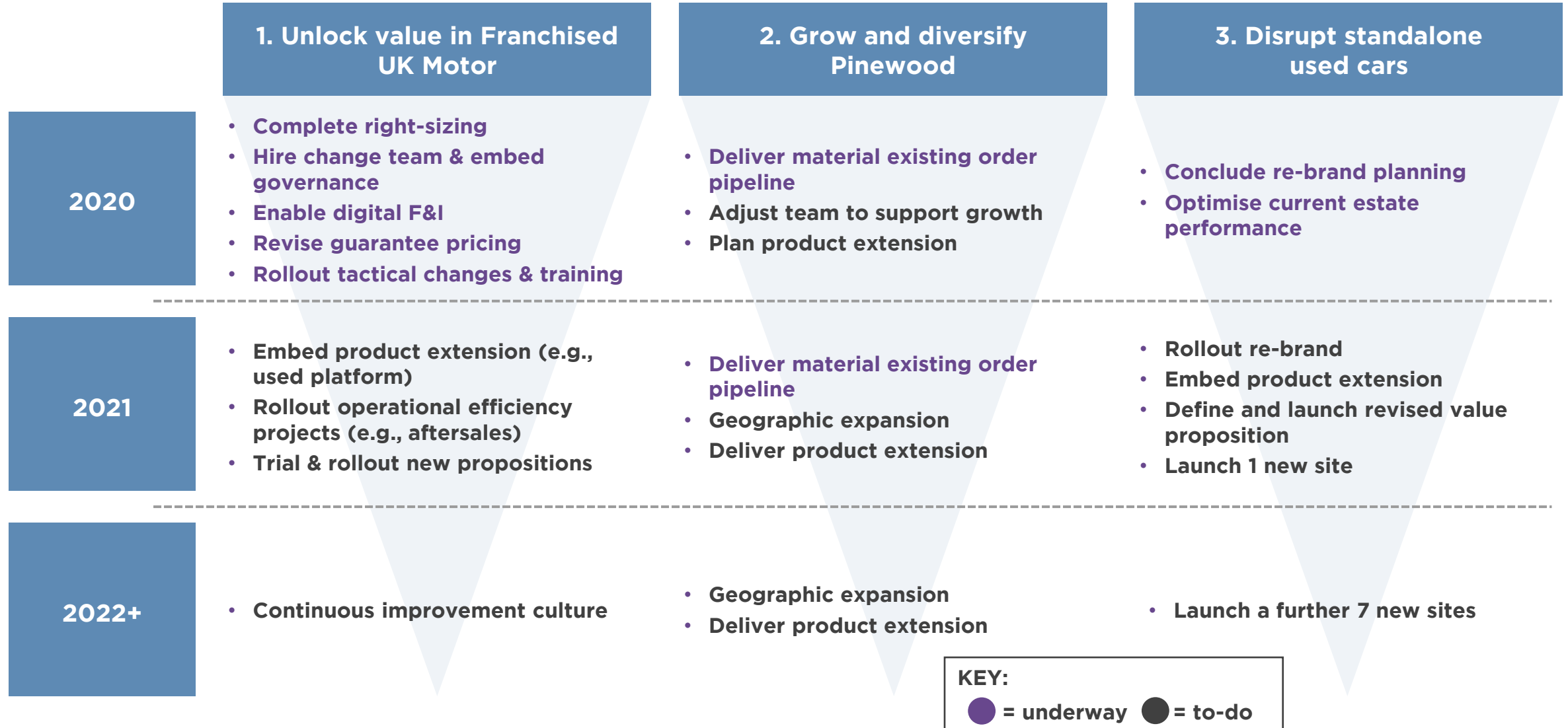
Pendragon's advantages

- Leaner cost base & improved efficiency
- Intragroup supply scale for standalone used cars
- Data availability and technology capability
- Portfolio breadth & customer reach

- Advanced digital capabilities
- Control of the ecosystem
- Varied drivers of Group profitability & non-UK reliance

- Vertically integrated assets and capabilities
- No OEM dependency and associated flexibility
- Margin upside

