Pendragon PLC (the "Group")

HALF YEAR RESULTS FOR 30 June 2020 (issued 29 September 2020)

Pendragon has demonstrated strong operational resilience despite the unprecedented circumstances brought about by the Covid-19 pandemic. Thanks to the outstanding response from our people and the early actions taken to protect the business, the Group has managed to reduce the impact on cash flow wherever possible. At the same time, the business has managed the careful reopening of its retail estate while improving its digital capability and online functionality. The pandemic, however, had a material impact on the Group's financial performance, resulting in an underlying loss before tax of £(31.0)m in the first-half. The Group has refocussed its strategy and is confident in the longer-term outlook.

Emerging from the immediate impact of the pandemic, the Group has taken action to realise efficiency gains and has also made material reductions to its cost base. The shutdown impacted revenues and profits materially, however, trading through July and August has delivered significant improvement vs 2019, with underlying profit before tax of £7.0m an improvement of £19.0m compared to a loss of £(12.0)m for the corresponding two months last year. The Group remains cautious about the economic outlook as government support programmes are withdrawn and the business will continue to plan accordingly.

The Group recently announced its strategy to "**transform automotive retail through digital innovation and operational excellence**" with financial targets intended to restore the Group to sustainable profit growth and deliver attractive returns for stakeholders, targeting underlying profit before tax of £85-90m by FY25. The strategy comprises three pillars:

1. Unlock value in the franchised UK motor division
2. Grow and diversify Pinewood
3. Disrupt standalone used cars

Group Financial Highlights

	H1 FY20 £m's	H1 FY19 £m's	Total change %	Like-for-like change %
Group Revenue	1,218.3	2,455.6	-50.4%	-43.4%
Underlying loss before tax	(31.0)	(32.2)	3.7%	
Non-Underlying charge	(21.0)	(102.4)	79.5%	
Loss after tax	(41.4)	(129.6)	68.1%	

	H1 FY20 £m's	H1 FY19 £m's	FY19 £m's	Change vs FY19
Net Debt	(46.0)	(104.3)	(119.7)	61.6%

Like for like (LFL) results only include trading businesses which have been trading for 12 consecutive months. Reconciliations of the like for like figures to the total reported figures can see seen in Note 1 - Alternative Performance Measures.

Bill Berman, Chief Executive Officer said:

“The Covid-19 pandemic has had a significant impact on our business during the period, however, thanks to the agility, hard work and commitment of our people, we have performed resiliently. The safety of our colleagues and customers has been our priority throughout. I am particularly proud that despite these circumstances, we have risen to the challenge in responding to the new environment and accelerated improvements in our digital and online retail capabilities.

"We’ve been encouraged by the first few months of trading following reopening and, while the outlook for the remainder of the year remains uncertain, we are confident the operational improvements we have made leave us well-positioned for the long-term. We recently set out our new strategy with digital innovation and operational excellence at its core. Both will be instrumental in transforming Pendragon’s performance and we have made great progress in both areas already this year. While there is some distance still to travel, we remain firmly committed to achieving our twin goals of sustainable profit growth and attractive returns for shareholders.”

Managing the pandemic

- Government mandated closure of UK dealerships from 23 March until 1 June.
- The Group’s primary focus was the health and wellbeing of its customers and colleagues. The business worked hard to safely reopen locations at the beginning of June.
- Rapid and decisive action taken to minimise the impact of the pandemic and to protect cash:
  - Utilised government support measures; Coronavirus job retention scheme (CVJRS); rates holidays and VAT deferral
  - At the height of the pandemic, over 80% of the Group’s workforce were furloughed
  - Capital expenditure reviewed and either reduced or postponed to mitigate cash impact of the pandemic
  - Vehicle payments deferred with support from OEM’s and stocking loan providers
  - Voluntary management pay cuts of up to 20% during lock-down period
  - Temporary move to monthly rent payments with the agreement of landlords
  - Reduced all discretionary cost activity to minimum levels
- 20 service centres remained open, initially to support key workers, up to 125 opened during May.
- The Group accelerated the development of its digital capabilities and introduced online payment functionality, click and collect and home delivery options.
- Pinewood and PVM continued trading throughout to support their customer base.
- A comprehensive reopening plan was developed and implemented, with a staggered return to work for colleagues based on increasing consumer demand whilst still utilising CVJRS where required.

Pandemic impact on financial performance

- Despite all the available actions being taken, Covid-19 had a material impact on the Group’s reported underlying profit before tax performance, with management estimating the financial impact on H1 FY20 to be approximately £44.1m.
- Performance prior to the pandemic had been encouraging, with the Group starting the year ahead of plan and ahead of FY19, January and February combined were £5.1m ahead of FY19. Q1 FY20 recorded an underlying loss before tax of £2.3m, an improvement of £0.5m vs FY19, despite the significant impact from the lock-down on the key end of March trading period.
- A further £28.7m underlying loss before tax was recorded in Q2, principally driven by the losses incurred during the ongoing closure in April and May. June trading returned to profitability, despite ongoing closure impacts in Wales and Scotland.
- SMMT reported new volumes down 48.5% during the first half. Pendragon saw a 47.9% like-for-like reduction in new cars sold in the same period, marginally ahead of the market reduction.
- Strong cash management resulted in net debt of £46.0m, 62% down vs FY19 as a result of the cash actions taken outlined above and supported by a timing benefit of c.£80m from the combination of a material working capital inflow as a result of the collection of bonus debt during the second quarter and a deferral of VAT payments to March 2021.
- The impact on cash flow is estimated to be c.£(40)m from the lower than expected PBT. The Group will mitigate this impact through the ongoing rates holidays for the remainder of 2020 (c.£7.0m in H2 FY20 and c.£3.0m in H1 FY21), and a c.£30m reduction in capital expenditure in FY20.
- The Group remained compliant with its banking covenants during the period.

H1 Operating Highlights

- **Franchised UK Motor**
    - Underlying operating loss of £(18.1)m (H1 FY19: £(7.7)m), Revenue down 46.6% (44.5% on a like-for-like basis), driven by the Covid-19 pandemic.
    - 47.9% like-for-like reduction in new cars sold vs a market reduction of 48.5%.
    - Improved gross margins of 10.2% increasing from 9.1% in H1 FY19.
    - Used cars the main driver of margin improvement with gross margins improving from 4.9% in H1 FY19 to 7.1%, resulting from significant improvements to stock management.
    - Based on the increased age profile of the stock, as a result of the extended lock-down period, the Group increased its provision for used inventory by £2.3m in H1. This increase impacted used gross margins by 0.5%. On an underlying trading basis, the used gross margin was 7.6%.
    - Total operating costs were down 33.1% (down 31.3% on an LFL basis) with costs managed tightly during the pandemic, and supported by government programmes.

- **Software - Pinewood**
    - Underlying operating profit down 9.2% to £5.9m (H1 FY19: £6.5m).
    - Revenue proved resilient, down just 4.5%, driven principally by discount to customers to support them during the closure period. Customers were offered a 25% reduction in recurring fees for a three-month period in response to the challenging environment.

- **Car Store**
    - Underlying operating loss of £(1.7)m (H1 FY19: £(19.1)m). Revenue down 74.8% on a total basis (41.4% on a like-for-like basis).
    - Used gross margin rate of 7.1% (H1 FY19: 3.8%). Delivered through significantly improved stock management and improved pricing controls.
    - Significantly improved performance in both gross margins and operating costs following the estate restructuring exercise completed in H2 FY19.
    - Further improved performance to the Q4 FY19 run-rate loss of £1.1m, despite the impact from Covid-19.

- **Leasing – Pendragon Vehicle Management**
    - Underlying operating profit down 25.4% to £4.7m (H1 FY19: £6.3m).
    - Reduction in profitability principally driven by extended customer contracts leading to a 35% reduction in the number of disposals completed in the period.

- **US Motor Group**
    - Total current proceeds from the US Motor site disposals of £78.8m.
    - Agreement entered to sell Los Angeles for approximately £15.8m (subject to completion adjustments) announced on 7 September 2020.
    - Discussion ongoing for the disposal of the remaining location in Santa Monica.

July and August trading update

- Performance has been strong in the first two months of Q3 trading.
- July and August made a combined underlying profit before tax of £7.0m, up £19.0m vs FY19 (Jul/Aug FY19: £(12.0)m loss, Q3 FY19: £3.0m profit).
- Strong gross margin performance for the two-month period of 11.9%, up from 10.2% in the same period last year, with improvements in both New and Used. Franchised UK motor Used gross margin rates in particular performed well at 8.9% compared to 6.5% for the same period in FY19.
- Significantly improved cost performance as efficiency gains started to be delivered, like-for-like costs down 18% in the two months combined (total costs down 29%)
- September performance to date has been strong, in line with our expectations.

Outlook

- Whilst we are pleased with the performance to date in quarter three, we remain cautious about the outlook for the remainder of the year given the material uncertainty that exists once government economic support is withdrawn and therefore are not reinstating guidance for FY20 at this point.

Financial Summary

Consolidated Income Statement **Six months ended 30 June** **Underlying unless stated**	**H1 2020** **£m**	**H1 2019** **£m**	**Change** **(%)**
Revenue	1,218.3	2,455.6	-50.4%
Cost of sales	(1,083.0)	(2,220.4)	51.2%
Gross profit	**135.3**	**235.2**	**-42.5%**
Operating expenses	(146.1)	(245.9)	40.6%
Operating loss	**(10.8)**	**(10.7)**	**-0.9%**
Net finance costs	(20.2)	(21.5)	6.0%
Loss before taxation	**(31.0)**	**(32.2)**	**3.7%**
Non-underlying loss before taxation	(21.0)	(102.4)	79.5%
Total income tax credit	10.6	5.0	112.0%
Total loss for the period	**(41.4)**	**(129.6)**	**68.1%**
Earnings per share			
Basic earnings per share	(3.0p)	(9.3)p	-67.7%
Diluted earnings per share	(3.0)p	(9.3)p	-67.7%
Non GAAP Measure			
Underlying basic earnings per share	(1.7)p	(1.9)p	10.5%
Underlying diluted earnings per share	(1.7)p	(1.9)p	10.5%

Segmental Performance

Units Sold	H1 2020	H1 2019	Change (%)	LFL Change (%)
Used Units				
Car Store	4,321	17,474	-75.3%	-41.9%
Franchised UK Motor	38,992	76,105	-48.8%	-48.2%
US Motor	275	1,452	-81.1%	+10.4%
	43,588	**95,031**	**-54.1%**	**-47.4%**
New Units				
Franchised UK Motor	21,659	43,085	-49.7%	-47.9%
US Motor	945	3,413	-72.3%	-41.1%
	22,604	**46,498**	**-51.4%**	**-47.7%**

£m	H1 2020	H1 2019	Change (%)	LFL Change (%)
Revenue				
Car Store	43.1	170.8	-74.8%	-41.4%
Franchised UK Motor	1,067.1	1,999.2	-46.6%	-44.5%
Software	8.5	8.9	-4.5%	-4.5%
Leasing	31.1	42.8	-27.3%	-27.3%
US Motor	68.5	233.9	-70.7%	-32.1%
	1,218.3	**2,455.6**	**-50.4%**	**-43.4%**
Gross Profit				
Car Store	2.9	5.3	-45.3%	-6.2%
Franchised UK Motor	108.9	182.2	-40.2%	-39.5%
Software	7.8	7.9	-1.3%	-1.3%
Leasing	6.7	8.4	-20.2%	-20.2%
US Motor	9.0	31.4	-71.3%	-33.6%
	135.3	**235.2**	**-42.5%**	**-36.4%**
Underlying Operating Profit				
Car Store	(1.7)	(19.1)	91.1%	82.4%
Franchised UK Motor	(18.1)	(7.7)	-135.1%	-1,084.6%
Software	5.9	6.5	-9.2%	-9.2%
Leasing	4.7	6.3	-25.4%	-25.4%
US Motor	(1.6)	3.3	-148.5%	-162.5%
	(10.8)	**(10.7)**	**-0.1%**	**-285.0%**
Gross Margin %	**11.1%**	**9.6%**	**+1.5%**	**+1.2%**
Operating Margin %	**-0.9%**	**-0.4%**	**-0.5%**	**-0.8%**

Contents

Conference call and presentation

A presentation for analysts and investors on Pendragon's interim results will be available to view from 7.00am today. The webcast can be found at:

https://webcasting.brrmedia.co.uk/broadcast/5f6dbc7783507b593b46edcb

Bill Berman and Mark Willis will hold a Q&A conference call for analysts and investors at 9.30am. Please contact pendragon@headlandconsultancy.com to register for the event.

