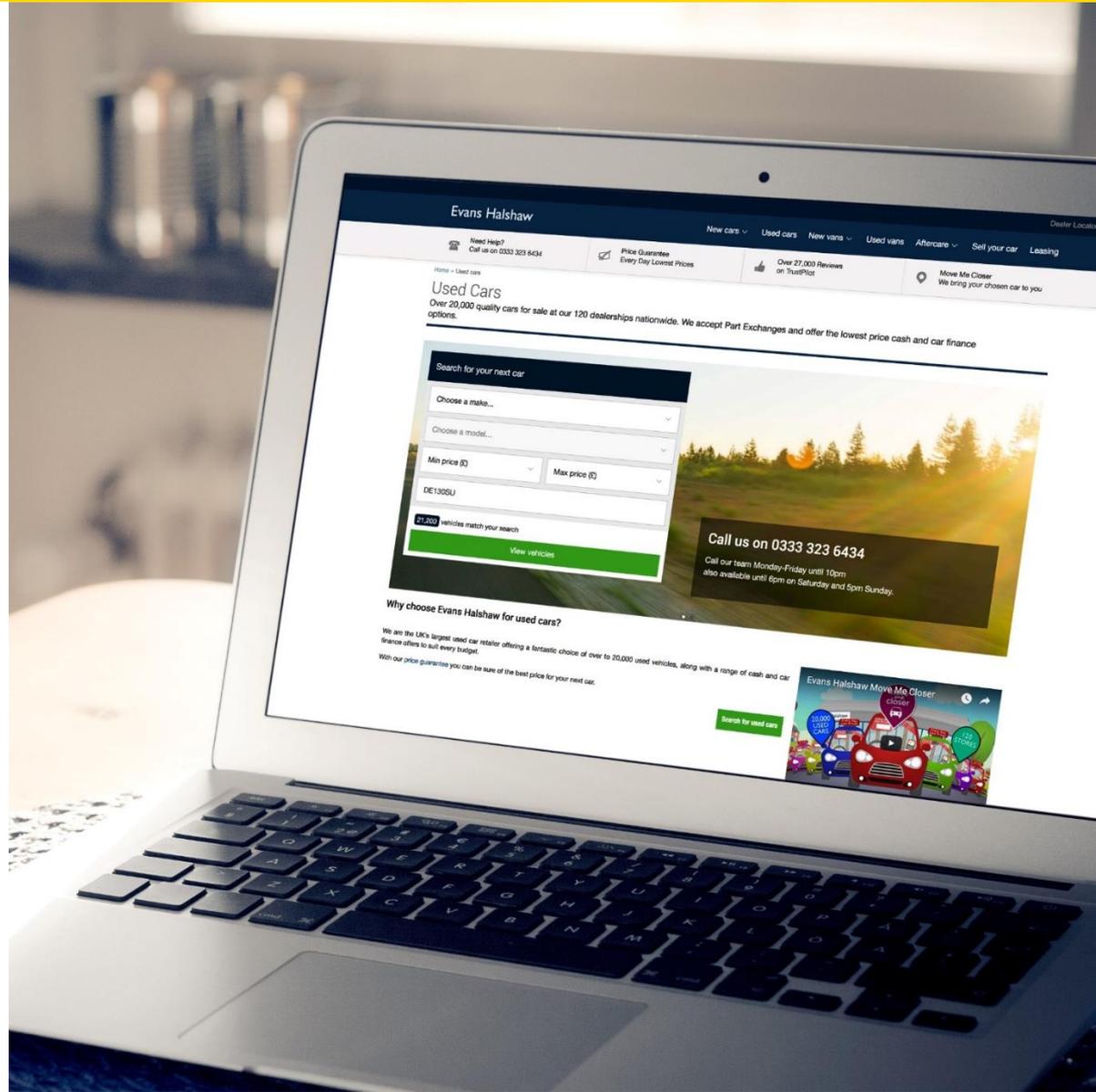


Pendragon | PLC



# 2017 IMS and strategy update



THE LEADING AUTOMOTIVE ONLINE RETAILER

# Pendragon PLC

## Businesses

### UK Motor

*Sale/Service of vehicles in the UK*

### Software

*Software solutions for retailers*

### US Motor

*Sale/Service of vehicles in the US*

### Leasing

*Vehicle leasing and fleet in the UK*

## Sectors

### Used

*Selling of all non-new vehicles*

### Aftersales Servicing

*Service, maintenance and repair of vehicles*

### New

*Selling of new vehicles (1<sup>st</sup> registration)*

# Strategic Review

“We believe this strategy will provide more reliable and sustainable earnings”

## *Used Cars and Aftersales Servicing*

- Invest in capacity and leadership to double used car revenue over 5 years to 2021.

