PENDRAGON

PENDRAGON PLC

2021 INTERIM RESULTS

15TH SEPTEMBER 2021

Agenda

1. Introduction	Bill Berman
2. H1 2021 performance overview & divisional highlights	Bill Berman
3. Group strategy update	Bill Berman
4. Financial review	Mark Willis
5. Guidance & outlook	Mark Willis

H1 2021 performance overview

H1 2021 Performance Overview

Operating Highlights

- Impact of enforced store closures in Q1 minimised by adapted customer proposition and right-sized cost base; >40,000 cars delivered in Q1
- In Q2, the Group has benefitted from its supply chain sourcing advantages and capitalised on strong market conditions
- Strategic initiatives delivering improved platform, reduced cost base, driving financial benefit

Financial Performance

- Underlying profit before tax £35.1m (H1 2020: Loss of £31.0m)
- Outperformed the new car market with a 42.7% like-for-like increase in new cars sold vs a total market growth of 39.2%
- Closing bank net cash £9.5m (FY 2020: bank net debt of £100.4m)

Outlook

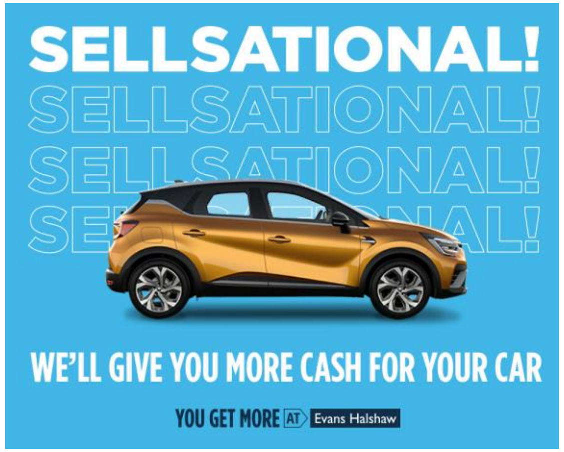
- Uncertainty remains for the remainder of 2021 with possible further disruption from Covid-19 over winter period
- Potential shortfalls in new car supply from ongoing impact of micro-chip shortages
- Timing of correction in used car prices
- Expect FY21 underlying PBT of £55-60m

Divisional operating highlights

Franchised UK Motor

Franchised UK Motor

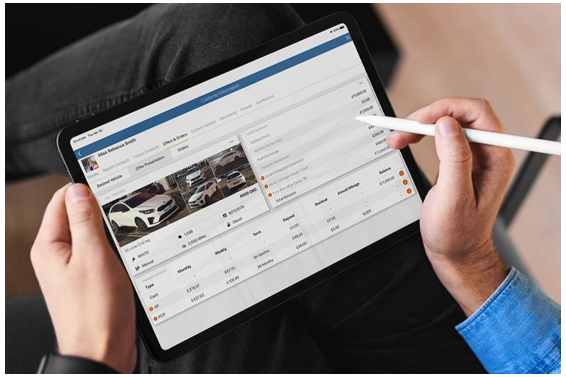
- Revenue up 56.9% to £1,673.8m (64.6% on a like-for-like basis), with a strong recovery vs the initial impact of the pandemic in H1 FY20
- Market outperformance in both new and used vehicles
- Gross margin of 10.9%, up from 10.2% in H1 FY20
    - Used gross margin of 8.8% (H120: 7.1%); GPU £1,418 (H120: £934)
    - New gross margin of 6.4% (H120: 5.9%); GPU £1,620 (H120: £1,256)
    - Aftersales gross margin of 49.6% (H120: 46.4%)
- Strength in used stock sourcing maximising access to higher margins in favourable market conditions
- Total operating costs up by 13.9% with FY20 costs lower as a result of the government support programmes accessed in H1 FY20
- Cost reduction programmes and store closures delivering significant benefit, with costs down £45.2m compared to pre-pandemic run rate in H1 FY19
- Underlying operating profit of £37.6m (H1 FY20: Loss of £(18.1)m)
- Excellent progress made towards strategic objectives supporting performance



Pinewood

Software – Pinewood

- Revenue up 12.0% to £12.1m
- Operating profit up 13.6% to £6.7m (H1 FY20: £5.9m)
- 14% increase in international users
- Further investment in development capability
- Multiple product developments to enable:
  - Enhanced group digital capabilities
  - Ability to sell finance and insurance products, wholly online
  - Digital payments
- Achieved accreditation as first certified system by BMW UK and second global RIS partner



