

PENDRAGON PLC

2020 FULL YEAR RESULTS

24TH MARCH 2021

Agenda

1. Introduction

Bill Berman

2. FY20 performance overview & divisional highlights

Bill Berman

3. Group strategy update

Bill Berman

4. Financial review

Mark Willis

5. Summary & outlook

Bill Berman

Operational improvements drive robust financial performance

Pandemic response

- Outstanding response from team, adapting to changing restrictions
- Accelerated development of digital capabilities
- Streamlined the business, realising material efficiency gains



Financial Performance

- Underlying profit before tax £8.2m (FY19: Loss of £16.4m)
- Strong H2 performance offsetting impact of H1 (H1: Loss of £31.0m, H2: Profit of £39.2m)
- Closing net debt £100.4m (FY19: £119.7m)



Outlook

- Well prepared for FY21 Q1 lock-down, some impact on performance
- Cautiously optimistic on outlook, but well positioned to capitalise on pent-up demand
- Confident in strategy to: transform automotive retail through digital innovation and operational excellence



FY20 performance overview

H1: Managing the pandemic and adapting to new environment

Context

- Government mandated closure of all UK dealerships from 23rd March until 1st June

Objectives

- Ensure health and wellbeing of customers and associates
- Protect cash position
- Safely reopen locations

Actions

- Rapid and decisive action taken to minimise the impact of the Pandemic and to protect cash:
 - *Utilised government support measures*
 - *Reduced capital expenditure programme*
 - *Support from OEM's and stocking loan providers*
 - *Reduced all discretionary cost activity*
 - *Senior management salary sacrifices*
- Introduced COVID safe environments for associates and customers
- Opened service centres to support key workers
- COVID-19 impacted financial performance with H1 underlying loss before tax of £(31.0)m

H2: Strong recovery and managing further disruption

Context

- Strong performance following re-opening

Objectives

- Maximise opportunity from pent-up demand
- Implement structural changes to the organisation to deliver efficiency gains
- Transform ability to operate digitally

Actions

- Implemented organisation changes, delivering annual equivalent savings of c.£35m
- Increased efficiency, demand met with smaller workforce
- Reviewed estate and completed closure of 15 stores
- Significantly enhanced digital capabilities in conjunction with Pinewood
 - *Click and collect and home delivery option*
 - *Online payment options and digital signatures*
 - *Online digital finance and insurance introduced*
- Enhanced vehicle acquisition processes
- New capability significantly reduced impact of November lockdown
- Delivered strong financial performance with underlying profit before tax of £39.2m
- Launched new strategy

Divisional operating highlights

Franchised UK Motor

Franchised UK Motor

- Significant changes to operating model to provide safe physical environments
- Rapid development of digital & fulfilment capabilities
- Completed review of store estate and cost restructure
- H1 materially impacted by COVID-19, strong performance recovery in H2
 - H1 Underlying operating loss of £18.1m (H1 FY19: loss of £7.7m)
 - H2 Underlying operating profit of £36.6m (H2 FY19: £20.7m)
 - FY20 Underlying operating profit of £18.5m (FY19: £13.0m)
- Total revenue down 30.5% (26.4% on a LFL basis)
 - New cars down 26.0% LFL vs. a market down 33.4% in represented franchise, 29.4% total
 - Used cars down 26.8% on a LFL basis vs. market reduction of 14.9%, reflecting FY19 stock clearance activity
 - Aftersales revenue down 26.6% on a LFL basis
- Improved gross margins of 11.2% (FY 19: 10.0%)
 - New Gross profit per unit (GPU) : £1,448 (H1: £1,256, H2: £1,574), up £160 vs FY19
 - Used GPU : £1,200 (H1: £934, H2: £1,437), up £422 vs FY19
 - Aftersales gross margin 49.1% (H1: 46.4%, H2: 51.2%), down 0.4% vs FY19
- Operating costs down 20.9% on a LFL basis, supported by government schemes and cost restructuring



We Come to You - Home Delivery

Enjoy free home delivery* on new and used cars as well as a collection and delivery service for aftersales customers

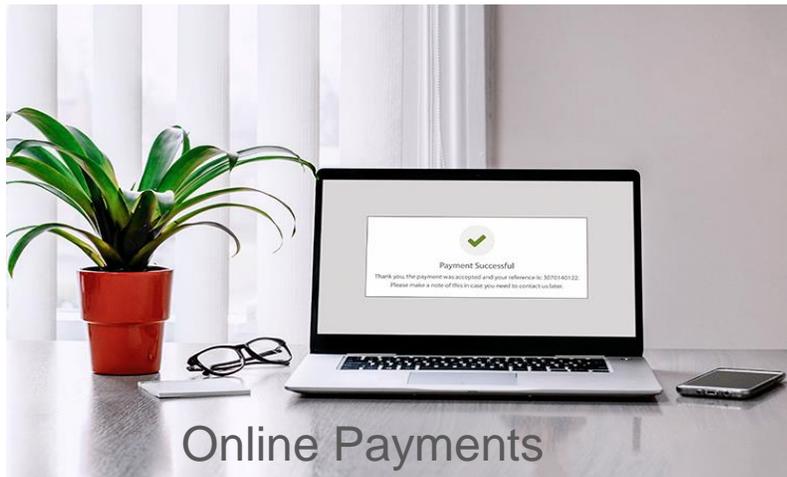
[Search New & Used Cars](#)



Pinewood

Software - Pinewood

- Pinewood's revenue proved resilient, down just 4.7%
- Proactive support to customer base during first national lockdown
- 20% increase in international market users
- Multiple platform enhancements rolled-out:
 - *eLearning to support home working*
 - *Integrated, secure online payment platform*
 - *Remote signature capability*
- Underlying operating profit of £12.1m (FY19: £13.4m)
 - *Impact from discounts, and lower training and implementation income*
 - *Continued investment in the DMS resulted in increased costs*