## *UK New car business*

- Allocate capital in our premium brands only where we see strong future prospects of reliable returns.

## *US Motor Group*

- No further acquisitions in the USA
- Appropriate to assess the ongoing value of this business to the Group.

## *Software and online*

- A unique asset and online fulfilment platform in our industry with a global opportunity.
- We are placing this asset, and its senior management with technology expertise, at the heart of the development of our business.

# Executive Summary

## Quarter 3 trading financial highlights compared to the prior year

All figures stated on a like for like basis

- Revenue grew by 3.7% in the period with used revenue growth of 18.1%. For the year to date our revenue has grown by 6.7% with used revenue growth of 21.1%.
- New gross profit reduced by 20.7% in the period. For the year to date our new gross profit has reduced by 10.2%.
- Used gross profit (including the negative impact of pre-registration and demonstrator sales) reduced in the period by 20.3%. For the year to date our used gross profit has increased by 2.1%.
- Aftersales gross profit reduced by 3.0% in the period with one working day less in the period. For the year to date our aftersales gross profit has grown by 3.0%.

# Executive Summary

## Quarter 3 trading financial highlights compared to the prior year (continued)

- During the period we completed the acquisition of Chevrolet Puente Hills, California for a consideration of £17.7m. This will be immediately earnings enhancing.
- Overall in the quarter, underlying like for like profit before tax was a break even position
- Our debt ratio remains below our target range
- Our net debt has reduced by £34.5m in the period whereas in the prior year Q3 period the net debt reduction was £2.5m