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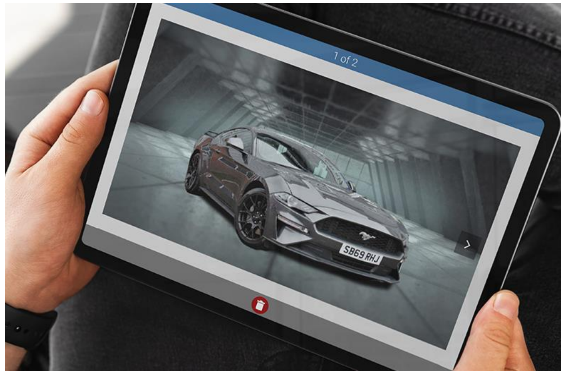
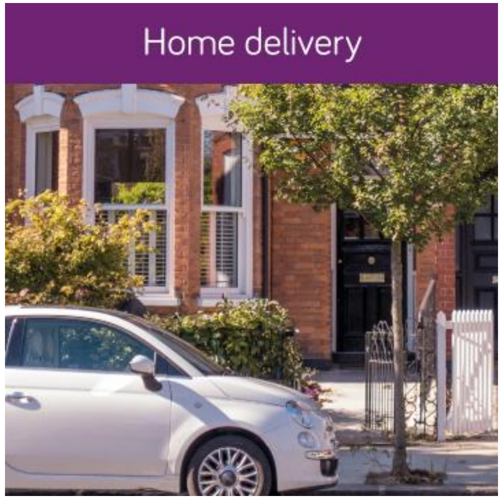
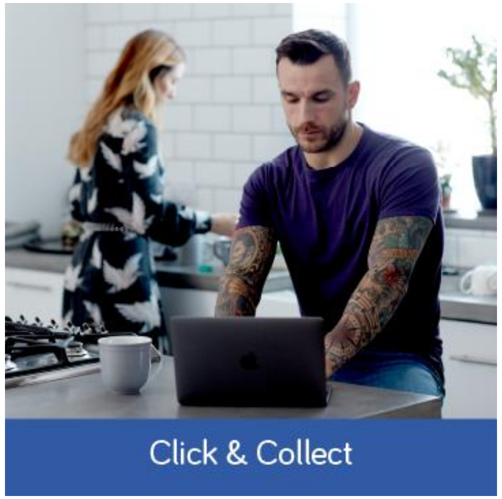


Car Store

Car Store

- Revenue up 53.1% to £66.0m on a total basis (54.2% on a like-for-like basis)
- Used gross margin rate of 8.0% (H1 FY20: 6.7%)
- Underlying operating profit of £0.3m (H1 FY20: loss of £(1.7)m)
- Positively contributing to Group result
- Excellent progress made on development of the Used Car proposition ahead of relaunch





Leasing

Leasing

- Revenue up 31.7% to £49.0m
- 90% year on year increase in de-fleeted vehicle disposals following pandemic disruption in H1 FY20
- High margin on disposals, market conditions benefitting historic contracts
- Operating profit up 72.3% to £8.1m (H1 FY20: £4.7m)

US Motor

US Motor

- Disposal of final US Motor assets completed in H1 FY21
- Total proceeds of £106.0m before tax received since 2018

Group Strategy update

Recap: Vision & strategy

"Transform automotive retail through digital innovation and operational excellence"

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

Pendragon’s advantages

Strategic priorities	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 & physical 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

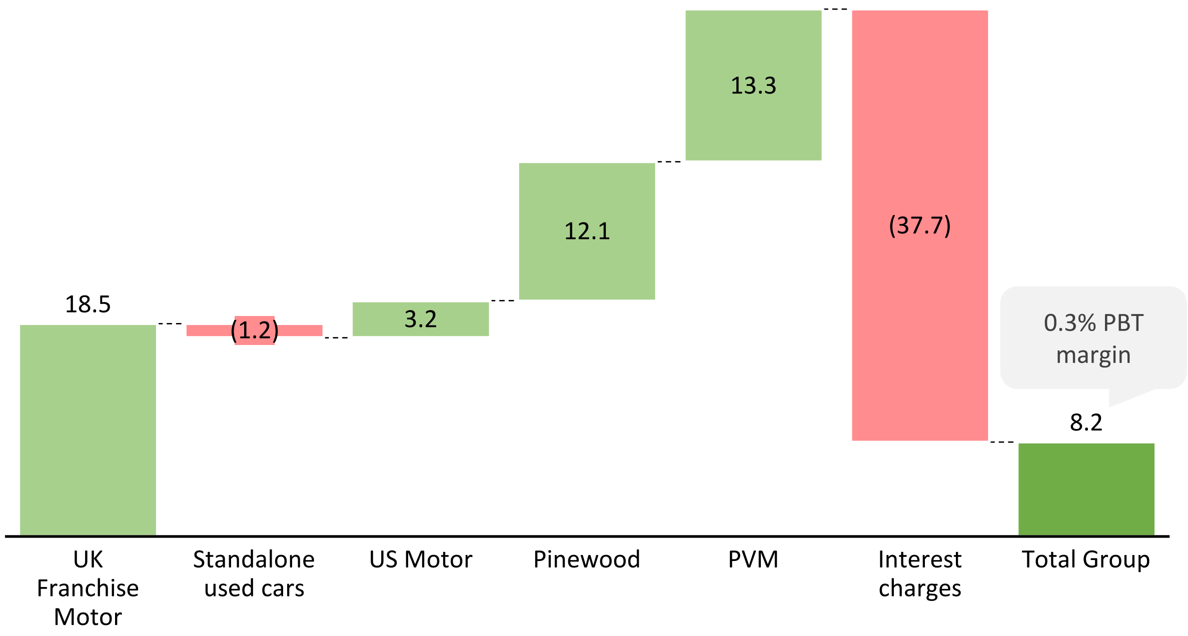
Delivered from an improved cost base following FY20 restructuring