Online Payments

See our range of integrated vehicles apps

 Stock+

 Host+

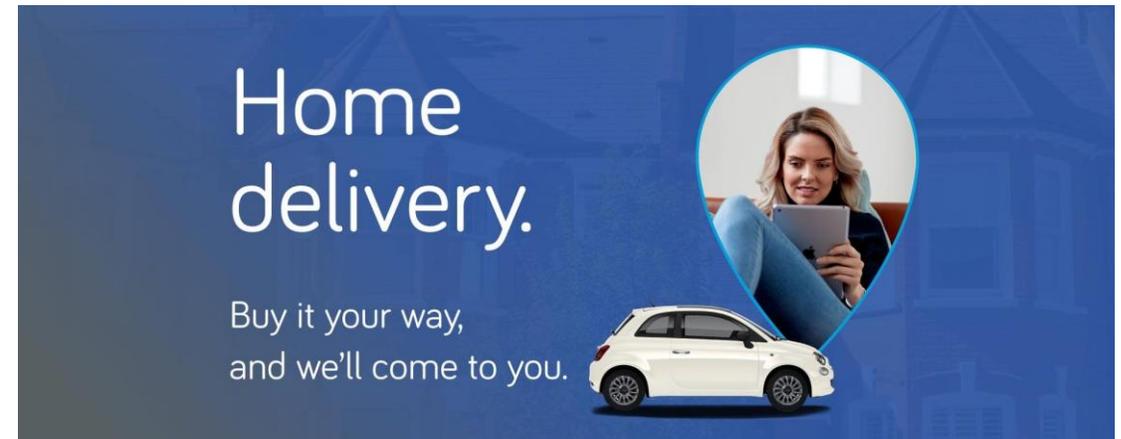
 Sales+

 Pay+

Car Store

Car Store

- Significant performance improvement in Car Store, despite pandemic
- Improved operating controls and stock management
- Rapid development of digital & fulfilment capabilities
- Improved margins: FY20 GPU £865 vs £391 in FY19
- Underlying operating loss of £1.2m (FY19: loss of £25.2m)
 - *Loss of £1.7m in H1*
 - *Profit of £0.5m in H2*
- Good progress with property management of the closed store estate;
 - *15 of 24 closed locations successfully sold, sublet or lease exit achieved*
- New Divisional MD recruited to deliver standalone brand strategy



Leasing

Leasing

- Increased underlying operating profit of £13.3m (H1: £4.7m, H2: £8.6m, FY19: £12.8m)
- Lower levels of new business and lower disposals in H1 as a result of pandemic
- Reduction in fleet size of 10.6% vs FY19
- FY performance driven by strong recovery in H2
 - Increase in extension income
 - Increase in vehicle disposals, strong residual values
 - Disposals down 7.6% YOY (H1: down 37%, H2 up 21%), Profit per unit up 35%



US Motor

US Motor

Disposal of US Motor Division

- Close to completion of the disposal of the US Motor sites, with expected proceeds of £107m before tax:
 - *Los Angeles disposal completed January 2021, for £16.3m*
 - *Total current proceeds from the completed US Motor site disposals of £95.1m*
 - *Agreement entered to sell final location, Santa Monica, In H1 FY21 for c.£11.8m*

FY20 Operating highlights

- Strong H2 performance recovery in remaining US Motor division sites
- FY underlying operating profit of £3.2m (H1: Loss of £1.6m, H2: £4.8m, FY19: £12.7m)



Group Strategy update

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



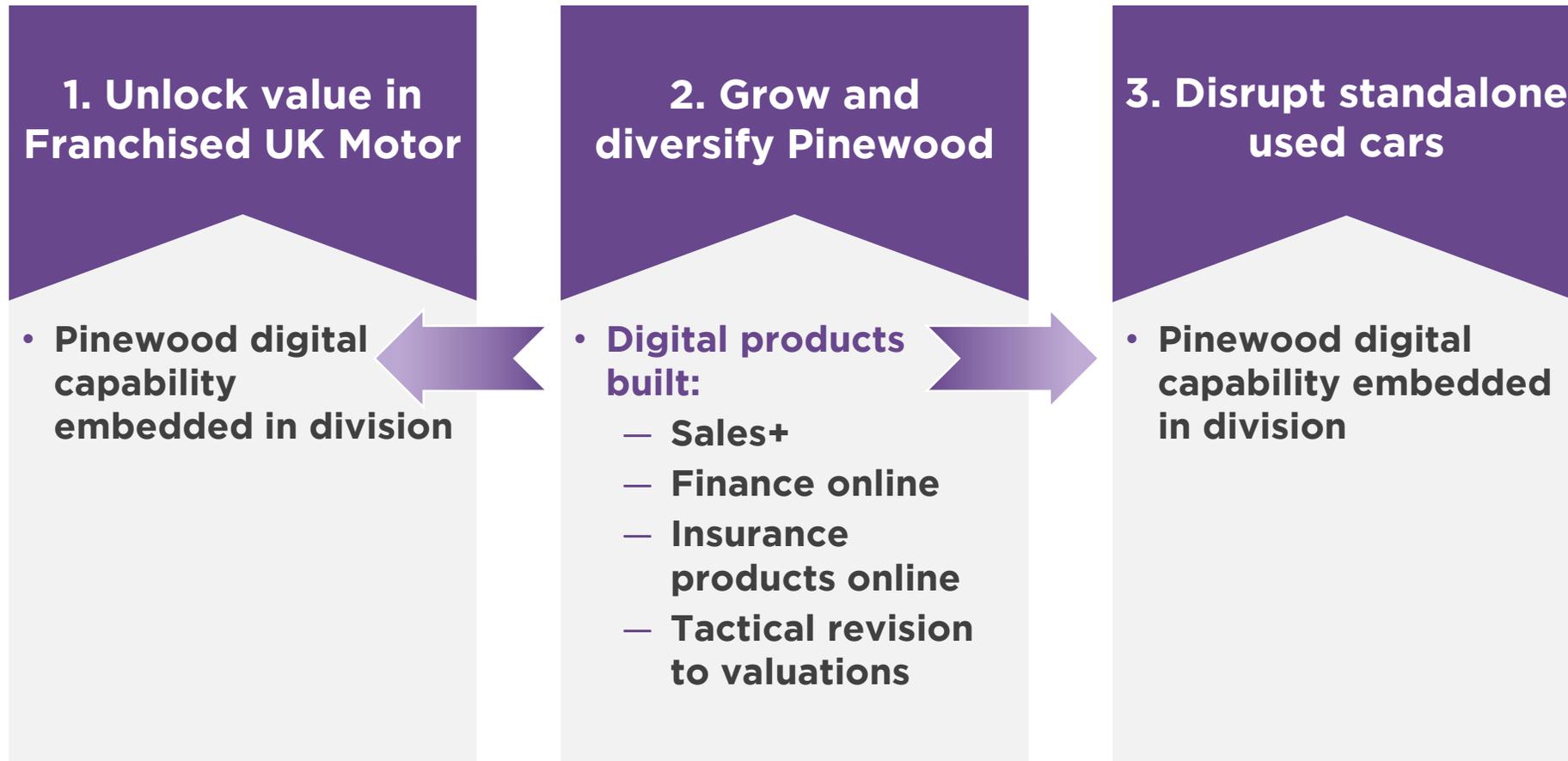
- Digital product extension
- Deliver material existing order pipeline
- Geographic expansion