# Financial and strategy update



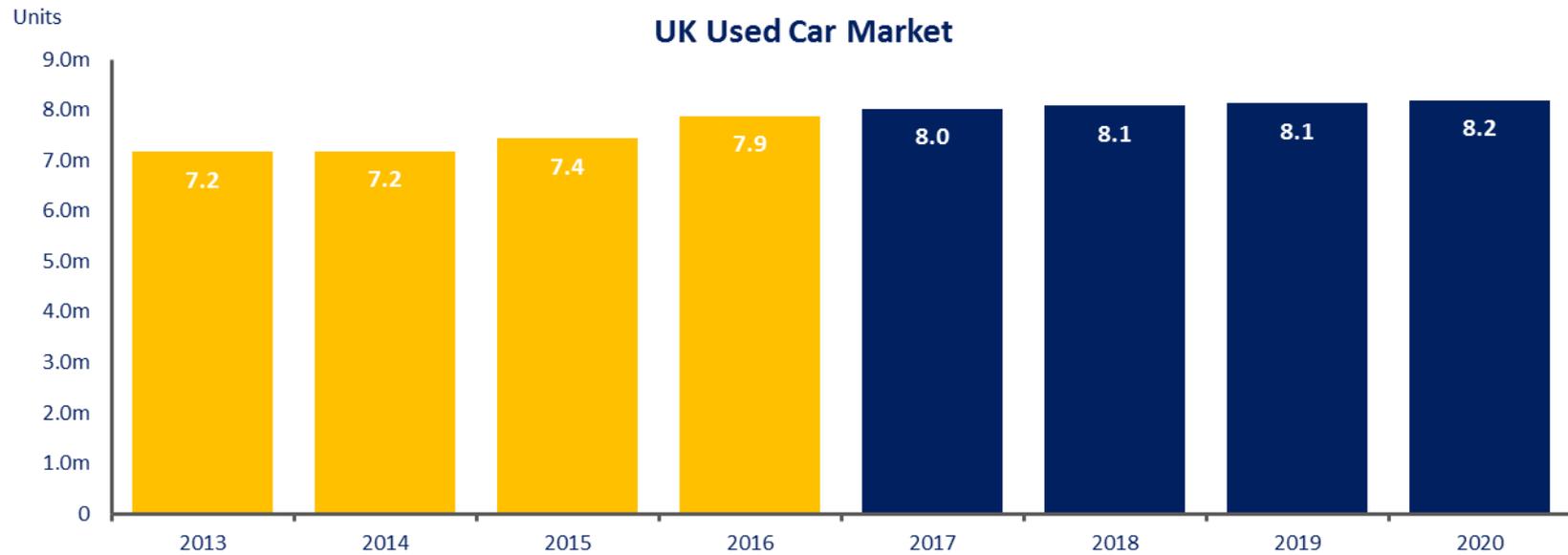
THE LEADING AUTOMOTIVE ONLINE RETAILER

Sector Focus  
Used Cars



*Selling of all non-new vehicles*

# Used Market & Objectives



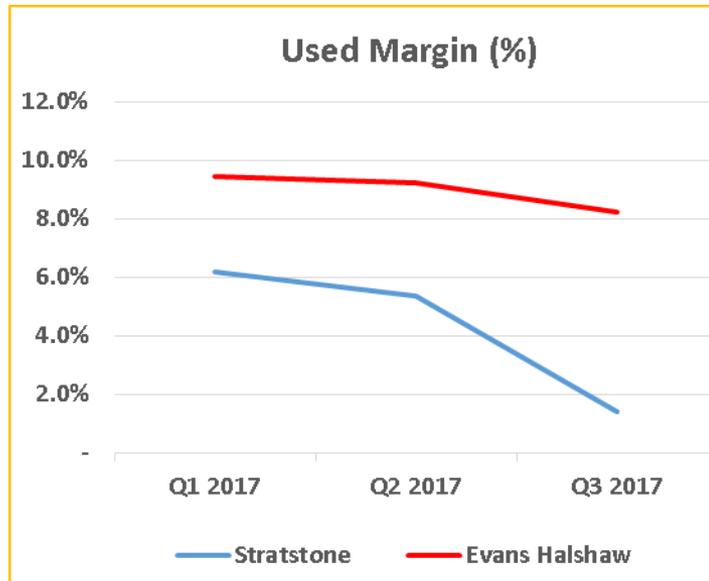
Source: Callcredit (2013 to 2016) and Pendragon (2017 to 2020)

## Strategy summary

- We remain committed to our strategic goal to double used car revenue over the five years to 2021 and in order to maintain growth in our used car and aftersales business we will continue to invest in capacity across the UK in both of these areas.
- In order to enhance and accelerate our progress in this area we will be seeking to make a senior appointment to lead all aspects of our UK used car operations.