Targeting a c.2% underlying PBT margin by 2025

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

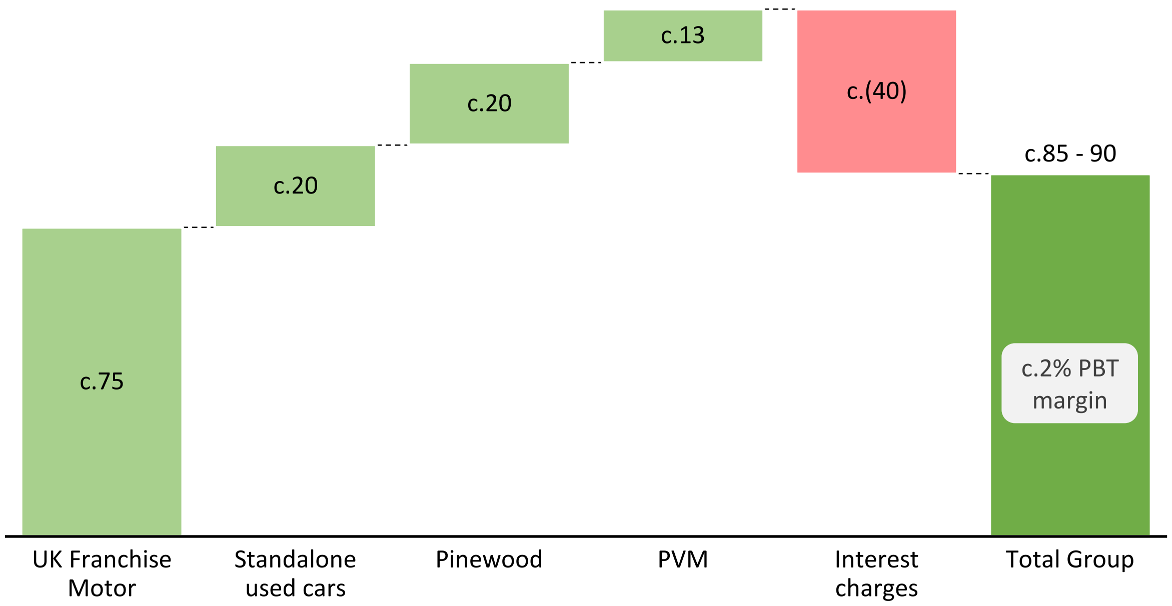
Underlying PBT Performance, FY20

£m



Underlying PBT Performance, FY25 Targets

£m



Delivery progress

	a) Progressed	b) In development	c) Future
1. Unlock value in Franchised UK Motor	• 16 initiatives • Omnichannel strength • Warranty enhancements • Cost efficiencies	• 11 initiatives • Acquisition, management & pricing platform • Preparation & rectification	• 7 initiatives • F&I upside • Aftersales
2. Grow and diversify Pinewood	• 5 initiatives • Group omnichannel enabler • Accredited status from BMW UK	• 6 initiatives • Group omnichannel enabler • Standalone opportunities	• Geographic expansion • OEM expansion
3. Disrupt standalone used cars	• 12 initiatives • Group incubator • Omnichannel strength	• 7 initiatives • Re-brand & value proposition launch • New concept store launch in Chesterfield	• Scale physical estate

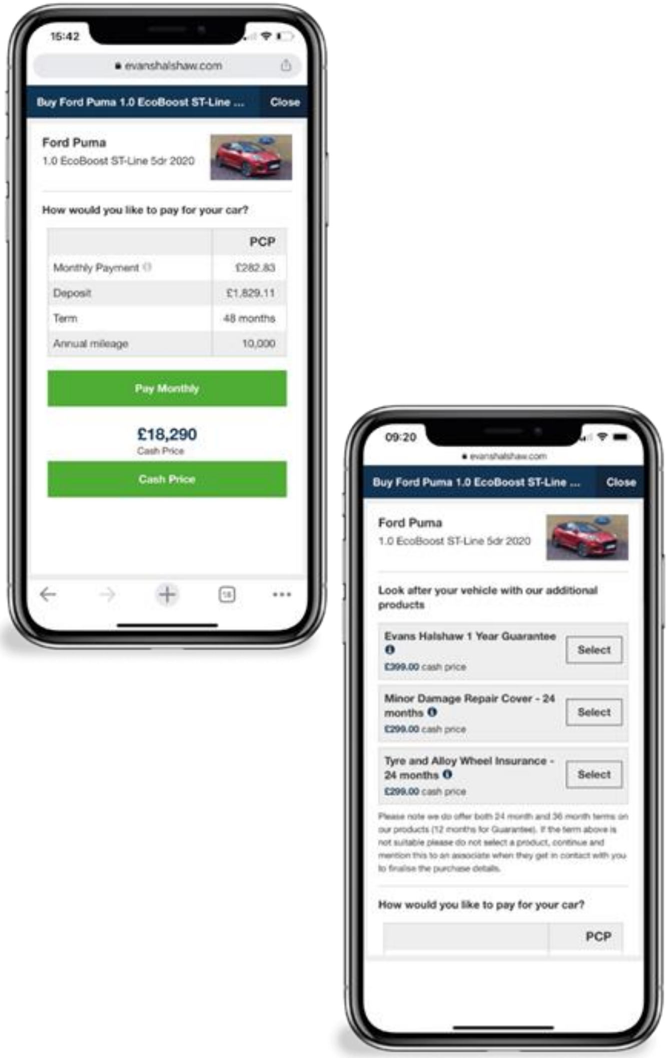
1. Unlock value in Franchised UK Motor

a) Progressed

1. Accelerate digital innovation

- Omnichannel strength:
  - — All websites transactional
  - — Automated, and real-time, online finance application & approval payment functionality
  - — Insurance products (regulated & non-regulated) online
  - — Sales+: consistent & compliant in-store digital journey, including remote digital signatures
  - — Digital in-store payments vs. ePDQ

- Part Exchange (PX) & Sell Your Car (SYC) conversion upside



1. Unlock value in Franchised UK Motor

a) Progressed

2. Drive operational excellence & best practice

- Warranty enhancements:
  - Introduced a three-year product
  - Pricing & proposition revision for existing one and two-year products
  - Operational structure changed to drive focus
- Trade vehicle optimisation