3. Disrupt standalone used cars



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

FY20 strategy delivery (1/2)



FY20 strategy delivery (2/2)

1. Unlock value in Franchised UK Motor

- **Store & Organisation restructure concluded. c.£37m annual benefit**
- **Warranty product & price revisions**
- **Revised reporting & analytics suite**

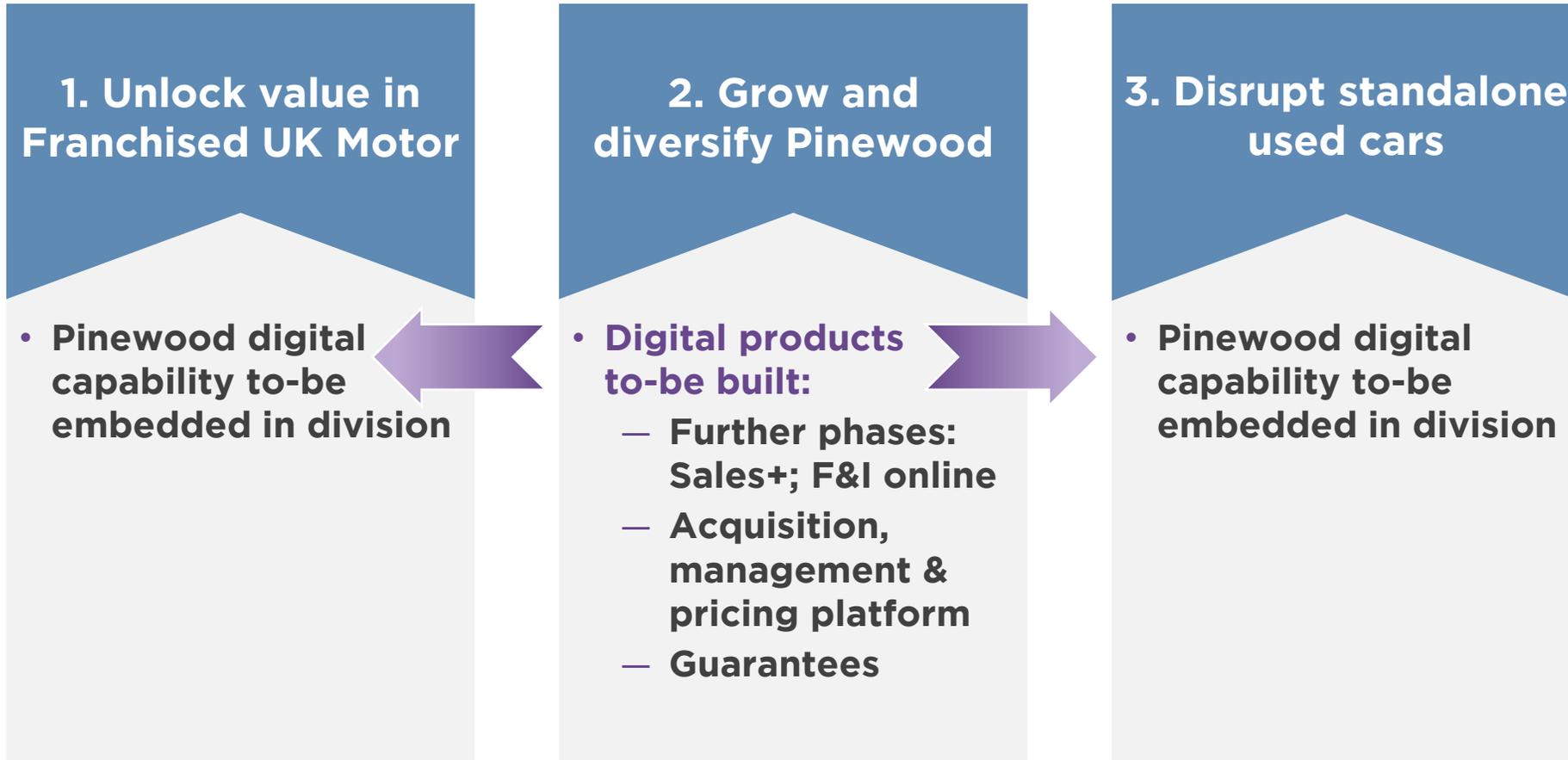
2. Grow and diversify Pinewood

- **Growth in International users**

3. Disrupt standalone used cars

- **Warranty product & price revisions**
- **Value proposition planning**
- **Digital & stores planning**