Contacts

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Operating and Financial Review by Segment

- The business is organised into 5 segments, analysed as follows:
    - Franchised UK Motor – sale and servicing of vehicles in the U.K.
    - Software – Licencing of Software as a Service to global automotive business users
    - Car Store – Own brand proposition for the sale of used vehicles in the U.K.
    - Leasing – Fleet and contract hire provider. Source of used vehicle supply
    - US Motor – Sale and servicing of vehicles in the U.S.

Franchised UK Motor

Underlying £m	H1 2020	H1 2019	Change (%)
Used Revenue	£509.2m	£959.4m	-46.9%
Aftersales Revenue	£97.7m	£168.0m	-41.8%
New Revenue	£460.2m	£871.8m	-47.2%
Total Revenue	**£1,067.1m**	**£1,999.2m**	**-46.6%**
Used Gross Profit	£36.4m	£47.0m	-22.6%
Aftersales Gross Profit	£45.3m	£83.7m	-45.9%
New Gross Profit	£27.2m	£51.5m	-47.2%
Total Gross Profit	**£108.9m**	**£182.2m**	**-40.2%**
Gross margin rate	*10.2%*	*9.1%*	*+1.1%*
Operating Costs	£(127.0)m	£(189.9)m	+33.1%
Operating Loss	**£(18.1)m**	**£(7.7)m**	**-135.1%**
Operating margin rate	*(1.7)%*	*(0.4)%*	*-1.3%*
Total Revenue Change	-46.6%		
Like-for-like Revenue Change	-44.5%		
Used Units Sold	38,992	76,105	-48.8%
New Units Sold	21,659	43,085	-49.7%
Number of Locations	160	170	
Average Used Selling Price [1]	£12,295	£11,544	
Average New Selling Price [1]	£21,613	£20,553	

[1] Trading dealerships only. The used selling price is retail vehicles only and excludes any trade vehicles. The new selling price excludes vehicles sold by our fleet business (National Fleet Solutions).

Operating Review

The Franchised UK Motor business operated from 156 franchise points and four used cars only retail points. The points represent a range of volume and premium products offering both sales and service functions.

The trading performance in the first half of FY20 reflects the unprecedented impact of the Covid-19 pandemic and the closure of all of our businesses partway through the important March peak trading period and then throughout April and May. As reported in our Q1 trading update, performance had been ahead of both our plan and last year in January and February and had been strong into the period ahead of the lock-down in March.

During the enforced lock-down the Group accelerated the development of its online capabilities and also introduced the option for a customer to click and collect during the closure. In total (including Car Store) approximately 4,400 customer orders were taken and approximately 2,600 new and used vehicles were delivered or collected during the lock-down period, with 2,400 of these deliveries occurring in May after the new capabilities had been implemented.

Initially the Group opened approximately 20 service centres, primarily in high density areas to support key workers. As we were able to ensure our workplaces were Covid-secure, and in response to growing demand, 125 service centres were opened during May. These services were run with minimal staffing to protect the P&L, with over 85% Evans Halshaw and Stratstone colleagues placed on furlough at the peak of the pandemic.

The impact of Covid-19 accelerated a review of the Group's future operating model which had already commenced before the pandemic struck. As a result of the review, and supported by efficiency gains experienced during reopening, the Group took the decision to introduce a leaner operating model with reduced headcounts. The Group is nearing completion of the process of consultation to reduce the total number of roles by approximately 1,400, the majority of which will be reduced within the Franchise UK motor division, which will be realised annual benefits of c.£35m.

A review of the store estate was also accelerated and completed, which resulted in the announced closures of a further 15 locations and a further reduction of approximately 400 roles. These stores made a combined cumulative loss of c.£2m in FY19 and closures will be completed during the second half of FY20. Whilst difficult decisions to make, we believe these actions will put the Group in a stronger position going forwards.

Upon reopening, the safety of colleagues and customers was the Group’s absolute priority. The business worked hard to be in a position to implement measures and plans to safely reopen locations, introducing strict new measures to allow dealerships to operate with appropriate social distancing. The Board is confident that both colleagues and customers are being provided with a safe environment in which to work and shop.

Overall for the period, the UK new car market, as reported by the SMMT was down 48.5%, with sales severely impacted due to the lock-down, driven largely by the reductions in April and May (down 97.3% and 89.0%), but also impacted by the loss of the key trading days in March, which was down 44.4%. The Group’s UK new car volumes were broadly in line with the market and were down 49.7% in the first half of the year (down 47.9% on a like-for-like basis). The Franchised UK Motor new car gross margin remained at 5.9% which was in line with H1 2019.

The used market was down 28.7% in the first half with Franchised UK motor used revenue down 46.9%. The Group was down more than the market from a volume perspective principally as a result of increased volumes in H1 FY19 driven by the large-scale stock clearance activity completed. Used gross profit was down 22.6%, ahead of the market volume decline reflecting the significantly improved stock and margin controls in H1 FY20.

Aftersales revenue also declined in the period, down by 41.8%, partially mitigated by the small number of service centres that were kept open initially, ahead of a wider reopening through May. MOT’s due during the lock-down period were deferred for a period of up to 6 months, which will provide a future source of ‘pent-up demand’ as we progress through the second half of FY20.

A total of five Vauxhall sites and one Ford site was closed in the period as a result of a manufacturer review of the estate right-size. A further 15 site closures were announced in August 2020. These sites were predominantly loss-making and therefore no longer expected to be viable, or were not part of the future network structure between us and our OEM partners.

Financial Review

Revenue decreased by 46.6% in H1 2020 (44.5% decrease in like-for-like revenue). Aftersales revenue fell by 41.8% (40.4% LFL decrease), used revenue fell by 46.9% (45.3% LFL decrease) and new revenue decreased by 47.2% (44.5% LFL decrease).

Gross profit fell by 40.2% in FY19 (39.5% reduction in like-for-like gross profit). Gross profit declined less than revenue due to an increase in gross margins from 9.1% to 10.2%. This was largely due to a used gross margin improvement from 4.9% to 7.1%. Based on the increased age profile of the stock at the end of June following the extended period of inactivity, the Group increased its provision for used inventory by £2.3m. This increase impacted used gross margins by 0.5%. Adjusting for this, used gross margin would have been approximately 7.6%.

Underlying operating costs have decreased by 33.1%, supported by the income from the CVJRS, reduced rates payments and other preventative cost reduction actions that the Group took. (31.3% decrease on a LFL basis).

The division recorded total underlying operating loss of £(18.1)m (H1 FY19: £(7.7)m operating loss).

Outcome of Strategic Review – Unlock value in the franchised UK Motor division

There is a material opportunity to improve performance and unlock significant value in the franchised UK Motor division through actions to:

1. Accelerate digital innovation
2. Drive operational excellence and embed consistent best practice
3. Operate from a lean and efficient cost base

These initiatives have been designed to drive improvements in used car margins, aftersales profitability and operating cost efficiency.

Accelerate digital innovation

The pandemic has driven a shift in UK consumption habits with consumers adopting new digital, and low-touch activities. We responded rapidly by strengthening both our digital and home delivery capabilities during lock-down so we could continue to trade. Whilst we fundamentally believe that there will always be a major role for bricks and mortar in vehicle purchasing, we expect these shifts in consumption habits to be permanent and that better digital and fulfilment experiences will be necessary to augment physical retailing. We are focused on delivering a number of initiatives to drive performance through digital innovation, in addition to those changes we have already made to the proposition during the past six months.

We will improve the platforms on which the business operates by building internal technology to provide improved and consistent customer relationship management systems (CRM). Improved CRM will allow us to create a single-view of the customer in order to drive targeted performance improvements at customer touch points, such as personal contract purchase (PCP) renewals and aftersales activities, and by providing better resolutions to customer feedback in order to improve satisfaction and long-term retention rates. We will also develop the look, feel and functionality of our digital channels.

We believe that there is material potential to improve used vehicle gross margins through the development and introduction of a used vehicle acquisition and management platform. By utilising the Pinewood DMS system, we will build capability to utilise data to improve the processes for vehicle acquisition, removing manual processes, improving the efficiency and thereby enhancing the margin we achieve from used vehicle inventory. We will also develop automated inventory management capability to reduce, through better use of data, the average number of days vehicles are held in stock, which will also improve margin. Finally, we will develop dynamic used pricing capability by harnessing both internal and external data to optimise the pricing of used vehicle inventory in a timelier manner. Each of these improvements will drive higher margins.

Drive operational excellence and best practice

There is further opportunity for us to improve performance through better operational practice, driving efficiencies. We are developing focussed internal reporting to drive insight into performance into areas such as vehicle preparation efficiency and sales force effectiveness. These improvements will also reduce costs, and improve profit margins.

In addition, we have identified a series of opportunities and initiatives to drive substantial improvements to aftersales gross margin. These will include improvements to the store process, for example conversion rates of customer vehicle health checks, in order to improve technician productivity. In addition, we will introduce changes to improve cross-business consistency in the application of labour charge-out rates and use new system capabilities to both improve penetration rates on service plans and dealer guarantees, together with the introduction of new ancillary products.

Finally, we believe there is opportunity to deliver improved performance in the sale of finance and insurance products through both improved internal operational systems and increasing product availability through digital, customer facing, channels.

Operate from a lean and efficient cost base

We have made significant changes to our store and regional operating teams in order to right-size the model and to embed the efficiency gains we have delivered during the Covid-19 pandemic, which will deliver c.£37m of annual benefit. In addition, we believe there are further cost base efficiencies we will be able to unlock across the property portfolio, through the replacement of manual process with systemic solutions and through reviewing existing key contracts and services.

Software - Pinewood

Underlying £m	H1 2020	H1 2019	Change (%)
Revenue	**£8.5m**	£8.9m	-4.5%
Gross Profit	**£7.8m**	£7.9m	-1.3%
Gross margin rate	***91.8%***	*88.8%*	*+3.0%*
Operating Costs	**£(1.9)m**	£(1.4)m	-35.7%
Operating Profit	**£5.9m**	£6.5m	-9.2%
Operating margin rate	***69.4%***	*73.0%*	*-3.6%*
Revenue Change	**-4.5%**	6.0%	
Like-for-like Revenue Change	**-4.5%**		

Operating Review

Pinewood's business activities focus on the provision of Dealer Management Systems ('DMS') through a Software as a Service ('SaaS') model. Pinewood was able to ensure full continuity of its services during the Covid-19 pandemic and continues to develop its systems and products to assist its customers in the new retail environment. The majority of Pinewood's revenues and cash receipts are on a recurring basis and have proved to be resilient.