3. Lean & efficient cost base

- 15 stores closed that had no roadmap to sustainable profitability
- Headcount efficiencies driven by pandemic market impacts / workflow efficiencies gained
- Simplified senior & regional leadership structure

1. Unlock value in Franchised UK Motor

b) In development

1. Accelerate digital innovation

- Vehicle acquisition, management & pricing platform:
  - Group-wide platform to drive metal margin & inventory turn
  - PX / SYC use case in development addressing multiple areas of opportunity
  - Data trials underway
- Stratstone: finance & insurance online
- Single finance system across digital & physical assets
- Sales+: Further releases planned to automate deal optimisation; further OEM integration; improve third party data utilisation

1. Unlock value in Franchised UK Motor

b) In development

2. Drive operational excellence & best practice

- Improving preparation speed / quality, and rectification spend, by process & procedure revision
- Maximising vehicle health check conversion
- Transitioning from a single warranty product to tailored and tiered products
- SYC "hub" location trial underway

3. Lean & efficient cost base

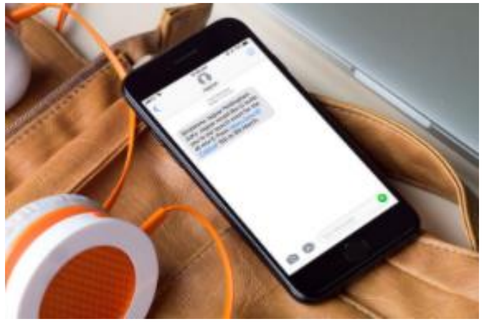
- Accounting transformation:
  - Centralisation of dealer-based capability
  - Process standardisation
  - New business partner capability

2. Grow and diversify Pinewood

1. Digital product extension

(Progressed)

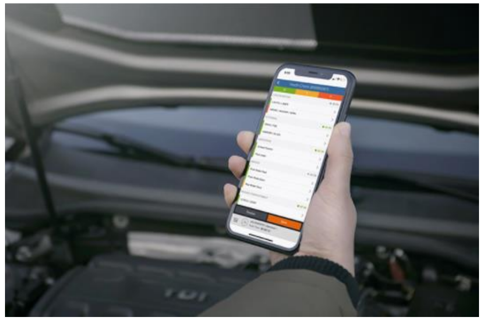
- Pinewood development has enabled the Group with the following omnichannel capabilities:
  - Platform migration
  - Payment online
  - Finance & insurance online
  - Sales+
  - Digital payments



1. Digital product extension

(In development)

- The team at Pinewood are working on the following omnichannel Group capabilities at present:
  - Vehicle acquisition, management & pricing platform
  - Accounting transformation
  - Sales+ future releases
  - Brand X website



2. Grow and diversify Pinewood

b) In development

Standalone objectives

- International user growth of 14%, challenged by pandemic restrictions
- BMW UK recently awarded Pinewood certified status for its DMS and wider applications
- Pinewood is now one of two global partners to support BMW's Retail Integration Strategy

3. Disrupt standalone used cars

b) In development

1. Re-brand

- New vision & brand launch late Q4 / early Q1
- Brand values / behaviours progressing well
- New look & feel to website and additional functionality

2. Differentiate the value proposition

- Clear propositions across buying; selling; and, aftersales to include:
  - Group stock and fulfilment
  - Personal advisor to help you
  - PX online
  - In-house vs. 3rd party home delivery capability
  - Interest-free aftersales options

3. Scale the physical estate

- Targeting the development of eight further locations
- New concept store in Chesterfield
- Further development to include preparation & aftersales facilities

Summary

Excellent progress & upside opportunity

- Delighted with the further progress we have made during the first-half
- Cross-functional team continues to maintain a high pace of change
- Remain confident in the opportunity that our strategy provides, and how we are positioned in the evolving consumer and competitor landscape
- Roadmap to deliver underlying PBT target of c.£85 – 90m by 2025, and significant shareholder value creation