Milestones: An ambitious but achievable plan



Financial targets

Financial targets

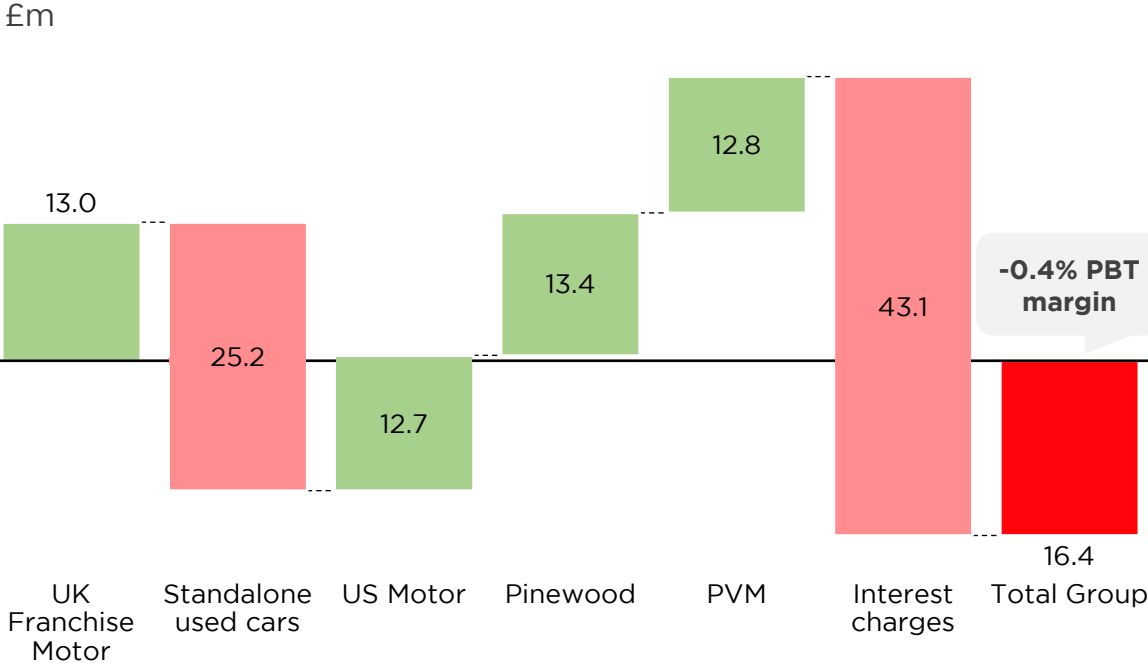
Transformative plan to restore and improve underlying profitability

Delivered from an improved cost base following FY20 restructuring

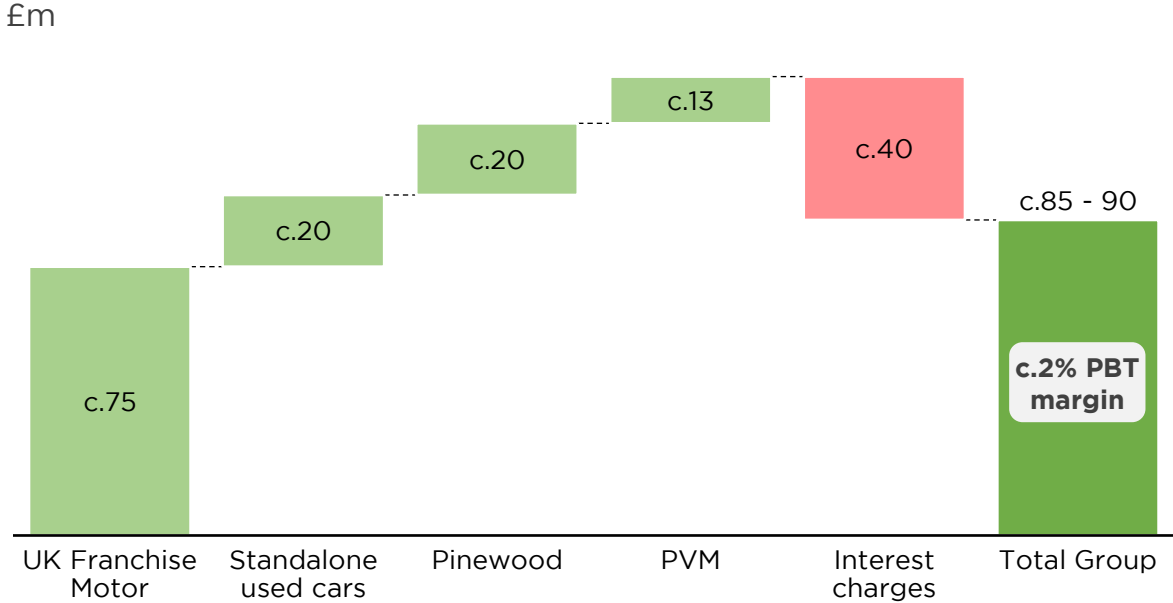
Targeting a c.2% underlying PBT margin by 2025

Capital expenditure averaging c.£45m p.a. from 2021 - 2025

PBT Performance, FY19 Actual



PBT Performance, FY25 Targets



Summary

Summary

**Our
strategy...**

- **We are well positioned with three strategic priorities for growth and transformation**
 - 1. Material opportunity to unlock value in franchised UK motor by:**
 - Accelerating digital innovation;
 - Driving operational excellence and best practice; and,
 - Cost control.
 - 2. Accelerate Pinewood's geographic expansion. Diversify into new products, initially for Pendragon, and then sell to the wider customer base**
 - 3. Disrupt standalone used car sales in the UK by differentiating the customer experience and scaling the number of sites**

**...delivers
value**

- **Roadmap to deliver underlying PBT target of c.£85 - £90m by 2025**
- **PBT margin target of c.2% by FY25**
- **Significant shareholder value creation**

Appendix

Appendix: DMS functionality