H1 FY20 revenues were 4.5% down compared to the prior year. User numbers were 2% higher at the end of H1 FY20 compared to H1 FY19, however, the corresponding gain in recurring revenues was offset by two impacts of the Covid-19 pandemic. First, a 25% Coronavirus discount was applied to three months of customers' recurring SaaS charges in order for Pinewood to support its customers in a challenging period. In addition, there was a revenue reduction due to reduced one-off charges for system implementations and training, which arose during the UK and overseas lock-downs.

Following the easing of UK Coronavirus restrictions Pinewood has successfully resumed UK sales activity and continues to contract with new customers. To date, user churn of the UK customer base remains in line with its historic average. Pinewood's international business continues to grow, particularly in the Nordic countries where the impact of the Covid-19 pandemic on business activity has been more limited.

Financial Review

The Pinewood business has been impacted by the Coronavirus pandemic less than the other divisions in the Group, and as a result revenue only fell by 4.5%. Gross profit decreased by just 1.3% as result of improved margins.

Underlying operating profit was £5.9m, a decrease of 9.2%.

Outcome of Strategic Review – Grow and diversify Pinewood

Pinewood is an established, market leading 'Software as a Service' provider. It offers a dealer management system (DMS) and customer relationship management tool, and has delivered revenue growth at a compound annual growth rate of c.10% over the past five years, driven by an increasing number of users, and high customer retention rates. Pinewood offers a full suite of omni-channel capability that manages customer leads and enquiries from various digital physical and channels, quickly combines vehicle sales proposals for digital presentation to customers and manages the end-to-end aftersales operation. In addition, the DMS offers a fully compliant accounting module for its customers and the DMS dashboard is integrated with more than 50 OEMs. Pinewood's customer base had historically been UK based, with an increasing number of international customers now being added. We believe that Pinewood has significant further growth potential through:

1. Delivering the material existing order pipeline
2. Further geographic expansion
3. Digital product extension

Deliver on the material existing pipeline of orders

Pinewood has a developed pipeline of customer orders which will be converted over the next 18 months. This will continue the growth in the overseas customer base, with existing orders adding c.80% to the current international customer base and c.10% to the overall customer base.

Geographic expansion

In addition to the existing orders, Pinewood will invest in the capability to develop further orders and deliver subsequent implementation to a wide global customer base. Existing relationships have the potential to unlock further orders from both dealer groups or from OEM backed solutions to be the single in-market DMS operator. We believe Pinewood has material opportunity for growth through these international channels, underpinned by a compelling proposition.

Digital product extension

Digital product extension will initially be an enabler for Pendragon performance across the previously highlighted areas such as CRM improvements, dynamic pricing tools and used vehicle acquisition and management platforms, but it is further envisaged that these products will be available to sell to the existing Pinewood user base, creating a new revenue stream for Pinewood. In addition, we will explore the development of a digital 'turn-key' retail solution for other dealer operators.

Car Store

Underlying £m	H1 2020	H1 2019	Change (%)
Revenue	£43.1m	£170.8m	-74.8%
Gross Profit	£2.9m	£5.3m	-45.3%
Gross margin rate	*6.7%*	*3.1%*	*+3.6%*
Operating Costs	£(4.6)m	£(24.4)m	+81.1%
Operating Loss	£(1.7)m	£(19.1)m	+91.1%
Operating margin rate	*(3.9)%*	*(11.2)%*	*+7.3%*
Total Revenue Change	-74.8%	16.4%	
Like-for-like Revenue Change	-41.4%		
Units Sold	4,321	17,474	-75.3%
Number of Locations	11	34	
Average Selling Price [1]	£8,680	£8,274	

[1] Trading dealerships only. The used selling price is retail vehicles only and excludes any trade vehicles.

Operating Review

Despite the impact of the pandemic on the sales performance of the business, Car Store has continued to make significant progress with its underlying performance both through the improved stock management approach and a reduced operating cost base.

During the first half of FY20 Car Store incurred underlying operating losses of £(1.7)m compared to operating losses of £(19.1)m in H1 FY19, an improvement of £17.4m. £10.0m of this improvement was driven by the closure of the unviable stores completed during the second-half of FY19, with the remaining £7.4m reduction in losses arising from improved performance in the like-for-like estate. The H1 FY20 performance was also an improvement on the Q4 FY19 run rate performance, where a £(1.1)m operating loss was recorded in three months compared to a loss of £(1.7)m in the first six months of FY20.

Good progress has been made with the property management of the closed store estate. Of the total of 24 sites (22 stores and two preparation centres) closed, 10 have been either sold, had the lease surrendered or been sublet as at the end of August 2020. The remaining sites will continue to be actively marketed, with several of the remaining sites currently under offer.

Financial Review

Revenue reduced by 74.8% in the period due to the 22 store closures in H2 2019, combined with the period of lock-down during the first half of 2020. (41.4% revenue decrease on a like-for-like basis in the period). Units sold reduced by 75.3% (41.9% units decrease on a LFL basis). The average sales price per unit increasing from £8,274 to £8,680.

Gross profit reduced by 45.3% (6.2% reduction in like-for-like gross profit). However, the gross margin rate improved from 3.1% to 6.7%.

Operating costs decreased by 81.1% from £24.4m to £4.6m (62.6% reduction on a like-for-like basis), principally driven by the store closures but also underpinned by the support received via the CVJRS and business rates relief. A total of approximately 84% of the Car Store team were on furlough at the height of the pandemic.

The operating loss for Car Store was £(1.7)m (H1 FY19: £(19.1)m).

Outcome of Strategic Review - Disrupt standalone used cars

We believe the UK is the most attractive used vehicle market globally, with a ratio of over three used vehicles sold for every one new. The overall market for used cars is around eight million cars sold per annum. Based on the desired age and mileage profile for our target market, we believe there is an addressable market for Pendragon of around three million cars per annum, which is larger than the total new car market.

We also believe that Pendragon is significantly advantaged today against its peers, with an ability to leverage the complementary attributes of the wider Group to provide a steady source of suitable stock, an ability to source parts for preparation at scale advantaged pricing, a high level of brand-referrals within the Group and cross-Group technical ability. In addition, the data capabilities we plan to build will allow us to leverage further scale advantages into a standalone used car proposition and drive higher margins.

To capitalise on this opportunity, we will deliver:

1. Rebranding of the standalone used car proposition
2. Differentiated value proposition
3. A scaled physical estate

Rebrand the standalone used car proposition

Work is currently in progress to develop an appropriate brand identity to reflect a digitally-led product offer, supported by physical outlets. This will replace the existing Car Store brand.

Differentiate the value proposition

In addition, we will determine the revised customer proposition and operating model to underpin the repositioned branding in order to differentiate the proposition from the franchised used car model and to appeal to a broader customer base, both physically and digitally. The used car proposition will benefit from clear operational separation of the business unit from the franchised model and will not be encumbered by the same OEM facility requirements. It will, however continue to benefit from the Group synergies and future digital product development.

Scale the physical estate

During FY19, the Group reviewed the existing proposition and closed a number of Car Store locations that were not viable, and improved the performance of the remaining estate. The next stage of the development of the physical used car proposition will be the creation of larger-footprint, purpose-built facilities in targeted locations to provide stocking points, customer retail and collection points and fulfilment hubs for home delivery. Over the next five years we are targeting the development of eight physical locations at an approximate capital cost of £7.5m per location. We believe that a combination of a digital proposition and these physical stores will allow us to gain a meaningful share of the target market.

Leasing

Underlying £m	H1 2020	H1 2019	Change (%)
Revenue	**£31.1m**	£42.8m	-27.3%
Gross Profit	**£6.7m**	£8.4m	-20.2%
Gross margin rate	***21.5%***	*19.6%*	*+1.9%*
Operating Costs	**£(2.0)m**	£(2.1)m	+4.8%
Operating Profit	**£4.7m**	£6.3m	-25.4%
Operating margin rate	***15.1%***	*14.7%*	*+0.4%*
Revenue Change	**-27.3%**	4.9%	
Like-for-like Revenue Change	**-27.3%**	4.9%	

Operating Review

Pendragon Vehicle Management (PVM), our Leasing business offers a complete range of fleet leasing and contract hire solutions. Our customers are varied in both fleet size and business sector. The financing for the leasing business is provided by third parties leading to a high return on capital.

PVM saw a reduction to its fleet size of 2.3% compared to H1 FY19 as a result of lower levels of new business during the pandemic. The overall impact was mitigated by vehicle lease extensions and payment holidays for users, with payment holidays funded by the finance lenders. These extensions however, were the principal driver of the reduction in gross profit in the period as this led to a reduction in vehicle disposals and a loss of corresponding margin on the disposal residual value. PVM's fleet is continuing to experience a reduction in the levels of take up of diesel product and increased uptake in electric vehicles.

Financial Review

Revenue reduced by 27.3%, and there was a 20.2% decrease in gross profit principally as a result of the reduced disposals as described above. Underlying operating costs were down 4.8% to £2.0m.

Underlying operating profit decreased by 25.4% to £4.7m.

US Motor

Underlying £m	H1 2020	H1 2019	Change (%)
Used Revenue	£10.2m	£43.1m	-76.3%
Aftersales Revenue	£7.9m	£22.5m	-64.9%
New Revenue	£50.4m	£168.3m	-70.1%
Total Revenue	**£68.5m**	**£233.9m**	**-70.7%**
Used Gross Profit	£0.5m	£3.5m	-85.7%
Aftersales Gross Profit	£3.9m	£11.7m	-66.7%
New Gross Profit	£4.6m	£16.2m	-71.6%
Total Gross Profit	**£9.0m**	**£31.4m**	**-71.3%**
Gross margin rate	*13.1%*	*13.4%*	*-0.3%*
Operating Costs	£(10.6)m	£(28.1)m	+62.3%
Operating (Loss)/Profit	£(1.6)m	£3.3m	-148.5%
Operating margin rate	*(2.3)%*	*1.4%*	*-3.7%*
Total Revenue Change	-70.7%	0.8%	
Like-for-like Revenue Change	-32.1%		
Used Units Sold	275	1,452	-81.1%
New Units Sold	945	3,413	-72.3%
Number of Locations	4	9	
Average Used Selling Price [1]	£32,660	£32,101	
Average New Selling Price [1]	£56,118	£51,739	

[1] Trading dealerships only. The used selling price is retail vehicles only and excludes any trade vehicles

Operating Review

Operations in the US were also impacted by the pandemic, with the financial impact mitigated by the reduced size of the store network, comprising of two locations in H1 FY20.

The disposal of the US Motor Group is ongoing with total proceeds expected to be c.£100m before tax. Puente Hills, California, completed on the 10 February 2020 for consideration of £16.6m. Current proceeds from the sale of US Motor Group dealers totals £78.8m.

Agreement to sell the Los Angeles (Beverley Hills) location was announced on 7 September 2020, which if completed successfully will realise proceeds of approximately £15.8m.

The process to complete the sale of Santa Monica is actively ongoing.

Financial Review

Revenue is down by 70.7% in the year (32.1% like-for-like decrease) with new down by 70.1% (-36.1% like-for-like), aftersales down by 64.9% (-32.1% like-for-like) and used revenue down by 76.3% (+2.2% like-for-like).