# Used Performance

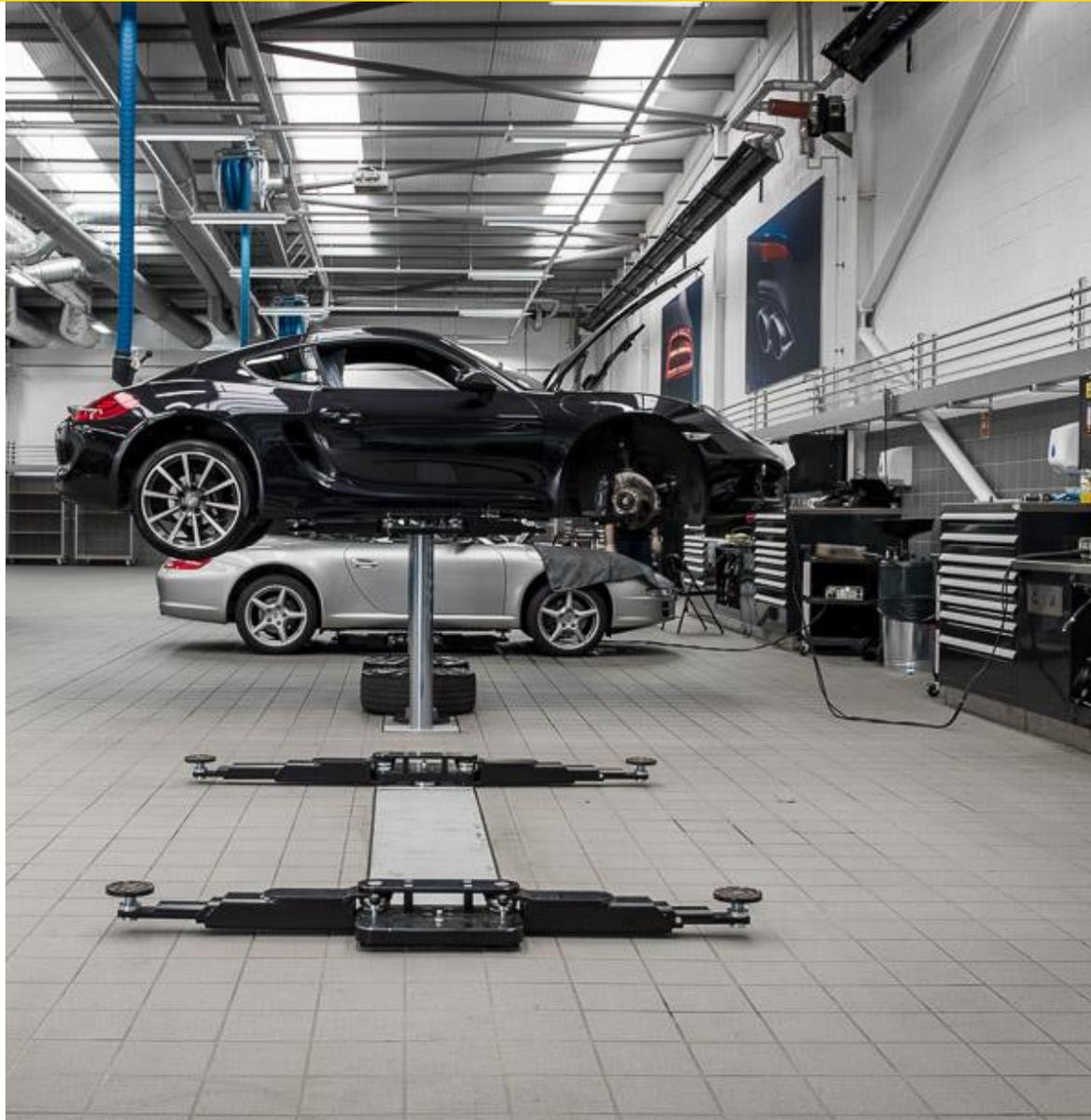
Used	
	% Last Year L4L
<b>Revenue</b>	<b>18.1%</b>
<b>Gross Profit</b>	<b>-20.3%</b>
<b>Gross Margin %</b>	<b>-2.7%</b>