FY21 strategy milestones (1/2)



FY21 strategy milestones (2/2)

1. Unlock value in Franchised UK Motor

- **Operational excellence & best practice:**
 - Preparation
 - Finance & insurance
 - Aftersales

2. Grow and diversify Pinewood

- **Deliver material existing order pipeline**

3. Disrupt standalone used cars

- **Brand re-launch**
- **Digital journey revisions**
- **Complete 1st new physical location**

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
- Experienced leadership
- No external dependency and associated flexibility
- Margin upside

Financial performance & targets

Transformative plan to restore and improve underlying profitability

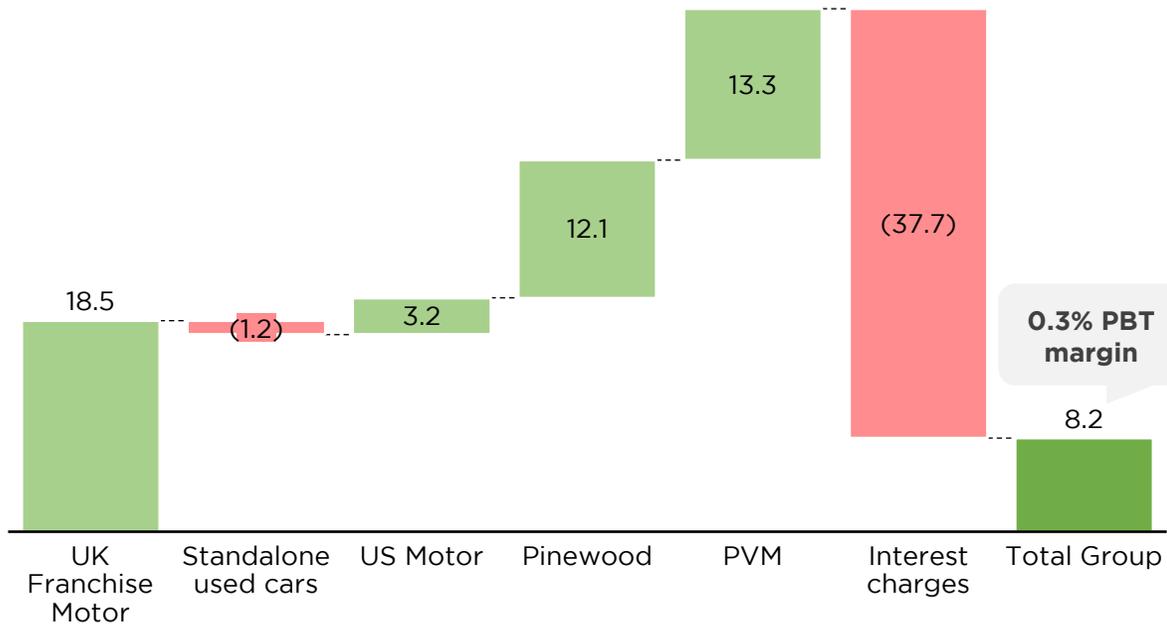
Delivered from an improved cost base following FY20 restructuring