Financial review

Key metrics: HY21

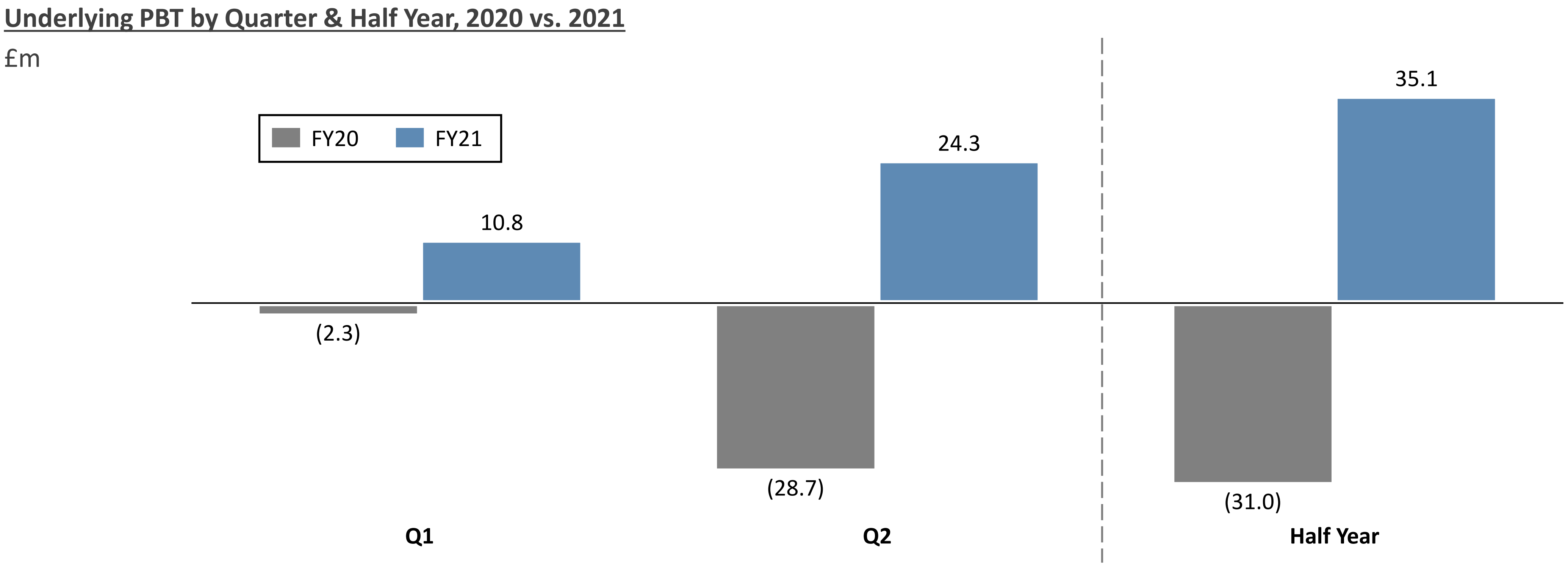
	Revenue	Gross profit	Gross margin %	Underlying operating costs	Underlying profit (loss) before tax	Bank net cash / (debt)
H1 2021 *(150 stores)*	£1,815.6m *+49.0% vs HY20 (+62.6% LFL)*	£211.2m *+56.1% vs HY20 (+70.2% LFL)*	11.6%	£159.3m	£35.1m	£9.5m
H1 2020 (175 stores)	*£1,218.3m*	*£135.3m*	*11.1%*	*£146.1m*	*£(31.0)m*	*£(46.0)m*
H1 2019 (213 stores)	*£2,455.6m*	*£235.2m*	*9.6%*	*£245.9m*	*£(32.2)m*	*£(104.3)m*

Financial summary: Income statement

Income Statement (£m)			
	H1 2021	H1 2020	% Change
Revenue	1,815.6	1,218.3	**+49.0%**
Gross Profit	211.2	135.3	**+56.1%**
Gross Margin %	***11.6%***	***11.1%***	***+0.5%***
Operating Costs	**(159.3)**	**(146.1)**	**+9.0%**
Operating Profit / (Loss)	**51.9**	**(10.8)**	**N/A**
Operating Margin %	***2.9%***	***-0.9%***	***+3.8%***
Interest	**(16.8)**	**(20.2)**	**-16.8%**
Underlying Profit / (Loss) Before Tax	**35.1**	**(31.0)**	**N/A**
Non-underlying Items	**(4.3)**	**(21.0)**	**-79.5%**
Profit / (Loss) Before Tax	**30.8**	**(52.0)**	**N/A**
Underlying Earnings Per Share	**2.3p**	**(1.7)p**	**N/A**

- Revenue increase of 49.0%
  - *Like for like revenue increase of 62.6%*
  - *Outperformed New & Used markets*
- Strong gross margins
  - *Improved margins in new, used and aftersales*
  - *Benefit from market conditions and strategic initiatives*
- Successful delivery of our strategic aim to restructure the store estate and improve operational efficiency
  - *Operating costs of £159.3m vs £245.9m H1 FY19 pre-pandemic*
  - *£10.1m H1 benefit from rates relief , grants and furlough*
- Lower interest charge largely driven by reduction in stocking interest
- Non-underlying charges of £4.3m (H1 2020: £21.0m):
  - *Net gains on disposals & closure costs of £2.5m*
  - *Lease impairments charge of £5.4m*
  - *Pension costs of £0.5m*
  - *Termination and severance costs of £0.9m*
- Reported profit before tax of £30.8m

Financial performance by quarter



- Changes to operating model allowed Q1 performance to be £13.1m ahead of FY20, despite lock-down impact:
  - *Over 40,000 cars delivered whilst showrooms closed*
  - *Cost reductions benefitting performance*
- Q2 performance accelerated as stores reopened, compared to the losses incurred during the FY20 lock-down impact

Financial summary: Cashflow

Summary Cashflow (£m)	H1 2021	H1 2020
Underlying Operating Profit / (Loss)	**51.9**	**(10.8)**
Depreciation and Amortisation	19.1	22.2
Share Based Payments	1.4	0.4
Non-underlying Items	(0.8)	(2.0)
Contribution into defined benefit pension scheme	(6.3)	(2.6)
Working Capital and Contract Hire vehicle movements	49.5	69.1
Cash Generated from Operations	**114.8**	**76.3**
Capital Expenditure	(6.9)	(14.2)
Fixed Asset Vehicles Net Movement	3.0	4.2
Business and Property Disposals	28.8	31.9
Net Capital Income	**24.9**	**21.9**
Tax Paid	(1.6)	0.8
Interest Paid excluding lease interest	(8.4)	(11.5)
Lease Payments & Receipts	(19.0)	(13.2)
Other	(0.8)	(0.6)
Decrease in Net Debt	**109.9**	**73.7**
Opening Net Debt	(100.4)	(119.7)
Closing Net Cash / (Debt)	**9.5**	**(46.0)**