## Summary

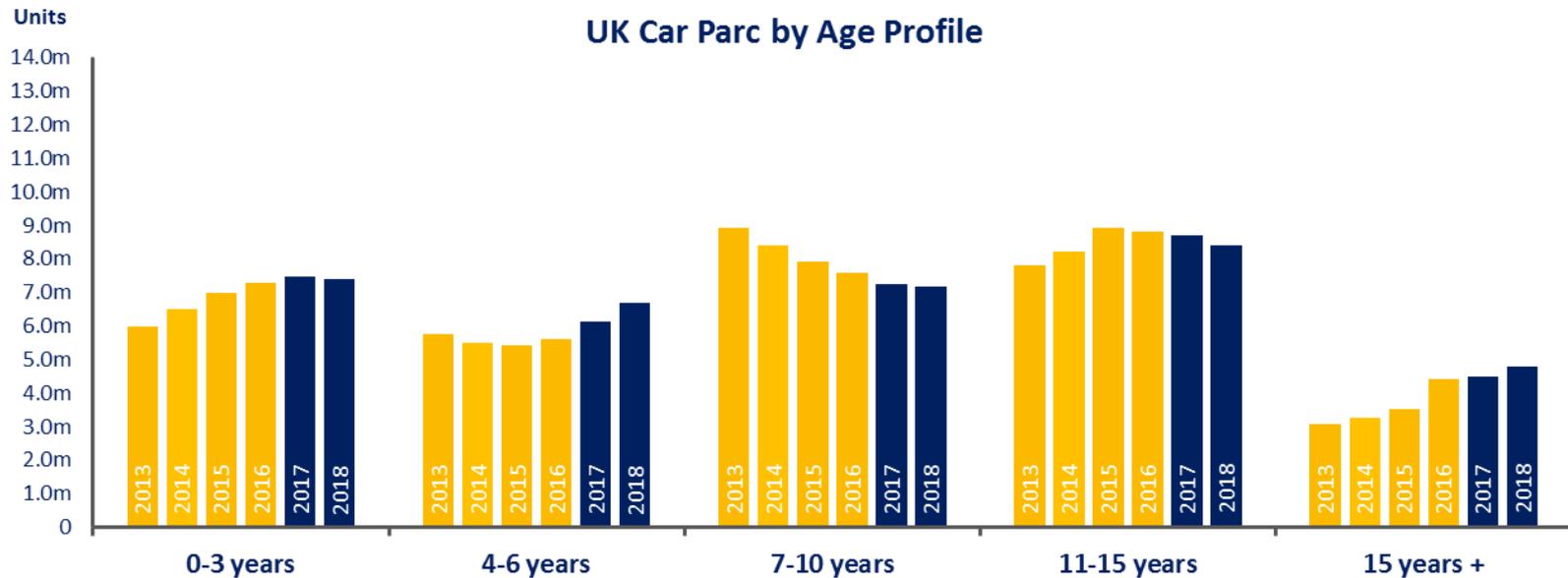
- Used market share growth continues to be a key strategic priority for the Group. Used like for like revenue grew by 18.1%. Gross profit (including the impact of pre-registration and demonstrator sales) is up 2.1% for the year to date in spite of a reduction by 20.3% in the period on a like for like basis.
- During the quarter we experienced a reduction in margin due to price corrections in the used vehicle market. This price correction, which was primarily focussed on some premium brands and therefore affected our Stratstone business, was a reaction to significant numbers of cars being registered and then sold into the market at significant discounts. This practice drives down the value of younger cars in the market and nearly new inventories (eg dealer demonstrators and loan cars). We addressed this issue quickly in order to mitigate margin erosion and continued to turn our inventory. We are now experiencing an improvement in margin going into the fourth quarter which we expect to normalise by the year end. During the third quarter the combined gross profits in new and used cars from two premium manufacturers in Stratstone declined by £10.9m compared to the prior year.

Sector Focus  
Aftersales



*Service, maintenance and repair of vehicles*

# Aftersales Market



Source: Callcredit (2013 to 2016) and Pendragon (2017 to 2018)

## Summary

- 0-6 year car parc forecast to continue growing until 2020
- Grow aftersales by investing in capacity across the UK, selling more vehicles, retaining more customers and outperforming the market
- Utilise our online fulfilment platform to improve our experience for customers and drive efficiencies