Gross profit decreased by 71.3% (-33.6% like-for-like), with aftersales gross profit down 66.7% (-32.7% like-for-like), used gross profit down 85.7% (down 33.3% like-for-like) and new gross profit down 71.6% (-34.3% like-for-like).

Underlying operating costs decreased by 62.3% (down 15.2% like-for-like).

Underlying operating profit was down by £4.9m to a £(1.6)m loss (H1 FY19 : £3.3m profit) as a combined impact of the completed disposals and loss of trade during the pandemic.

Industry Insight

New Car Market

The UK new car market was c.650k vehicles in the first half of FY20 which is a reduction of 48.5% over the prior year, resulting from the enforced closure of the UK dealer network. The UK new car market is divided into two markets, retail and fleet. The retail market is the direct selling of vehicle units to individual customers and operates at a higher margin than the fleet market. The retail market is the key market opportunity for the Group and represents 50% of the total market in the year. The fleet market represents the sale of multiple vehicles to businesses, and is predominately transacted at a lower margin and consumes higher levels of working capital than retail, and represents 50% of the market in the year.

Used Car Market

In the first half of FY20, there were 2.8m used cars sold in the UK, a fall of 28.7% on the prior year. This represents a market opportunity that is >3 times the size by volume of the new car market. The used market is more stable than the new vehicle sector, being less affected by fluctuations in the UK economy and providing a more reliable supply chain than the new market.

Aftersales Market

The main determinant of the aftersales market is the number of vehicles on the road, known as the ‘car parc’. The car parc in the UK has fallen slightly to 35.0m vehicles at H1 FY20, a fall of 0.2% from the end of FY19. The car parc can also be segmented into markets representing different age groups. At H1 FY20, around 18% of the car parc was represented by less than three-year-old cars, around 20% by four to six-year-old cars and 62% is greater than seven-year-old cars. The demand for servicing and repair activity is less affected than other sectors by economic conditions, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons.

UK New Car Registrations ‘000	H1 2020	H1 2019	Change (%)
UK Retail Registrations	314.6	568.0	-44.6%
UK Fleet Registrations	338.9	701.2	-51.7%
Total UK Registrations	**653.5**	**1,269.2**	**-48.5%**
Group Represented* UK Retail Registrations	191.9	360.4	-46.8%
Group Represented* UK Fleet Registrations	210.4	465.5	-54.8%
Group Represented* Registrations	**402.3**	**825.9**	**-51.3%**

* Group Represented - defined as national registrations for the franchised brands that the Group represents as a franchised dealer.

The new retail market was down by 44.6% in H1 2020, and the new fleet market fell by 51.7% in the period. All new car market figures are from the Society of Motor Manufacturers and Traders (SMMT).

Non-underlying Items

	H1 2020 £m	H1 2019 £m
Settlement of historic VAT issues	-	3.5
Impairment of goodwill, property, plant and equipment, right of use assets and assets held for sale	(12.5)	(102.5)
Termination and severance costs	(1.2)	(1.4)
Losses on the sale of businesses and property	(5.9)	(1.1)
Closure costs	(0.8)	-
Pension costs	(0.6)	(0.9)
Total non-underlying items before tax	**(21.0)**	**(102.4)**
Non-underlying items in tax	3.4	(0.3)
Total non-underlying items after tax	**(17.6)**	**(102.7)**

Non-underlying income and expenses are items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business. During the year the Group has recognised a net charge of £21.0m of pre-tax non-underlying items against a charge of £102.4m in H1 2019.

There was £12.5m of goodwill impairment in the period. This has been necessary following assessments of the carrying value of assets which have been calculated by taking into account trading, market conditions on future cash flows and the current market capitalisation of the Group. Pension costs of £0.6m represent the interest charge for the first half of FY19 (H1 2019: £0.9m charge). The Group recorded losses on the sale of properties and businesses in the period of £5.9m. This included losses of £6.5m on the disposal of businesses, principally arising from a loss on disposal of the Puente Hills Chevrolet location, and a £0.6m profit on the sale of surplus property during the year. There were termination and severance costs of £1.2m in the period largely related to the closures of five Vauxhall sites and one Ford franchise site that were not part of the future network plans were either disposed of or closed in the first half of 2020.

Capital Allocation

Net debt* has reduced by £73.7m from £119.7m at 31 December 2019 to £46.0m at 30 June 2020. The net debt to underlying EBITDA ratio* was 0.6x for the rolling 12 months to H1 FY20. The net debt to underlying EBITDA ratio has moved from 1.5x at FY19 largely due to the reduction in debt resulting from a timing benefit from working capital inflows combined with disposal proceeds, partially offset by the negative cash flow impact from the loss of operating profit during the lock-down period.

The Group expects gross proceeds from the disposal of the entire US business of around £100m before tax. In total to date, disposal proceeds of £78.8m have been received, which includes the Puente Hills Chevrolet disposal completed in February 2020. Post the half-year date, the Group has signed an agreement to dispose of its facility in Los Angeles for approximately £15.8m, subject to completion adjustments. Upon completion of this transaction there will be one location remaining for disposal.

* This is an Alternative Performance Measure (APM), see note 1 of the Detailed Financials for more detail.

Cash Flow

The following table summarises the cash flows and net debt of the Group for the six-month periods ended 30 June 2020 and 30 June 2019 as follows:

£m	H1 2020	H1 2019
Underlying Operating Profit	**(10.8)**	**(10.7)**
Depreciation and Amortisation	22.2	22.6
Share Based Payments	0.4	0.4
Non-underlying Items	(2.0)	0.2
Working Capital and Contract Hire Vehicle Movements	66.5	57.5
Underlying Operating Cash Flow	**76.3**	**70.0**
Tax Paid	0.8	3.2
Underlying Net Interest Paid	(11.5)	(14.3)
Operating Activities		
Capital Expenditure - Car Store	(0.1)	(5.2)
Capital Expenditure - Franchise	(6.9)	(8.4)
Capital Expenditure - Underlying Replacement	(0.5)	2.8
Capital Expenditure - Property	(2.5)	(2.3)
Business and Property Disposals	31.9	3.2
Net Capital Income/(Expenditure)	**21.9**	**(9.9)**
Dividends	-	(9.7)
Share Buybacks	-	(0.5)
Lease Payments & Receipts	(13.2)	(16.7)
Other	(0.6)	(0.3)
Decrease in Net Debt	**73.7**	**21.8**
Opening Net Debt[1]	(119.7)	(126.1)
Closing Net Debt	**(46.0)**	**(104.3)**

The underlying operating cash flow was an inflow of £76.3m in H1 2020 compared to an inflow of £70.0m in H1 2019.

As previously described, the estimated negative impact on operating profit of Covid-19 was approximately £44.1m, with a cash impact of approximately £40m.

The working capital and contract hire movements cash inflow of £69.9m was principally driven by the combined impact of a timing benefit from the reduction in debtors of approximately £45m and a VAT timing benefit of approximately £30m, partially offset by a small outflow in trade and other payables.

The net capital expenditure inflow of £21.9m (H1 2019: outflow of £9.9m) was principally due to the £31.9m cash received from business and property disposals, which more than offset the outgoing capital expenditure of £10.0m in the period. Disposal proceeds largely comprised of £16.6m from the disposal of Puente Hills Chevrolet in the US, £10.5m from the sale and leaseback of the newly built Porsche Stockport and £4.5m from the disposal of an ex-Car Store location in Borehamwood. The level of capital expenditure was reduced in the period during the pandemic to mitigate the impact of cash outflows from trading losses.

No final dividend was paid for FY19.

The reduction in lease payments & receipts from £16.7m in the first half of 2019 to £13.2m in H1 2020 is principally due to a timing benefit of a temporary move to monthly rent payments during the period partially offset by the impact of annual rent increases and the addition of rent payments following the sale and leaseback of Porsche Stockport. In addition, a total of nine leases were re-assigned, sublet or expired during the first half, which will result in an annual rent reduction of c.£0.7m.

Balance sheet

The following table summarises the balance sheet of the Group at 30 June 2020, 30 June 2019 and 31 December 2019.

Balance Sheet	**Jun-20**	**Jun-19**	**Dec-19**
Property	230.7	233.9	237.8
Plant & Equipment	215.5	223.9	231.3
Goodwill & Intangibles	160.4	195.6	172.3
Right of Use Assets	156.4	164.8	159.2
Stock	747.8	785.3	839.0
Debtors	89.3	159.0	129.9
Net Assets Held for Resale	26.8	68.9	59.6
Creditors	(1,463.8)	(1,574.8)	(1,540.5)
Net Debt	(46.0)	(104.3)	(119.7)
Shareholders Funds	**117.1**	**152.3**	**168.9**

Net assets have reduced from £168.9m at December 2019 to £117.1m.

At H1 FY20, the Group had £230.7m (£386.6m including IFRS16 right of use assets) of land and property assets (H1 FY19 : £233.9m (£398.7m including IFRS16 right of use assets). Property assets classified as held for sale were £56.8m (H1 FY19 : £41.3m). The reduction in property principally reflects the previously announced sale and leaseback of the Group's new Porsche facility in Stockport which completed during H1.

The movement in plant and equipment largely reflects the ongoing depreciation with a lower than planned level of capital expenditure in the period. The reduction in goodwill and intangibles is principally a result of a goodwill impairment charge of £12.5m recorded in the period.

Stock has reduced principally as a result of a reduction in used car inventory driven by a combination of the impact of store closures and focussed stock management through June as the Group began to address the natural ageing of the stock profile during the pandemic.

As previously described, the Group benefitted from a timing benefit from the cash inflow of debtors of approximately £45m, which resulted from a combination of outstanding debtors being collected during the lock-down period, and a materially lower level of new debtors being created whilst sales were suspended. The primary drivers were a reduction in manufacturer vehicle bonus debt and inflows from other trade debtors.

The reduction in creditors principally relates to the reduction in vehicle inventory, partially offset by an increased VAT creditor as a result of the deferred VAT payment. Underlying vehicle creditors, excluding the inventory reduction, remained broadly consistent as a result of the extended financing periods provided by both the OEM's and the third-party stocking loan providers during the lock-down period.

Dividend

The Group is not proposing an interim dividend for 2020.

Pensions

The net liability for defined benefit obligations has increased from £59.0m at 31 December 2019 to £71.7m at 30 June 2020. The increase of £12.7m comprises a net interest expense of £0.6m recognised in the income statement, a net remeasurement loss of £14.7m and contributions paid of £2.6m.

Following the full actuarial valuation of the company's pension scheme at 31 December 2018 showing a deficit of £117m, the company and trustees agreed to raise its annual contribution to the pension scheme to £12.5 million from 1 January 2020 from £7.6m of contributions in 2019.

The Group contributed £2.6m to the Pension Scheme in the period. A payment of £2.4m due in April was agreed to be deferred by the Pension Trustee, with the payment to be made prior to the end of FY20.

Revolving Credit Facility (RCF)

In March 2020 the maturity date of the Group's RCF was extended by one year to 31 March 2022 and the facility size was reduced from £240m to £175m, in line with the Group's expected reduced requirements going forward. The Group agreed to pay an increased margin of 0.50%.