Targeting a c.2% underlying PBT margin by 2025

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

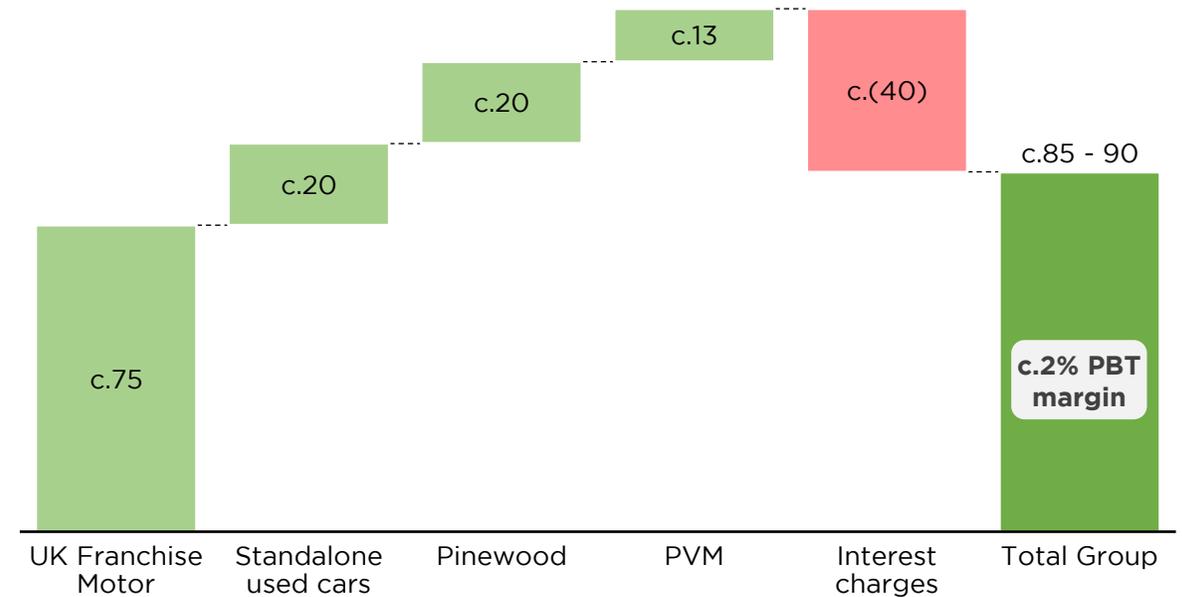
Underlying PBT Performance, FY20

£m



Underlying PBT Performance, FY25 Targets

£m



Financial review

Key metrics: FY20

	Revenue	Gross profit	Gross margin %	Underlying (loss) / profit before tax	Net debt
H1	£1,218.3m <i>-50.4% vs FY19</i>	£135.3m <i>-42.5% vs FY19</i>	11.1%	£(31.0)m <i>+3.7% vs FY19</i>	£46.0m <i>−£73.7m vs FY19</i>
H2	£1,706.3m <i>-16.8% vs FY19</i>	£217.9m <i>-8.2% vs FY19</i>	12.8%	£39.2m <i>+148.1% vs FY19</i>	£100.4m <i>−£19.3m vs FY19</i>
FY20	£2,924.6m <i>-35.1% vs FY19</i> <i>(-25.5% LFL)</i>	£353.2m <i>-25.3% vs FY19</i> <i>(-16.0% LFL)</i>	12.1%	£8.2m <i>+150% vs FY19</i>	£100.4m <i>−£19.3m vs FY19</i>
FY19	<i>£4,506.1m</i>	<i>£472.7m</i>	<i>10.5%</i>	<i>£(16.4)m</i>	<i>£119.7m</i>

Financial summary: Income statement

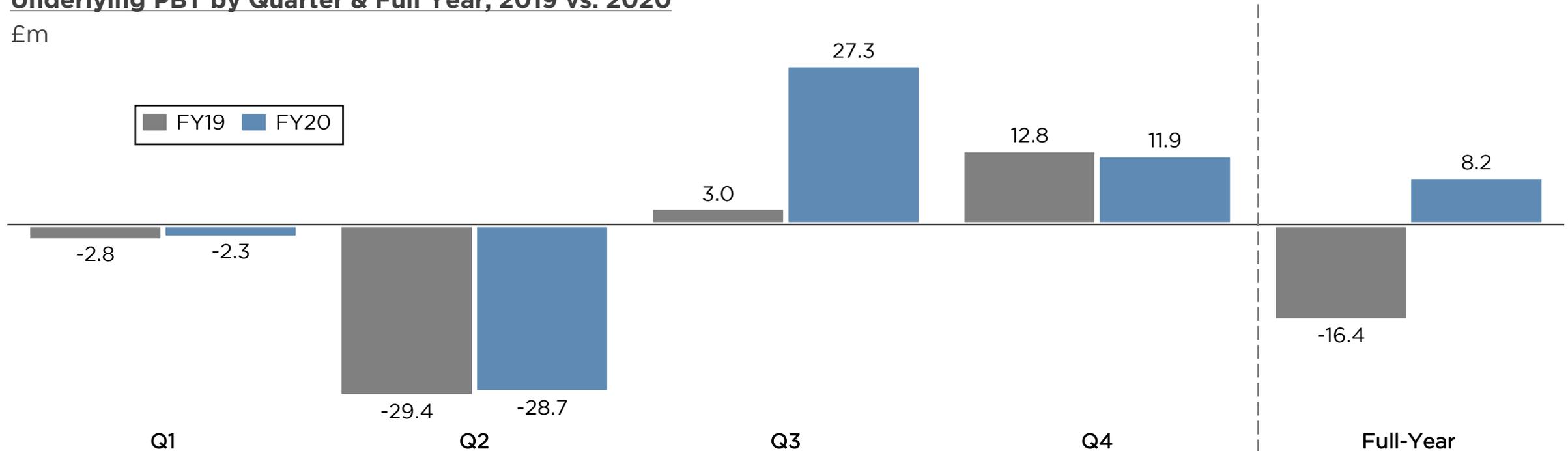
Income Statement (£m)			
	FY 2020	FY 2019	% Change
Revenue	2,924.6	4,506.1	-35.1%
Gross profit	353.2	472.7	-25.3%
Gross Margin %	12.1%	10.5%	1.6%
Operating costs	-307.3	-446.0	-31.1%
Operating profit	45.9	26.7	71.9%
Operating Margin %	1.6%	0.6%	1.0%
Interest	-37.7	-43.1	12.5%
Underlying Profit / (Loss) before Tax	8.2	-16.4	150.0%
Non-underlying items	-37.8	-97.7	61.3%
Profit / (Loss) before tax	-29.6	-114.1	74.1%
Underlying diluted earnings per share	0.6p	(1.2)p	

- Revenue decline of 35.1% (25.5% down LFL)
 - H1 -50.4%
 - H2 - 16.8%
 - Driven by pandemic impact and estate reductions
- Strong gross margins
 - Improved new & used car margin performance
- Cost action, strong management and government support led to reduced operating costs:
 - Revised operating structure driving £35m p.a. benefit
 - £42m furlough support, £10m rates relief
 - Store closures, UK & US
- Lower interest charge driven by reduction in stocking interest
- Non-underlying charges of £37.8m (FY19: £97.7m):
 - Loss on disposals of £6.8m
 - Impairment £16.5m
 - Pension costs of £5.4m
 - Closure and redundancy costs £9.1m
- Reported loss before tax of £29.6m

Financial performance by quarter

Underlying PBT by Quarter & Full Year, 2019 vs. 2020

£m



- Pre-pandemic, in January and February 2020, performance was ahead of last year and the Group's budget:
 - Jan & Feb combined £5.1m up vs. FY19
 - March £4.6m down vs. FY19 as lock-down implemented
- Q2 underlying loss of £28.7m from losses in April and May, despite various support measures
- Strong performance in Q3 of £27.3m, Lower costs and strong GPU's driving performance
- Performance in Q4 impacted by November lockdown and tiering, but still generating £11.9m of underlying PBT

Financial summary: Cashflow

Summary Cashflow (£m)		
	FY 2020	FY 2019
Underlying Operating Profit	45.9	26.7
Depreciation and Amortisation	43.7	44.7
Share Based Payments	1.2	0.6
Non-underlying Items	-10.1	-5.7
Contribution into defined benefit pension scheme	-12.5	-7.6
Working Capital and Contract Hire Vehicle Movements	-0.7	5.4
Cash Generated from Operations	67.5	64.1
Tax Paid	-4.4	-3.3
Net Interest Paid	-20.5	-26.8
Capital Expenditure	-18.7	-49.4
Business and Property Disposals	36.7	72.4
Net Capital Income	18.0	23.0
Dividends	-	-9.7
Share Buybacks	-	-0.5
Lease Payments & Receipts	-39.8	-39.9
Other	-1.5	-0.5
Opening Net Debt	119.7	126.1
Decrease in Net Debt	19.3	6.4
Closing Net Debt	100.4	119.7