# Aftersales Performance

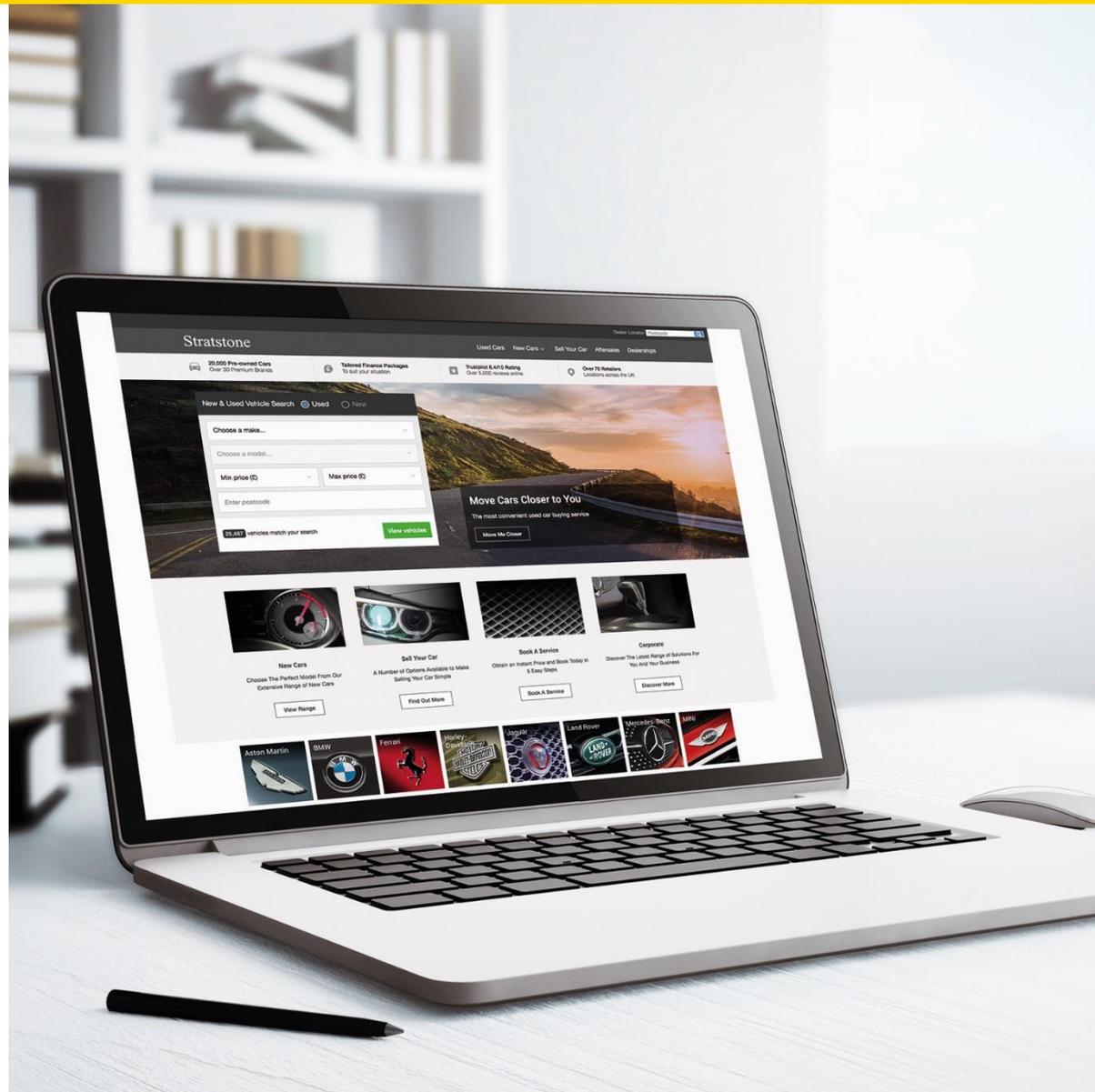
Aftersales	
	% Last Year L4L
<b>Revenue</b>	<b>-2.3%</b>
<b>Gross Profit</b>	<b>-3.0%</b>
<b>Gross Margin %</b>	<b>-0.4%</b>



## Summary

- Aftersales is our largest profit contributor.
- Gross profit fell by 3.0% in the period on a like for like basis, albeit with one less working day.
- Overall year to date gross profit is up 3.0%.
- The Group is benefiting from the increased new vehicle supply over the last five years which continues to increase the zero to six year old car parc.
- Additionally, we also benefit from our growing market share in used vehicles which provides an increasing opportunity for aftersales work.

Sector Focus  
UK New Car  
business and US  
Motor Group



*Selling of new vehicles (1<sup>st</sup> registration)*

# UK New Car business and US Motor Group

## New Cars

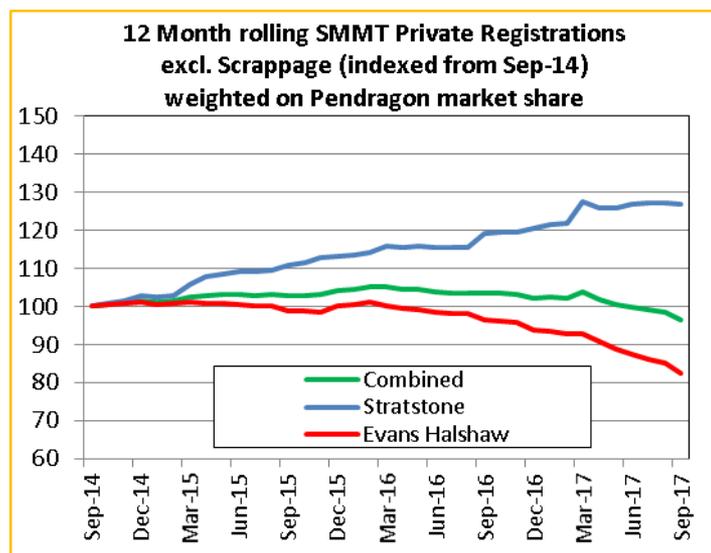
- We are conducting a strategic review of the premium brands to evaluate by manufacturer the investment appeal of their franchise proposition
- We will review capital requirements by manufacturer and only allocate capital where we see strong prospects for reliable returns