Detailed Financials

Consolidated Income Statement Six months ended 30 June	Continuing operations £m	Discontinued operations * £m	2020 £m	Continuing operations £m	Discontinued operations * £m	2019 £m
Revenue	1,149.8	68.5	1,218.3	2,221.7	233.9	2,455.6
Cost of sales	(1,023.5)	(59.5)	(1,083.0)	(2,017.9)	(202.5)	(2,220.4)
Gross profit	**126.3**	**9.0**	**135.3**	**203.8**	**31.4**	**235.2**
Operating expenses	(143.5)	(17.1)	(160.6)	(320.1)	(28.1)	(348.2)
Operating (loss)/profit before other income	**(17.2)**	**(8.1)**	**(25.3)**	**(116.3)**	**3.3**	**(113.0)**
Other income - losses on the sale of businesses and property	(5.9)	-	(5.9)	(1.1)	-	(1.1)
Operating (loss)/profit	**(23.1)**	**(8.1)**	**(31.2)**	**(117.4)**	**3.3**	**(114.1)**
Analysed as						
Underlying operating (loss)/profit	(2.7)	(8.1)	(10.8)	(14.0)	3.3	(10.7)
Non-underlying operating loss **	(20.4)	-	(20.4)	(103.4)	-	(103.4)
Finance expense	(20.6)	(0.7)	(21.3)	(21.9)	(1.2)	(23.1)
Finance income	0.5	-	0.5	2.6	-	2.6
Net finance costs	(20.1)	(0.7)	(20.8)	(19.3)	(1.2)	(20.5)
Analysed as						
Underlying net finance costs	**(19.5)**	**(0.7)**	**(20.2)**	**(20.3)**	**(1.2)**	**(21.5)**
Non-underlying net finance costs **	**(0.6)**	**-**	**(0.6)**	**1.0**	**-**	**1.0**
(Loss)/profit before taxation	**(43.2)**	**(8.8)**	**(52.0)**	**(136.7)**	**2.1**	**(134.6)**
Analysed as						
Underlying profit before taxation	(22.2)	(8.8)	(31.0)	(34.3)	2.1	(32.2)
Non-underlying (loss)/profit before taxation **	(21.0)	-	(21.0)	(102.4)	-	(102.4)
Income tax credit/(expense)	8.8	1.8	10.6	5.6	(0.6)	5.0
(Loss)/profit for the year	**(34.4)**	**(7.0)**	**(41.4)**	**(131.1)**	**1.5**	**(129.6)**
Earnings per share						
Basic earnings per share	(2.5p)	(0.5p)	(3.0p)	(9.4p)	0.1p	(9.3p)

Diluted earnings per share	(2.5p)	(0.5p)	(3.0p)	(9.4p)	0.1p	(9.3p)
Non-GAAP Measure						
Underlying basic earnings per share	(1.2p)	(0.5p)	(1.7p)	(2.0p)	0.1p	(1.9p)
Underlying diluted earnings per share	(1.2p)	(0.5p)	(1.7p)	(2.0p)	0.1p	(1.9p)

* The discontinued operations are in respect of the Group's US business which is currently classified as held for sale.

** Non-underlying, see note 7 for explanation.

Consolidated Statement of Comprehensive Income **Six months ended 30 June**	H1 2020 £m	H1 2019 £m
Loss for the year	(41.4)	(129.6)
Other comprehensive income		
Items that will never be reclassified to profit and loss:		
Defined benefit plan remeasurement (losses)/gains	(14.7)	(6.6)
Income tax relating to defined benefit plan remeasurement (losses)/gains	2.8	1.1
	(11.9)	(5.5)
Items that are or may be reclassified to profit and loss:		
Foreign currency translation differences of foreign operations	1.1	-
Other comprehensive income for the year, net of tax	(10.8)	(5.5)
Total comprehensive income for the year	(52.2)	(135.1)
Total comprehensive income for the period attributable to equity shareholders of the company arises from:		
Continuing operations	(46.3)	(136.6)
Discontinued operations	(5.9)	1.5
	(52.2)	(135.1)

Consolidated Statement of Changes in Equity Six months ended 30 June	Share Capital £m	Share Premium £m	Other Reserves £m	Translation Differences £m	Retained Earnings £m	Total £m
Balance at 1 January 2020	**69.9**	**56.8**	**18.2**	**(1.0)**	**25.0**	**168.9**
Total comprehensive income for H1 2020						
Loss for the period	**-**	**-**	**-**	**-**	**(41.4)**	**(41.4)**
Other comprehensive income for the period, net of tax	-	-	-	1.1	(11.9)	(10.8)
Total comprehensive income for the period	**-**	**-**	**-**	**1.1**	**(53.3)**	**(52.2)**
Share based payments	-	-	-	-	0.4	0.4
Balance at 30 June 2020	**69.9**	**56.8**	**18.2**	**0.1**	**(27.9)**	**117.1**
Balance at 1 January 2019	**70.0**	**56.8**	**18.1**	**(0.8)**	**201.5**	**345.6**
Adjustment on initial application of IFRS 16 (net of tax)	-	-	-	-	(48.4)	(48.4)
Adjusted balance at 1 January 2019	**70.0**	**56.8**	**18.1**	**(0.8)**	**153.1**	**297.2**
Total comprehensive income for H1 2019						
Loss for the period	-	-	-	-	(129.6)	(129.6)
Other comprehensive income for the period, net of tax	-	-	-	-	(5.5)	(5.5)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(135.1)**	**(135.1)**
Dividends paid	-	-	-	-	(9.7)	(9.7)
Own shares purchased for cancellation	(0.1)	-	0.1	-	(0.5)	(0.5)
Share based payments	-	-	-	-	0.4	0.4
Balance at 31 December 2019	**69.9**	**56.8**	**18.2**	**(0.8)**	**8.2**	**152.3**

Consolidated Balance Sheet	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Non-current assets			
Property, plant and equipment	602.6	622.6	628.3
Goodwill	150.3	186.9	162.8
Other intangible assets	10.1	8.7	9.5
Finance lease receivables	17.5	21.4	20.6
Deferred tax assets	39.0	25.7	25.5
Total non-current assets	**819.5**	**865.3**	**846.7**
Current assets			
Inventories	747.8	785.3	839.0
Trade and other receivables	69.4	134.9	106.9
Finance lease receivables	2.4	2.7	2.4
Cash and cash equivalents	123.3	51.2	55.7
Assets classified as held for sale	100.4	153.4	150.1
Total current assets	**1,043.3**	**1,127.5**	**1,154.1**
Total assets	**1,862.8**	**1,992.8**	**2,000.8**
Current liabilities			
Lease liabilities	(30.3)	(38.0)	(23.9)
Trade and other payables	(1,030.5)	(1,105.4)	(1,084.6)
Deferred income	(53.6)	(49.4)	(50.9)
Current tax payable	(3.3)	-	(2.8)
Liabilities directly associated with the assets held for sale	(73.6)	(84.5)	(90.5)
Total current liabilities	**(1,191.3)**	**(1,277.3)**	**(1,252.7)**
Non-current liabilities			
Interest bearing loans and borrowings	(169.3)	(155.5)	(175.4)
Lease liabilities	(228.3)	(233.0)	(237.8)
Trade and other payables	(51.2)	(58.7)	(60.4)
Deferred income	(33.9)	(43.8)	(46.6)
Retirement benefit obligations	(71.7)	(72.2)	(59.0)
Total non-current liabilities	**(554.4)**	**(563.2)**	**(579.2)**
Total liabilities	**(1,745.7)**	**(1,840.5)**	**(1,831.9)**
Net assets	**117.1**	**152.3**	**168.9**

Capital and reserves			
Called up share capital	69.9	69.9	69.9
Share premium account	56.8	56.8	56.8
Capital redemption reserve	5.6	5.6	5.6
Other reserves	12.6	12.6	12.6
Translation reserve	0.1	(0.8)	(1.0)
Retained earnings	(27.9)	8.2	25.0
Total equity attributable to equity shareholders of the Company	**117.1**	**152.3**	**168.9**

Consolidated Cash Flow Statement	For the six months ended 30 June 2020 £m	For the six months ended 30 June 2019 £m	For the twelve months ended 31 December 2019 £m
Cash flows from operating activities			
Loss for the period	(41.4)	(129.6)	(117.4)
Adjustment for net financing expense	20.8	20.5	43.0
Adjustment for taxation	(10.6)	(5.0)	3.3
	(31.2)	**(114.1)**	**(71.1)**
Depreciation and amortisation	22.2	22.6	44.7
Share based payments	0.4	0.4	0.6
Pension past service costs	-	-	(4.8)
Loss/(profit) on sale of businesses and property	5.9	1.1	(33.3)
Impairment of goodwill	12.5	78.2	102.4
Impairment of assets property, plant and equipment	-	24.0	25.9
Impairment of assets held for sale	-	0.3	1.9
Retirement benefit obligations	(2.6)	(3.6)	(7.6)
Changes in inventories	141.5	170.9	186.7
Changes in trade and other receivables	48.9	(28.9)	1.7
Changes in trade and other payables	(91.9)	(49.6)	(127.4)
Movement in contract hire vehicle balances	(29.4)	(31.3)	(55.6)
Cash generated from operations	**76.3**	**70.0**	**64.1**
Taxation received /(paid)	0.8	3.2	(3.3)
Interest paid	(11.5)	(14.3)	(26.8)
Net cash from operating activities	**65.6**	**58.9**	**34.0**

Cash flows from investing activities			
Proceeds from sale of businesses	16.6	3.2	67.4
Purchase of property, plant, equipment and intangible assets	(32.1)	(52.1)	(115.0)
Proceeds from sale of property, plant, equipment and intangible assets	37.4	39.0	70.6
Net cash from/(used) in investing activities	**21.9**	**(9.9)**	**23.0**
Cash flows from financing activities			
Dividends paid to shareholders	-	(9.7)	(9.7)
Repurchase of own shares	-	(0.5)	(0.5)
Payment of lease liabilities	(14.2)	(18.3)	(43.2)
Receipt of lease receivables	1.0	1.6	3.3
Repayment of loans	(40.0)	(25.0)	(5.0)
Proceeds from issue of loans	28.2	2.3	5.4
Net cash outflow from financing activities	**(25.0)**	**(49.6)**	**(49.7)**
Net increase/(decrease) in cash and cash equivalents	**62.5**	**(0.6)**	**7.3**
Opening cash and cash equivalents	**55.7**	**51.4**	**51.4**
Effects of exchange rate changes on cash held	5.1	0.4	(3.0)
Closing cash and cash equivalents	**123.3**	**51.2**	**55.7**

Reconciliation of net cash flow to movement in net debt	**For the six months ended 30 June 2020 £m**	**For the six months ended 30 June 2019 £m**	**For the twelve months ended 31 December 2019 £m**
Net increase/(decrease) in cash and cash equivalents	62.5	(0.6)	7.3
Repayment of bond and loans	40.0	25.0	5.0
Proceeds from issue of loans	(28.2)	(2.3)	(5.4)
Non-cash movements	(0.6)	(0.3)	(0.5)
Decrease in net debt in the period	**73.7**	**21.8**	**6.4**
Opening net debt	**(119.7)**	**(126.1)**	**(126.1)**
Closing net debt	**(46.0)**	**(104.3)**	**(119.7)**

Note: The reconciliation of net cash flow to movement in net debt is not a primary statement and does not form part of the consolidated cash flow statement but forms part of the notes to the financial statements.

Notes

1 Basis of Preparation

Pendragon PLC (the 'Company') is a public company incorporated, domiciled and registered in England in the UK. The registered number is 2304195 and the registered address is Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2020 comprise the Company and its subsidiaries (together referred to as the 'Group').