- Net debt reduction of £19.3m vs FY19
- Debt reduction benefiting from VAT deferral benefit of c.£30m
- Pension contributions increased to £12.5m p.a.
- Cash non-underlying items of £10.1m, principally driven by
 - Termination costs in relation to restructures £6.3m
 - Business closure costs £2.8m
- Reduction in interest paid of £6.3m, driven by lower stocking interest
- Net Capital Inflow of £18.0m
 - Puente Hills Chevrolet US disposal £16.6m, Porsche Stockport sale and leaseback £10.4m, Other property disposals £9.6m
 - Total Capital expenditure outflow of £18.7m

Financial summary: Balance sheet

Balance Sheet (£m)		
	Dec-20	Dec-19
Property	222.8	237.8
Plant & Equipment	204.0	231.3
Goodwill	150.3	162.8
Other Intangibles Assets	10.2	9.5
Right of Use Assets	146.0	159.2
Inventories	608.8	839.0
Receivables	113.2	129.9
Net Assets Held as For Sale	31.7	59.6
Payables	-1,222.2	-1,504.2
Retirement Benefit Obligations	-75.5	-59.0
Net Tax Balances	37.8	22.7
Net Debt	-100.4	-119.7
Shareholders Funds	126.7	168.9

- Reduction in property
 - *Sale & leaseback of Porsche Stockport*
 - *Disposal of excess property*
- Plant and equipment reduction from disposals and ongoing depreciation
- Reduction in goodwill & intangibles due to £12.5m impairment in H1
- Right of use assets reduction driven by impairment of closed stores and ongoing depreciation
- Inventory reduced by 27.4% to £608.8m
 - *c.£70m from used, c.£150m from new inventory*
 - *Reduced stock from closures*
 - *Lower new stock as a result of lower OEM production*
- Lower receivables, driven by lower debtors from reduced new car sales in Q4 YOY
- Reduction in creditors related to reduced vehicle inventory, partially offset by an increased VAT creditor as a result of the deferred VAT payment

Summary & outlook

Outlook

Outlook

- Improved performance YTD to February 21, during lock-down.
- Cautiously optimistic about the economic outlook
- Well positioned to respond to any opportunities or challenges
- Confident in making further progress with our new strategy

Appendix – Divisional financial summary

Franchised UK Motor

Franchised UK Motor (£m)				
	FY 2020	FY 2019	% Change	% Change LFL
Revenue	2,591.8	3,730.8	-30.5%	-26.4%
Gross Profit	289.8	371.6	-22.0%	-18.3%
Operating Costs	-271.3	-358.6	-24.3%	-20.9%
Operating Profit	18.5	13.0	42.3%	13.2%
Gross Margin %	11.2%	10.0%	1.2%	1.1%
Operating Margin %	0.7%	0.3%	0.4%	0.4%

New (£m)				
	FY 2020	FY 2019	% Change	% Change LFL
Revenue	1,208.0	1,702.2	-29.0%	-26.0%
Gross Profit	79.1	104.9	-24.6%	-21.8%
Gross Margin %	6.5%	6.2%	0.3%	0.3%

Used (£m)				
	FY 2020	FY 2019	% Change	% Change LFL
Revenue	1,157.5	1,702.4	-32.0%	-26.8%
Gross Profit	99.5	105.2	-5.4%	-1.9%
Gross Margin %	8.6%	6.2%	2.4%	2.2%

Aftersales (£m)				
	FY 2020	FY 2019	% Change	% Change LFL
Revenue	226.3	326.2	-30.6%	-26.6%
Gross Profit	111.2	161.5	-31.1%	-26.8%
Gross Margin %	49.1%	49.5%	-0.4%	-0.2%

Software - Pinewood

Software - Pinewood (£m)			
	FY 2020	FY 2019	% Change
Revenue	22.3	23.4	-4.7%
Gross Profit	20.5	21.5	-4.7%
Operating Costs	-8.4	-8.1	3.7%
Operating Loss	12.1	13.4	-9.7%
Gross Margin %	91.9%	91.9%	0.0%
Operating Margin %	54.3%	57.3%	-3.0%

Car Store

Car Store (£m)				
	FY 2020	FY 2019	% Change	% Change LFL
Revenue	88.5	270.3	-67.3%	-35.1%
Gross Profit	7.3	10.9	-33.5%	-9.2%
Operating Costs	-8.5	-36.1	-76.6%	-43.2%
Operating Loss	-1.2	-25.2	95.2%	84.8%
Gross Margin %	8.2%	4.0%	4.2%	1.3%
Operating Margin %	-1.4%	-9.3%	7.9%	3.8%