- Net debt reduction of £109.9m vs FY20
- £114.8m cash generated from operations
  - *Strong trading driving cash inflows*
  - *Additional VAT timing benefit in H1 of c.£35m*
- Net Capital Inflow of £24.9m
  - *US disposal proceeds of £27.1m in H1 2021 – Santa Monica (£10.8m) and Los Angeles (£16.3m)*
  - *Other property disposals of £1.7m*
  - *Total Capital expenditure outflow of £6.9m*
- Reduction in interest paid of £3.1m, driven by lower stocking interest
- Increase in lease payments & receipts resulting primarily from the reversal of the timing benefit in H1 2020 from the temporary move to monthly rent payments during the early stages of the pandemic

Financial summary: Balance sheet

Balance Sheet (£m)			
	Jun-21	**Dec-20**	**Jun-20**
Property	219.4	222.8	230.7
Plant & Equipment	178.8	204.0	215.5
Goodwill	150.3	150.3	150.3
Intangibles	10.7	10.2	10.1
Right of Use Assets	133.2	146.0	156.4
Inventories	469.0	608.8	747.8
Receivables	138.2	113.2	89.3
Net Assets Held as for Sale	8.6	31.7	26.8
Payables	(1,127.6)	(1,222.2)	(1,427.8)
Retirement Benefit Obligations	(34.9)	(75.5)	(71.7)
Net Tax Balance	31.2	37.8	35.7
Net Cash / (Debt)	9.5	(100.4)	(46.0)
Shareholders Funds	**186.4**	**126.7**	**117.1**

- Reduction in property
  - *Disposal of excess property together with depreciation*
  - *Partially offset by capital investments*
- Plant and equipment reduction from disposals and ongoing depreciation
  - *Lower level of capital expenditure in the period*
- Right of use assets reduction driven by impairment of remaining US assets and ongoing depreciation
- Inventory reduced by 23.0% from 31 Dec 20 from £608.8m to £469.0m
  - *Decrease in new stock value of c.£170m driven by manufacturer shortfalls resulting from the chip shortages*
  - *Increase in used stock value of c.£40m driven by appreciation in average value of used cars*
- Reduction in payables primarily relates to lower vehicle creditors as a result of the reduction in vehicle inventory
  - *Partially offset by an increased VAT creditor*
- Retirement benefit obligations have decreased by £40.6m

Summary & outlook

H2 Guidance & Outlook

- Capital expenditure expected to be H2 weighted. Further c.£20m expected in FY21
- £60m VAT timing benefit unwind during H2
- Shortfalls in new car supply from the ongoing impact of micro-chip shortages
- Uncertainty over timing of normalisation in used car margins
- Possibility of further disruptions from Covid-19 during the winter period, both in the UK and to global supply chains
- Group underlying profit before tax expected to be £55m - £60m
- Further progress expected against our strategic initiatives in H2 2021
- On track to deliver our long-term financial targets

Appendix – Divisional financial summary

Franchised UK Motor

Franchised UK Motor (£m)				
	H1 2021	H1 2020	% Change	% Change LFL
Revenue	1,673.8	1,067.1	56.9%	64.6%
Gross Profit	182.3	108.9	67.4%	75.0%
Operating Costs	(144.7)	(127.0)	-13.9%	-24.2%
Operating Profit	37.6	(18.1)	n/a	n/a
Gross Margin %	10.9%	10.2%	0.7%	0.6%
Operating Margin %	2.2%	-1.7%	3.9%	3.5%

New (£m)				
	H1 2021	H1 2020	% Change	% Change LFL
Revenue	761.7	460.2	65.5%	68.0%
Gross Profit	48.7	27.2	79.0%	78.9%
Gross Margin %	6.4%	5.9%	0.5%	0.4%

Used (£m)				
	H1 2021	H1 2020	% Change	% Change LFL
Revenue	781.0	509.2	53.4%	66.1%
Gross Profit	68.6	36.4	88.5%	103.6%
Gross Margin %	8.8%	7.1%	1.6%	1.6%

Aftersales (£m)				
	H1 2021	H1 2020	% Change	% Change LFL
Revenue	131.1	97.7	34.2%	40.4%
Gross Profit	65.0	45.3	43.5%	50.2%
Gross Margin %	49.6%	46.4%	3.2%	3.2%

Software - Pinewood

Software - Pinewood (£m)			
	H1 2021	H1 2020	% Change
Revenue	12.1	10.8	**12.0%**
Gross Profit	**11.2**	**9.9**	**13.1%**
Operating Costs	(4.5)	(4.0)	**-12.5%**
Operating Loss	**6.7**	**5.9**	**13.6%**
Gross Margin %	92.6%	91.7%	**0.9%**
Operating Margin %	55.4%	54.6%	**0.7%**

Car Store

Car Store (£m)				
	H1 2021	H1 2020	% Change	% Change LFL
Revenue	66.0	43.1	**53.1%**	**54.2%**
Gross Profit	**5.3**	**2.9**	**82.8%**	**76.7%**
Operating Costs	(5.0)	(4.6)	**-8.7%**	**-11.1%**
Operating Loss	**0.3**	**(1.7)**	**n/a**	**n/a**
Gross Margin %	8.0%	6.7%	**1.3%**	**1.0%**
Operating Margin %	0.5%	-3.9%	**4.4%**	**4.0%**