Covid-19

The Directors draw attention to the ongoing threat from further deterioration in economic conditions in relation to Covid-19. Covid-19 brought widespread disruption to businesses across the world, and at this point in time it remains uncertain how the full macro-economic impact of the pandemic will unfold. Pendragon's key priority remains the health and wellbeing of our colleagues, customers and business partners, while we maintain our high standards of service to customers. We have evolved our health and safety policies and will continue to follow all relevant guidelines to ensure all of our work-places are Covid-secure environments. We have significantly reduced all non-essential business travel, and have clear and effective plans in place for alternative working locations.

If the virus returns more widely across the UK then this may influence the willingness of customers to visit our dealerships, which could further affect our financial performance. However, we believe the changes to our operating procedures will give consumers confidence that car dealerships remain a safe place to visit. In addition, consumers can purchase both new and used cars with associated finance over the telephone or internet without visiting dealerships, including vehicle delivery to the customer's chosen destination. The Group has also made changes to its operating structure through the recently announced changes to staffing models, which will help protect the organisation in the event of further performance downturns.

We believe that the improvements we have made to these services will better position us if there are further lock-down situations, either locally or nationally. In the event of local lock-downs we believe that car dealerships may be able to continue trading normally, as we experienced in the first major local lock-down in Leicester. We also note that servicing and repair work is generally undertaken in compliance with manufacturer warranty, extended warranty or service plan arrangements that we expect customers will continue to observe, with the majority of demand for these services being deferred in the event of lock-down.

The risk and uncertainty are likely to remain for the foreseeable future and may continue to impact performance over the rest of the current financial year and into FY21. The Group will continue to respond in the most appropriate manner as the situation develops.

Going concern

The financial statements are prepared on a going concern basis notwithstanding that the Group has reported an operating loss of £(31.2)m for the six months to 30 June 2020 (Full-Year 2019: loss of £104.4m). Despite an improved trading position through June, July and August after lock-down restrictions were lifted, the directors consider that the current economic outlook presents significant uncertainty in terms of sales volume and pricing and that each of Brexit, the threat from further Coronavirus lock-downs and the risk of rising unemployment when government support measures are withdrawn, present uncertainties to future trading conditions.

Whilst the directors have instituted measures to preserve cash there is uncertainty over future trading results and cash flows. The Group meets its day-to-day working capital requirements from a revolving credit facility of £175m and senior note of £60m together with manufacturer stocking facilities and cash balances. The revolving credit facility is due for renewal in March 2022 and includes quarterly leverage and fixed charge covenants, a breach of which would result in the amounts drawn becoming repayable on demand. The Group has not made use of government backed borrowing facilities such as the Coronavirus large business interruption loan scheme. The Group remained compliant with its banking covenants throughout the period to 30 June 2020.

Following the Coronavirus lock-down in H1 FY20 the Group instigated a number of mitigating actions to protect it against the financial impact of the closures and ensure compliance with covenants at the balance sheet date. This included drawing down on government support measures such as the Coronavirus job retention scheme, utilising the retail discount scheme for rates and deferring VAT, as well as utilising support measures from vehicle manufacturers and stocking loan providers to extend vehicle payment periods. The Group also reviewed its level of planned capital expenditure and either cancelled or postponed certain projects.

In the context of the above, the directors have prepared cash flow forecasts for the 21-month period to 31 March 2022 which indicate that, taking account of reasonably possible downsides, the Group will have sufficient funds to meet its liabilities as they fall due for that period. The Directors have assessed the potential on-going impacts of the COVID-19 pandemic coupled with the risk of there not being a comprehensive trade deal at the end of the Brexit transition period, leading to wider economic disruption and have modelled scenarios as follows:

1. **A base cash flow forecast**. This forecast has considered externally sourced economic forecasts to determine the outlook for vehicle volume forecasts, which assume a reduction in both the used and new vehicle, and aftersales markets when compared to the levels of FY19 through-out the period being assessed. The base case forecast includes the benefit of the previously announced cost reduction programmes and the disposal of the remaining US dealerships. This forecast assumes low levels of market growth from 2022 onwards.

2. **A severe, but plausible downside scenario.** The directors have also prepared a sensitised forecast which considers the impact of certain severe but plausible downside events and which removes proceeds expected from the disposal of US dealerships. This scenario reflects a more severe economic downturn than that per externally sourced economic forecasts, impacting vehicle sales volumes, and includes a further six-week period of full national lockdown in Q1 2021as a result of further government intervention. In addition, a negative resolution to the Brexit negotiations is modelled and assumed to have a further detrimental impact on vehicle sales volumes. The Directors believe that the Group would be able to withstand the downside with the mitigations available to it, all of which are within management's control, such as a further review of investment capital expenditure, of discretionary bonuses, and other reductions to the cost base and would remain within its facility limits and in compliance with the relevant covenants, albeit the headroom on covenants is limited at 31 March 2021 under this more severe scenario.

Based on the above, the directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and therefore the directors believe it remains appropriate to prepare the financial statements on a going concern basis.

The condensed set of financial statements for the six months ended 30 June 2020 are unaudited but have been reviewed by the auditors.

Alternative Performance Measures

The Group uses a number of key performance measures ('KPI's') which are non-IFRS measures to monitor the performance of its operations. The Group believes these KPI's provide useful historical financial information to help investors and other stakeholders evaluate the performance of the business and are measures commonly used by certain investors for evaluating the performance of the Group. In particular, the Group uses KPI's which reflect the underlying performance on the basis that this provides a more relevant focus on the core business performance of the Group. The Group has been using the following KPI's on a consistent basis and they are defined and reconciled as follows:

Gross margin % - gross margin is defined as gross profit as a percentage of revenue.

Like for Like - results on a like for like basis include only businesses which have been trading for 12 consecutive months. We use like for like results to aid in the understanding of the like for like movement in revenue, gross profit and operating profit in the business. The difference to underlying results are simply those businesses which are not like for like which have recently commenced operation and therefore do not have a 12 month history plus any businesses closed during the current or previous period.

Operating margin % - operating margin is defined as operating (loss)/profit as a percentage of revenue.

Underlying operating (loss)/profit / (loss)/profit before tax - results on an underlying basis exclude items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business. The detail of the non-underlying results is shown in note 7.

Operating loss reconciliation

	2020 £m	2019 £m
Underlying operating loss	**(10.8)**	**(10.7)**
Settlement of historic VAT issues (see note 7)	-	1.6
Losses on the sale of businesses and property (see note 7)	(5.9)	(1.1)
Impairment of goodwill (see note 7)	(12.5)	(78.2)
Impairment of property, plant and equipment (see note 7)	-	(1.2)
Impairment of right of use assets (see note 7)	-	(22.8)
Impairment of assets held for sale (see note 7)	-	(0.3)
Closure costs (see note 7)	(0.8)	-
Termination and severance costs (see note 7)	(1.2)	(1.4)
Non-underlying operating loss items	(20.4)	(103.4)
Operating loss	**(31.2)**	**(114.1)**

Loss before tax reconciliation

	2020 £m	2019 £m
Underlying loss before tax	**(31.0)**	**(32.2)**
Non-underlying operating loss items (see reconciliation above)	(20.4)	(103.4)
Non-underlying finance (costs)/income (see note 7)	(0.6)	1.0
Non-underlying operating loss and finance cost items	(21.0)	(102.4)
Loss before tax	**(52.0)**	**(134.6)**

Loss after tax reconciliation

	2020	2019

	£m	£m
Underlying loss after tax	**(23.8)**	**(26.9)**
Non-underlying operating loss and finance cost items (see reconciliation above)	(21.0)	(102.4)
Non-underlying tax (see note 7)	3.4	(0.3)
Non-underlying operating loss, finance and tax cost items	(17.6)	(102.7)
Loss after tax	**(41.4)**	**(129.6)**

Underlying basic earnings per share ('underlying earnings per share') - the Group presents underlying basic earnings per share as the directors consider that this is a better measure of comparative performance. Underlying basic earnings per share is calculated by dividing the underlying profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. A full reconciliation of how this is derived is found in note 13.

Underlying diluted earnings per share - the Group presents underlying diluted earnings per share as the directors consider that this is a better measure of comparative performance. Underlying diluted earnings per share is calculated by dividing the underlying profit and loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue taking account of the effects of all dilutive potential ordinary shares, which comprise of share options granted to employees and LTIPs. A full reconciliation of how this is derived is found in note 13.

Net debt : Underlying EBITDA - the Group uses the ratio of net debt to underlying EBITDA to assess the use of the Group's financial resources. We have adjusted the underlying operating profit used in the calculation of EBITDA to present it on a pre IFRS 16 basis by treating the net rentals paid during the periods as an operating expense. This is to ensure consistency in the rolling 12m period against our target measure of net debt : underlying EBITDA of between 1.0 and 1.5 which is based on a pre IFRS 16 basis.

Net debt : Underlying EBITDA - reconciliation

	2020 £m	2019 £m
Underlying operating profit (12 months rolling 1 July 2019 to 30 June 2020)	9.3	4.5
Depreciation and amortisation (12 months rolling 1 July 2019 to 30 June 2020)	67.9	76.3
Underlying EBITDA (12 months rolling 1 July 2019 to 30 June 2020)	**77.2**	**80.8**
Net debt	46.0	104.3
Net debt : Underlying EBITDA ratio	**0.6**	**1.3**

Like for Like reconciliations

Like for like - results on a like for like basis include only businesses which have been trading for 12 consecutive months. We use like for like results to aid in the understanding of the like for like movement in revenue, gross profit and operating profit in the business. The difference to underlying results are simply those businesses which are not like for like which have recently commenced operation and therefore do not have a 12 month history plus any retail points closed during the current or previous period.