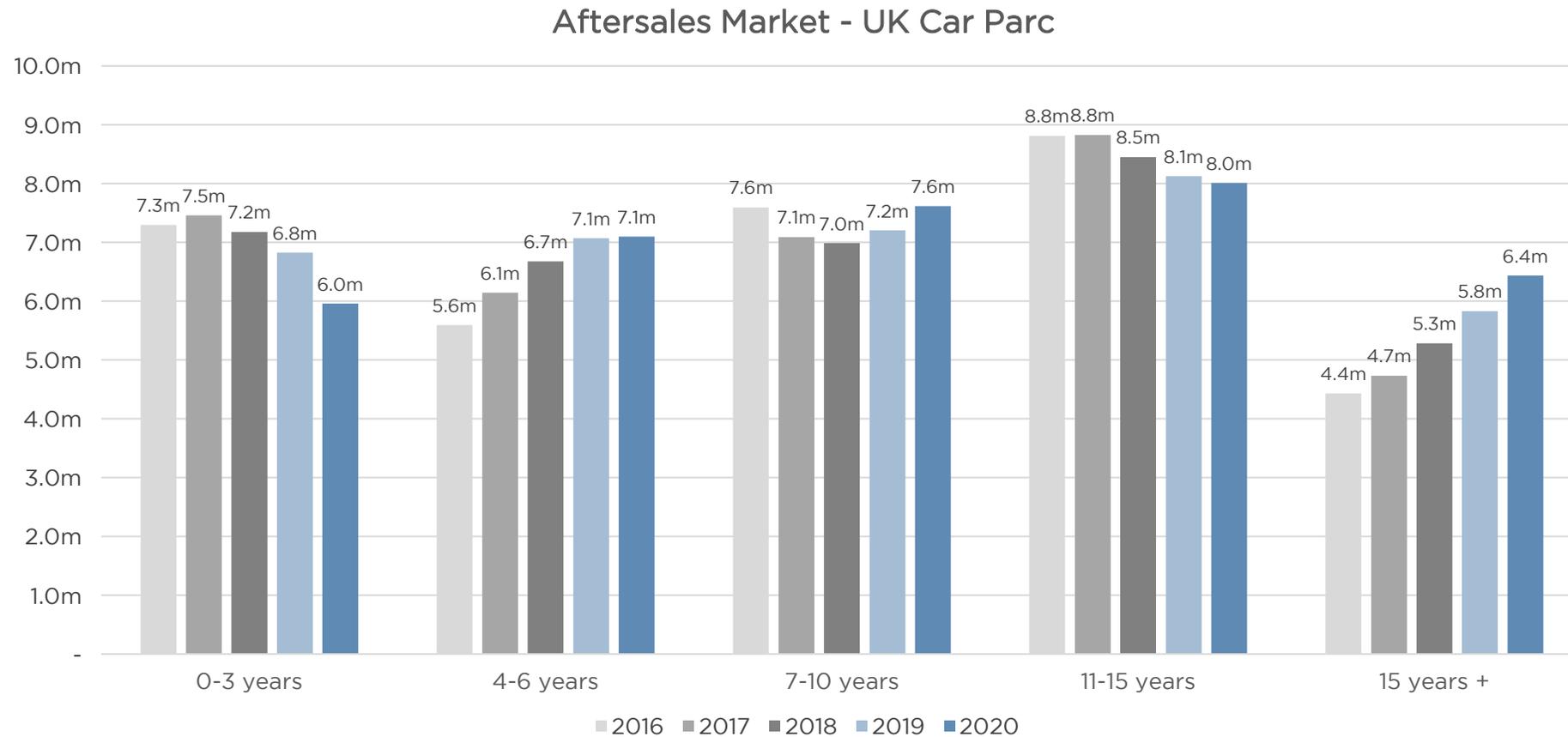
Leasing – Pendragon Vehicle Management

Leasing – Pendragon Vehicle Management (£m)			
	FY 2020	FY 2019	% Change
Revenue	86.3	87.7	-1.6%
Gross Profit	17.6	17.1	2.9%
Operating Costs	-4.3	-4.3	0.0%
Operating Profit	13.3	12.8	3.9%
Gross Margin %	20.4%	19.5%	0.9%
Operating Margin %	15.4%	14.6%	0.8%

US Motor

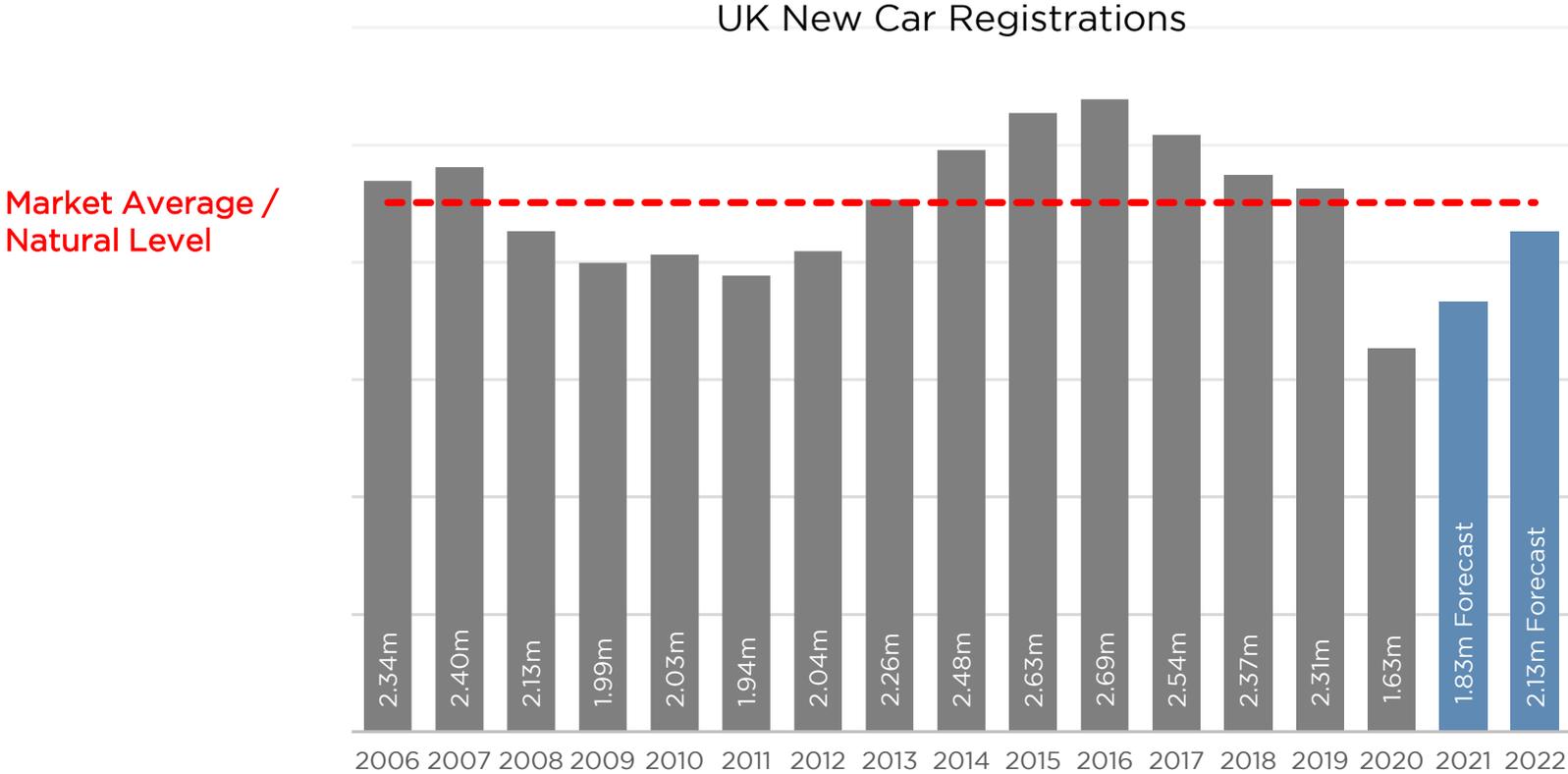
US Motor (£m)				
	FY 2020	FY 2019	% Change	% Change LFL
Revenue	157.9	422.3	-62.6%	-15.1%
Gross Profit	23.3	56.7	-58.9%	-5.8%
Operating Costs	-20.1	-44	-54.3%	36.0%
Operating Loss	3.2	12.7	-74.8%	-62.1%
Gross Margin %	14.8%	13.4%	1.3%	1.5%
Operating Margin %	2.0%	3.0%	-1.0%	-3.2%