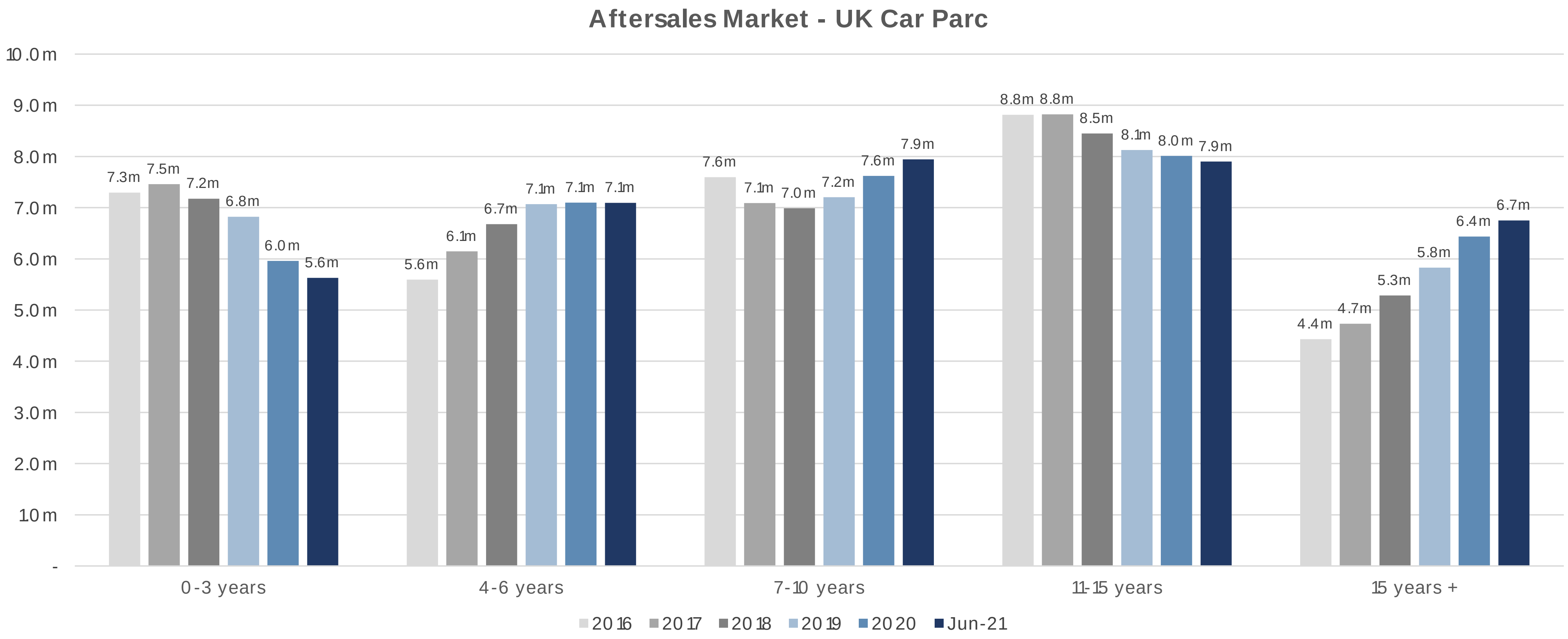
Leasing – Pendragon Vehicle Management

Leasing – Pendragon Vehicle Management (£m)			
	H1 2021	H1 2020	% Change
Revenue	49.0	37.2	31.7%
Gross Profit	10.5	6.7	56.7%
Operating Costs	(2.4)	(2.0)	-20.0%
Operating Profit	8.1	4.7	72.3%
Gross Margin %	21.4%	18.0%	3.4%
Operating Margin %	16.5%	12.6%	3.9%

US Motor

US Motor (£m)				
	H1 2021	H1 2020	% Change	% Change LFL
Revenue	28.3	68.5	-58.7%	-
Gross Profit	4.0	9.0	-55.6%	-
Operating Costs	(4.8)	(10.6)	54.7%	-
Operating Loss	(0.8)	(1.6)	50.0%	-
Gross Margin %	14.1%	13.1%	1.0%	-
Operating Margin %	-2.8%	-2.3%	-0.5%	-