Revenues by Department - Franchised UK Motor	**2020 Group revenue £m**	**2020 Disposals revenue £m**	**2020 Other non like for like revenue £m**	**2020 Like for like revenue £m**
Aftersales revenue	**97.7**	(0.4)	(1.7)	**95.6**
Used vehicle revenue	**509.2**	(4.7)	(7.4)	**497.1**
New vehicle revenue	**460.2**	(0.4)	-	**459.8**
Total Revenue	**1,067.1**	(5.5)	(9.1)	**1,052.5**

Revenues by Department - Franchised UK Motor	2019 Group revenue £m	2019 Disposals revenue £m	2019 Other non like for like revenue £m	2019 Like for like revenue £m
Aftersales revenue	168.0	(7.5)	(0.1)	160.4
Used vehicle revenue	959.4	(50.5)	-	908.9
New vehicle revenue	871.8	(43.4)	-	828.4
Total Revenue	1,999.2	(101.4)	(0.1)	1,897.7

Revenues by Department - Car Store	2020 Group revenue £m	2020 Disposals revenue £m	2020 Other non like for like revenue £m	2020 Like for like revenue £m
Aftersales revenue	-	-	-	-
Used vehicle revenue	43.1	(0.2)	-	42.9
Total Revenue	43.1	(0.2)	-	42.9

Revenues by Department - Car Store	2019 Group revenue £m	2019 Disposals revenue £m	2019 Other non like for like revenue £m	2019 Like for like revenue £m
Aftersales revenue	0.9	(0.9)	-	-
Used vehicle revenue	169.9	(96.7)	-	73.2
Total Revenue	170.8	(97.6)	-	73.2

Revenues by Department - US Motor	2020 Group revenue £m	2020 Disposals revenue £m	2020 Other non like for like revenue £m	2020 Like for like revenue £m
Aftersales revenue	7.9	(0.3)	-	7.6
Used vehicle revenue	10.2	(1.1)	-	9.1
New vehicle revenue	50.4	(2.3)	-	48.1
Total Revenue	68.5	(3.7)	-	64.8

Revenues by Department - US Motor	2019 Group gross profit	2019 Disposals gross profit	2019 Other non like for like gross profit	2019 Like for like gross profit

	£m	£m	£m	£m
Aftersales revenue	22.5	(11.3)	-	11.2
Used vehicle revenue	43.1	(34.2)	-	8.9
New vehicle revenue	168.3	(93.0)	-	75.3
Total Revenue	233.9	(138.5)	-	95.4

Gross Profit by Department - Franchised UK Motor	2020 Group gross profit £m	2020 Disposals gross profit £m	2020 Other non like for like gross profit £m	2020 Like for like gross profit £m
Aftersales gross profit	45.3	(0.1)	(0.6)	44.6
Used vehicle gross profit	36.4	(0.1)	(0.8)	35.5
New vehicle gross profit	27.2	-	-	27.2
Total Gross profit	108.9	(0.2)	(1.4)	107.3

Gross Profit by Department - Franchised UK Motor	2019 Group gross profit £m	2019 Disposals gross profit £m	2019 Other non like for like gross profit £m	2019 Like for like gross profit £m
Aftersales gross profit	83.7	(2.7)	(0.1)	80.9
Used vehicle gross profit	47.0	0.6	-	47.6
New vehicle gross profit	51.5	(2.6)	-	48.9
Total Gross profit	182.2	(4.7)	(0.1)	177.4

Gross Profit by Department - Car Store	2020 Group gross profit £m	2020 Disposals gross profit £m	2020 Other non like for like gross profit £m	2020 Like for like gross profit £m
Aftersales gross profit	-	-	-	-
Used vehicle gross profit	2.9	0.1	-	3.0
Total Gross profit	2.9	0.1	-	3.0

Gross Profit by Department - Car Store	2019 Group gross profit £m	2019 Disposals gross profit £m	2019 Other non like for like gross profit £m	2019 Like for like gross profit £m

Aftersales gross profit	(1.2)	2.3	-	1.1
Used vehicle gross profit	6.5	(4.4)	-	2.1
Total Gross profit	5.3	(2.1)	-	3.2

Gross Profit by Department - US Motor	2020 Group gross profit £m	2020 Disposals gross profit £m	2020 Other non like for like gross profit £m	2020 Like for like gross profit £m
Aftersales gross profit	3.9	(0.2)	-	3.7
Used vehicle gross profit	0.5	(0.1)	-	0.4
New vehicle gross profit	4.6	(0.2)	-	4.4
Total Gross profit	9.0	(0.5)	-	8.5

Gross Profit by Department - US Motor	2019 Group gross profit £m	2019 Disposals gross profit £m	2019 Other non like for like gross profit £m	2019 Like for like gross profit £m
Aftersales gross profit	11.7	(6.2)	-	5.5
Used vehicle gross profit	3.5	(2.9)	-	0.6
New vehicle gross profit	16.2	(9.5)	-	6.7
Total Gross profit	31.4	(18.6)	-	12.8

Underlying operating (loss)/profit	2020 Group Underlying operating (loss)/profit £m	2020 Disposals Underlying operating (loss)/profit £m	2020 Other non like for like Underlying operating (loss)/profit £m	2020 Like for like Underlying operating (loss)/profit £m
Franchised UK Motor	(18.1)	1.9	0.8	(15.4)
Car Store	(1.7)	0.1	-	(1.6)
Software	5.9	-	-	5.9
Leasing	4.7	-	-	4.7
US Motor	(1.6)	0.6	-	(1.0)
Total underlying operating (loss)/profit	(10.8)	2.6	0.8	(7.4)

Underlying operating (loss)/profit	2019	2019	2019	2019

	Group Underlying operating (loss)/profit £m	Disposals Underlying operating (loss)/profit £m	Other non like for like Underlying operating (loss)/profit £m	Like for like Underlying operating (loss)/profit £m
Franchised UK Motor	(7.7)	6.1	0.3	(1.3)
Car Store	(19.1)	10.0	-	(9.1)
Software	6.5	-	-	6.5
Leasing	6.3	-	-	6.3
US Motor	3.3	(1.7)	-	1.6
Total underlying operating (loss)/profit	(10.7)	14.4	0.3	4.0

2 Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as adopted by the European Union. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2019, which are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

These condensed consolidated interim financial statements were approved by the board of directors on 24 September 2020.

3 Significant accounting policies

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2019, except as explained below.

Adoption of new and revised standards

The following amended standards and interpretations have been adopted during the year and have not had a significant impact on the Group's consolidated financial statements.

IFRS 17 Insurance Contracts.

Definition of Material - Amendments to IAS 1 and IAS 8

4 Estimates and judgements

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

Assets held for resale are held at the lower of their carrying value and fair value less costs to sell. The fair value (a Level 2 valuation, determined based on prices for similar assets) is £100.4m.

During the six months ended 30 June 2020 management reassessed its estimates and assumptions in respect of employee post-retirement benefit obligations. The obligations under these plans are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates and return on assets, details of which are provided in note 21 below.

The estimates in respect of the anticipated tax rate to be applied for the full financial year 2020 and subsequently used in the preparation of the results for the six month period to 30 June 2020 are set out in note 11.

5 Comparative figures

The comparative figures for the financial year ended 31 December 2019 are extracted from the Group's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

5 Revenue

The Group's main operations and revenue streams are those described in the last annual financial statements. All the Group's revenue is derived from contracts with customers.

Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, major products/service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's four strategic divisions, which are its reportable segments, see note 8.

For the six months ending 30 June 2020	**Franchised UK Motor £m**	**Carstore £m**	**Software £m**	**Leasing £m**	**US Motor* £m**	**Total £m**
Primary geographical markets						
Europe	1,067.1	43.1	8.2	31.1	-	**1,149.5**
North America	-	-	-	-	68.5	**68.5**
Africa	-	-	0.2	-	-	**0.2**
Asia	-	-	0.1	-	-	**0.1**
Revenue from External customers	**1,067.1**	**43.1**	**8.5**	**31.1**	**68.5**	**1,218.3**
Major products/service lines						
Aftersales revenue	97.7	-	-	-	7.9	**105.6**
Used vehicle revenue	509.2	43.1	-	-	10.2	**562.5**
New vehicle revenue	460.2	-	-	-	50.4	**510.6**
Software revenue	-	-	8.5	-	-	**8.5**
Leasing revenue	-	-	-	31.1	-	**31.1**
Revenue from External customers	**1,067.1**	**43.1**	**8.5**	**31.1**	**68.5**	**1,218.3**
Timing of revenue recognition						
At point in time	1,063.3	42.7	0.4	10.2	68.5	**1,185.1**
Over time	3.8	0.4	8.1	20.9	-	**33.2**
Revenue from External customers	**1,067.1**	**43.1**	**8.5**	**31.1**	**68.5**	**1,218.3**

For the six months ending 30 June 2019	**Franchised UK Motor £m**	**Carstore £m**	**Software £m**	**Leasing £m**	**US Motor* £m**	**Total £m**
Primary geographical markets						
Europe	1,999.2	170.8	8.5	42.8	-	**2,221.3**
North America	-	-	-	-	233.9	**233.9**
Africa	-	-	0.3	-	-	**0.3**
Asia	-	-	0.1	-	-	**0.1**
Revenue from External customers	**1,999.2**	**170.8**	**8.9**	**42.8**	**233.9**	**2,455.6**
Major products/service lines						
Aftersales revenue	168.0	0.9	-	-	22.5	**191.4**
Used vehicle revenue	959.4	169.9	-	-	43.1	**1,172.4**

New vehicle revenue	871.8	-	-	-	168.3	**1,040.1**
Software revenue	-	-	8.9	-	-	**8.9**
Leasing revenue	-	-	-	42.8	-	**42.8**
Revenue from External customers	**1,999.2**	**170.8**	**8.9**	**42.8**	**233.9**	**2,455.6**
Timing of revenue recognition						
At point in time	1,996.5	170.5	0.8	21.4	233.9	**2,423.1**
Over time	2.7	0.3	8.1	21.4	-	**32.5**
Revenue from External customers	**1,999.2**	**170.8**	**8.9**	**42.8**	**233.9**	**2,455.6**

* The Group's US business is a discontinued operation which is currently classified as held for sale (see note 15).

7 Non-underlying Items

Non-underlying income and expenses are items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business.

	2020 £m	2019 £m
Within operating expenses:		
Settlement of historic VAT issues	-	1.6
Impairment of goodwill	(12.5)	(78.2)
Impairment of property, plant and equipment	-	(1.2)
Impairment of right of use assets	-	(22.8)
Impairment of assets held for sale	-	(0.3)
Closure costs	(0.8)	-
Termination and severance costs	(1.2)	(1.4)
	(14.5)	**(102.3)**
Within other income - gains on the sale of businesses, property and investments:		
Loss on the sale of businesses	(6.5)	(0.3)
Profit/(loss) on the sale of property	0.6	(0.8)
	(5.9)	**(1.1)**
Within finance expense:		
Interest on settlement of historic VAT issues	-	1.9
Net interest on pension scheme obligations	(0.6)	(0.9)
	(0.6)	**1.0**
Total non-underlying items before tax	**(21.0)**	**(102.4)**
Non-underlying items in tax	3.4	(0.3)
Total non-underlying items after tax	**(17.6)**	**(102.7)**

Goodwill has been reviewed for any possible impairment and as a result of this review there was an impairment charge of £12.5m made during the period (2019: £78.2m).

Group property, plant and equipment and assets held for sale have been reviewed for possible impairments. As a result of this review there was no impairment charge against assets held for sale during the period (2019: £0.3m) and no impairment charge against property, plant and equipment (2019: £24.0m which comprised impairment of owned assets of £1.2m and right of use assets of £22.8m). There were no reversals of previous impairment charges in respect of assets held for sale where anticipated proceeds less costs to sell have increased over their impaired carrying values (2019: £nil).

We acquired CD Bramall PLC in 2004, with the company having made a claim in 2003 for VAT overpaid in respect of bonuses received by the company's leasing companies from OEMs during the period 1988-1995 (Fleming claims). These claims were refused by HMRC over the years for a number of reasons which gradually fell away through litigation with other parties. We were then left with a fundamental objection of principle by HMRC and so we litigated in 2017 and were successful (decision released August 2018). As the legal decision was one of principle only, we were then left to agree quantum with HMRC. This was concluded during the first half of the prior year, resulting in a VAT repayment of just over £1.9m with interest of £1.9m. Associated costs were £0.3m which resulted in a net gain of £3.5m.

During the period a number of employees were offered compensation on either being made redundant or terminating their employment contracts which amounted to £1.2m (2019: £1.4m).

Other income, being the loss on disposal of businesses and property was £5.9m (2019: loss £1.1). This comprises a profit of £0.6m (2019: £0.8m loss) on disposal of property and a loss on the disposal of motor vehicle dealerships of £6.5m (208: £0.3m loss).

The net interest expense on pension obligations in respect of the defined benefit schemes closed to future accrual is shown as a non-underlying item due to the volatility and non-trading nature of this amount. A net interest expense of £0.6m has been recognised during the period (2019: £0.9m).