Franchised UK Motor - Aftersales



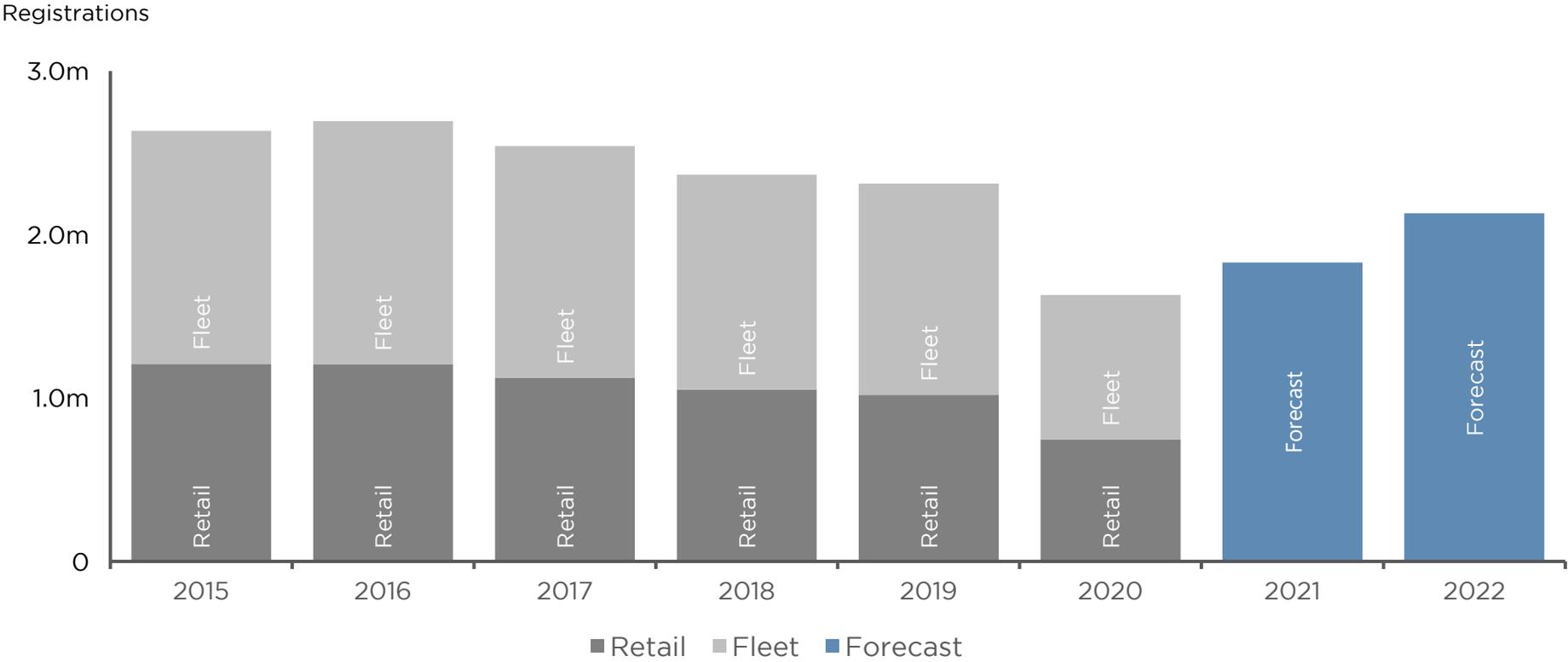
- Reduction in 0-3 year car parc due to impact of reduced new market in 2020
- The key 4-6 years car parc has been maintained at 7.1m cars
- Growth in the 7-10 year car parc

Franchised UK Motor - New



- The UK new car market was down by 29.4% in 2020
- Retail market represented 45.8% of the UK new market in 2020
- Forecast of 12.1% increase in new car market in 2021

UK New Car Market



Financial Summary – 3 Year View

Underlying Profit Before Tax



Underlying Operating Profit



Underlying Earnings Per Share



Net Debt and Net Debt: Underlying EBITDA Ratio