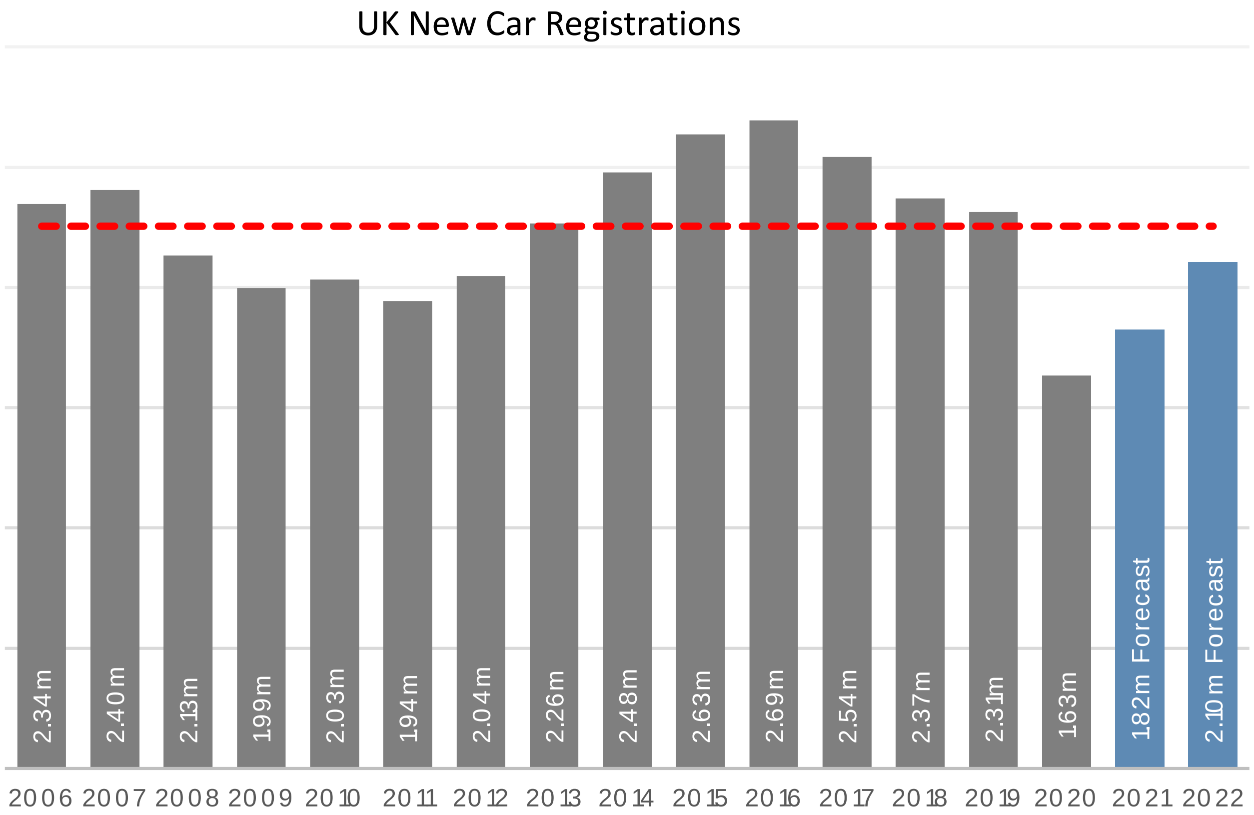
Franchised UK Motor - Aftersales



- Reduction in 0-3 year car parc due to impact of reduced new market in 2021
- The key 4-6 years car parc has been maintained at 7.1m cars
- Growth in the 7-10 year car parc

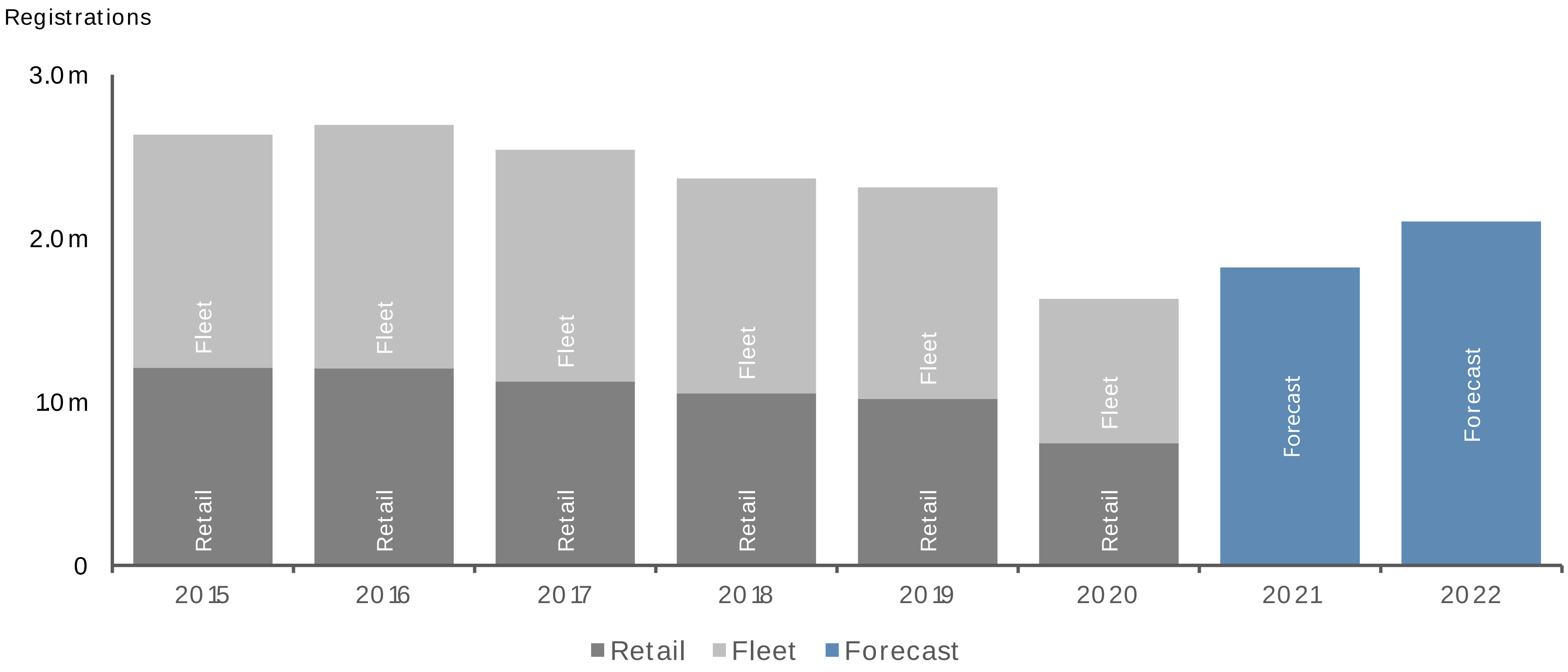
Franchised UK Motor - New

Market Average / Natural Level



- The UK new car market was up by 39.2% in H1 2021
- The UK retail new car market was up by 30.6% in H1 2021
- Retail market represented 45.1% of the UK new market in H1 2021
- Forecast of 11.7% 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