## US Motor Group

- The conclusion of the strategic review of the US Motor Group has determined that there will be no further acquisitions in the USA
- The Board considers that it would be appropriate in the light of our capital allocation priorities to assess the ongoing value of this business to the Group

# New Performance

New	
	% Last Year L4L
Revenue	-9.5%
Gross Profit	-20.7%
Gross Margin %	-0.9%



## Summary

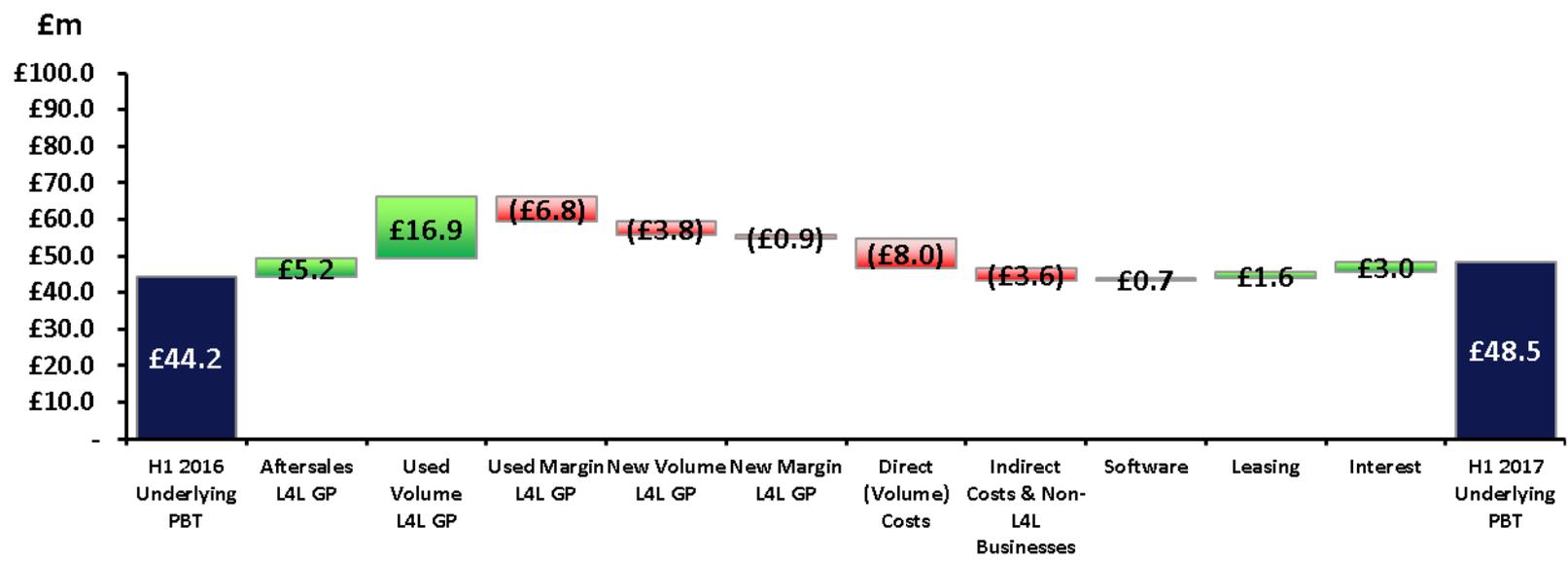
- New gross profit fell by 20.7% in the period on a like for like basis and by 10.2% for the year to date on a like for like basis. During Q3 total UK market registrations fell by 8.9% whereas retail registrations fell by 8.5%. On a year to date basis total UK market registrations fell by 3.9% and retail registrations fell by 6.1%. In the premium sector we have experienced unprecedented pressure on new vehicle margin caused by certain manufacturers continuing to force vehicles into the market despite softening demand.
- It has been noticeable this year that registrations have declined in the volume sector but registrations have been maintained in the premium sector as previously described. Coupled with new margin pressure, the reduction in new vehicle retail registrations in the volume sector of 13% in the quarter has caused a reduction in profitability in our volume franchises.
- We expect new car registrations to continue to reduce for the remainder of this year and into early next year with the volume franchise reductions easing first, followed by a normalization of the registrations of premium vehicles. With margin normalising accordingly.

# Software and online

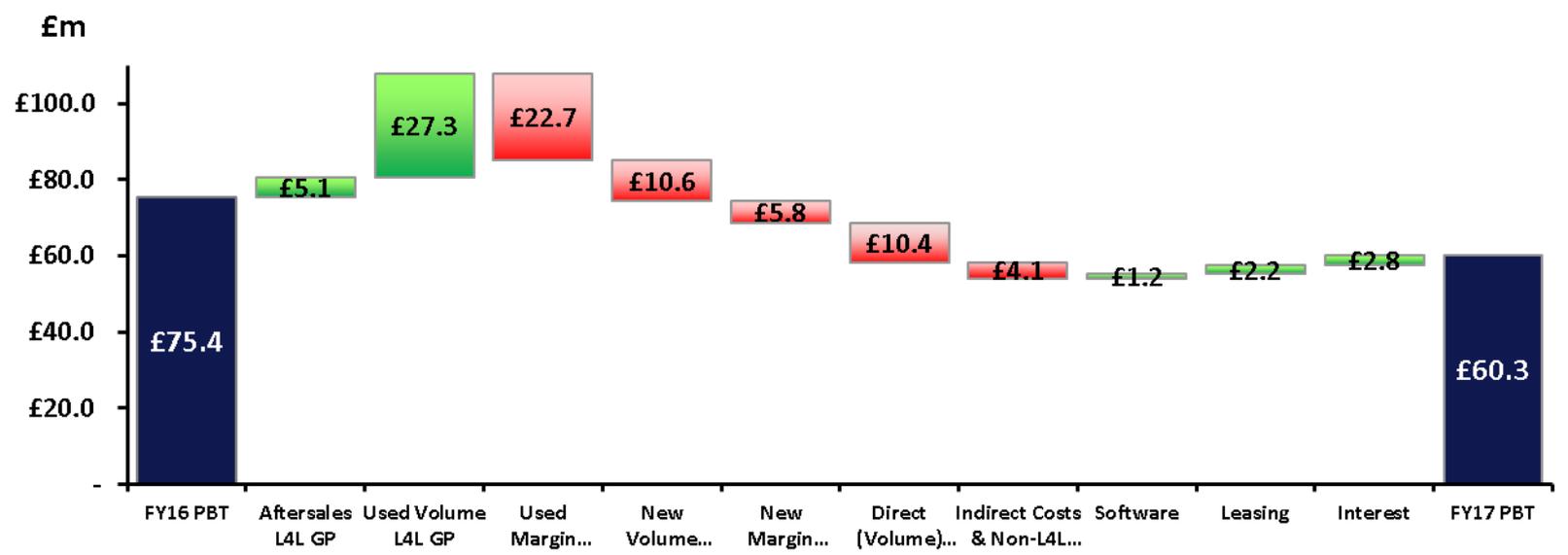
- Our Software business (Pinewood.co.uk) is a unique asset in our industry with a global opportunity.
- It is an online fulfilment platform for the sale and servicing of vehicles for retailers and manufacturers.
- We are placing this asset at the heart of our business as a strategic priority and as such the senior management with technology expertise will play a larger part in the development of our business.

# H1 2017 & FY2017 guidance Profit Bridge

H1 2017



FY 2017



# 2018 Guidance Assumptions

2018 Guidance Assumptions		
Area	Sub-Area	Comments
New	Revenue	Expectation of a further decline in H1 of 2018, with H2 flat in 2018. Overall market back 2.7%
New	Margin	Margin back to normalised levels
Used	Revenue	Expectation of at least double digit growth
Used	Margin	Returning to H1 2017 used gross margin
Aftersales	Revenue	Continued growth
Aftersales	Margin	At current levels

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