8 Segmental Analysis

For the six months ending 30 June 2020	Franchised UK Motor £m	Carstore £m	Software £m	Leasing £m	US Motor* £m	Group Interest £m	Total £m
Total gross segment turnover	1,067.1	43.1	10.8	37.2	68.5	-	1,226.7
Inter-segment turnover	-	-	(2.3)	(6.1)	-	-	(8.4)
Revenue from external customers	**1,067.1**	**43.1**	**8.5**	**31.1**	**68.5**	**-**	**1,218.3**
Operating profit/(loss) before non-underlying items	(18.1)	(1.7)	5.9	4.7	(1.6)	-	(10.8)
Other income and non-underlying items	(13.9)	-	-	-	(6.5)	-	(20.4)
Operating (loss)/profit	**(32.0)**	**(1.7)**	**5.9**	**4.7**	**(8.1)**	**-**	**(31.2)**
Finance expense	(13.8)	(0.4)	-	(1.6)	(0.7)	(4.8)	(21.3)
Finance income	-	-	-	-	-	0.5	0.5
Segmental (loss)/profit before tax	**(45.8)**	**(2.1)**	**5.9**	**3.1**	**(8.8)**	**(4.3)**	**(52.0)**
Depreciation and amortisation	20.0	0.2	1.8	20.8	0.1	-	42.9
Impairment of goodwill	12.5	-	-	-	-	-	12.5

For the six months ending 30 June 2019	Franchised UK Motor £m	Carstore £m	Software £m	Leasing £m	US Motor* £m	Group Interest £m	Total £m
Total gross segment turnover	1,999.2	170.8	15.3	60.7	233.9	-	2,479.9
Inter-segment turnover	-	-	(6.4)	(17.9)	-	-	(24.3)
Revenue from external customers	**1,999.2**	**170.8**	**8.9**	**42.8**	**233.9**	**-**	**2,455.6**
Operating profit/(loss) before non-underlying items	(7.7)	(19.1)	6.5	6.3	3.3	-	(10.7)
Other income and non-underlying items	(84.3)	(19.1)	-	-	-	-	(103.4)

Operating (loss)/profit	**(92.0)**	**(38.2)**	**6.5**	**6.3**	**3.3**	**-**	**(114.1)**
Finance expense	(14.8)	(1.4)	-	(1.5)	(1.2)	(4.2)	(23.1)
Finance income	-	-	-	-	-	2.6	2.6
Segmental (loss)/profit before tax	**(106.8)**	**(39.6)**	**6.5**	**4.8**	**2.1**	**(1.6)**	**(134.6)**
Depreciation and amortisation	19.9	0.8	1.6	20.4	0.2	-	42.9
Impairment of goodwill	78.2	-	-	-	-	-	78.2
Impairment of property, plant and equipment	0.4	0.8	-	-	-	-	1.2
Impairment of right of use assets	4.5	18.3	-	-	-	-	22.8
Impairment of assets held for sale	0.3	-	-	-	-	-	0.3

9 Finance Expense

	2020 £m	2019 £m
Recognised in profit and loss		
Interest payable on bank borrowings, Senior note and loan notes	4.2	3.3
Lease interest	6.9	7.0
Vehicle stocking plan interest	8.0	10.4
Net interest on pension scheme obligations (non-underlying - see note 7)	0.6	0.9
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	**19.7**	**21.6**
Unwinding of discounts in contract hire residual values	1.6	1.5
Total finance expense	**21.3**	**23.1**

10 Finance Income

	2020 £m	2019 £m
Recognised in profit and loss		
Interest on VAT refunds (non-underlying - see note 7)	-	1.9
Lease interest receivable	0.5	0.7
Total finance income	**0.5**	**2.6**

11 Taxation

Based upon the anticipated loss for the full year, the effective credit rate on the underlying loss for 2020 is estimated at 22.76% (2019: 16.46%). The effective credit rate for 2020 is higher than the current rate of UK tax predominantly due to remeasurement of deferred tax balances in the UK from 17% to 19%. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at 19% and not reduce to 17% from 1 April 2020, as such the UK deferred tax assets have been remeasured to the long-term expected reversal rate of 19%.

12 Dividends

	2020 £m	2019 £m
Final dividend paid in respect of 2019 £nil (2019: 0.7p) per ordinary share	-	9.7

No interim dividend is proposed (2019: nil).

13 Earnings per share

			2020 Pence	2019 Pence
Basic earnings per share			**(2.98)**	**(9.32)**
Effect of adjusting items			1.27	7.39
Underlying earnings per share (Non-GAAP measure)			**(1.71)**	**(1.93)**
Diluted earnings per share			**(2.97)**	**(9.30)**
Effect of adjusting items			1.27	7.39
Underlying diluted earnings per share (Non-GAAP measure)			**(1.70)**	**(1.91)**

The calculation of basic, adjusted and diluted earnings per share is based on;

Number of shares (millions)			**2020 number**	**2019 number**
Weighted average number of shares used in basic and adjusted earnings per share calculation			1,390.5	1,390.6
Weighted average number of dilutive shares under option			2.2	2.7
Diluted weighted average number of shares used in diluted earnings per share calculation			1,392.7	1,393.3
Earnings			**2020 £m**	**2019 £m**
Loss for the period			(41.4)	(129.6)
Adjusting items:				
Non-underlying items attributable to the parent (see note 7)			21.0	102.4
Tax effect of non-underlying items			(3.4)	0.3
Earnings for adjusted earnings per share calculation			(23.8)	(26.9)

The directors consider that the underlying earnings per share figure provides a better measure of comparative performance.

14 Business and property disposals

During the period the Group generated net proceeds of £16.6m (2019: £3.2m) with a loss on disposal of £6.5m (2019: £0.3m) from the sale of the assets of its Chevrolet dealership in California.

The Group sold property generating net proceeds of £15.3m (2019: £3.0m) with a loss on disposal of £0.5m (2019: £1.2m) and made net gains in respect of lease terminations and aborted developments of £1.1m (2019: £0.8m). One of the properties sold was part of a sale and lease back arrangement which generated proceeds of £10.5m of which £0.5m remains unpaid at 30 June 2020.

15 Assets held for sale and Discontinued operations

The Group announced at the end of 2017 that it intended to dispose of the US motor business and had initiated an active program to find a buyer. At the date of this report this program is still on going, with an initial sale of the Aston Martin business being concluded in July 2018, the sale of Jaguar Land Rover Mission Viejo and Newport Beach completed in 2019 for proceeds of £59.3m and the sale of the Chevrolet business was completed in February 2020 for proceeds of £16.5m. The Group expects that a buyer can be found to conclude a sale of the remainder of the business during the remainder of 2020. As such the results of the US Business are shown as a discontinued operation within these consolidated financial statements and its assets and liabilities reclassified as held for sale as a disposal group. No impairment loss has been recognised in the income statement for the period ended 30 June 2020 in respect of this transaction.

The results of the discontinued operation are set out on the face of the condensed consolidated income statement. Other financial information relating to the discontinued operation for the period is set out below.

			2020 £m	2019 £m
Exchange differences on translation of discontinued operation			1.1	-
Other comprehensive income from discontinued operation			1.1	-

			2020 £m	2019 £m
Net cash from/(used) in operating activities			8.8	(13.6)
Net cash from/(used) in investing activities			14.1	(0.2)
Net cash used in financing activities			(43.0)	-
Net cash decrease generated by discontinued operation			(20.1)	(13.8)

			2020 pence	2019 pence
Basic earnings per share from discontinued operation			(0.50)	0.11
Diluted earnings per share from discontinued operation			(0.50)	0.11

The Group also holds a number of properties that are currently being marketed for sale which are expected to be disposed of during the next 12 months. No impairment loss has been recognised in the income statement for the six months to 30 June 2020 on re-measurement of properties to the lower of their carrying amount and their fair value less costs to sell (2019: £0.3m).

During the period to 30 June 2020 disposals of assets classified as held for sale resulted in a loss of £4.8m on disposal. In the previous period there were no disposals of assets classified as held for sale.

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Goodwill	-	6.5	6.2
Other intangible assets	-	-	0.1
Property, plant and equipment	58.8	41.3	74.5
Inventories	31.0	80.9	50.2
Trade and other receivables	10.6	24.7	19.1
Assets classified as held for sale	**100.4**	**153.4**	**150.1**

16 Cash and cash equivalents

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Bank balances and cash equivalents	**123.3**	**51.2**	**55.7**

17 Net Borrowings

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Cash and cash equivalents (note 16)	123.3	51.2	55.7
Non-current interest bearing loans and borrowings	(169.3)	(155.5)	(175.4)
Net debt	**(46.0)**	**(104.3)**	**(119.7)**
Finance lease liabilities	(258.6)	(271.0)	(261.7)
Net Borrowings	**(304.6)**	**(375.3)**	**(381.4)**

18 Deferred Income

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Warranty policies sold	17.9	19.8	19.4
Contract hire leasing income	69.6	73.4	78.1
	87.5	**93.2**	**97.5**
Current	53.6	49.4	50.9
Non-current	33.9	43.8	46.6
	87.5	93.2	97.5

19 Change to contract hire vehicle balances

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Depreciation	20.7	20.3	42.1
Changes in trade and other payables and deferred income	(14.6)	4.2	13.3
Purchases of contract hire vehicles	(33.9)	(54.3)	(107.9)
Unwinding of discounts in contract hire vehicle balances	(1.6)	(1.5)	(3.1)
Cash flow movement in contract hire vehicle balances	**(29.4)**	**(31.3)**	**(55.6)**

20 Change in inventories

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Movement in inventory	91.2	174.3	120.6
Inventory changes in business combinations and disposals	-	(0.4)	(2.9)
Impact of exchange differences	(0.4)	-	0.5
Non cash movement in consignment vehicles	14.7	(18.3)	7.7

Classified as held for sale	15.3	(12.0)	11.5
Transfer value of contract hire vehicles from fixed assets to inventory	20.7	27.3	49.3
Cash flow increase due to movements in inventory	**141.5**	**170.9**	**186.7**

21 Pension scheme obligations

The net liability for defined benefit obligations has increased from £59.0m at 31 December 2019 to £71.7m at 30 June 2020. The increase of £12.7m comprises a net interest expense of £0.6m recognised in the income statement, a net remeasurement loss of £14.7m and contributions paid of £2.6m. The net remeasurement loss has arisen in part due to changes in the principal assumptions used in the valuation of the scheme's liabilities over those used at 31 December 2019. The assumptions subject to change are the discount rate of 1.60% (31 Dec 2019: 2.05%), the inflation rate (RPI) of 2.90% (31 Dec 2019: 2.85%) and the inflation rate (CPI) of 2.35% (31 Dec 2019: 2.05%).

22 Related party transactions

There have been no new related party transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the Group during that period and there have been no changes in the related party transactions described in the last annual report that could do so.

23 Risks and uncertainties

The Board maintains a policy of continuous identification and review of risks which may cause our actual future Group results to differ materially from expected results.

The principal risks identified were: failure to adopt the right strategy or failure of our adopted strategy to be effectively implemented or to deliver the desired results, dependence on vehicle manufacturers for the success of our business, failure to meet competitive challenges to our business model or sector, European economic instability affecting the UK in particular impacting used vehicle prices, UK governmental spending constraints, impacts of international import tariffs on motor vehicles, changes to the type of vehicles sold (including the trend away from the purchase and use of diesel vehicles) or the amount of road use, availability of debt funding, funding requirements of the occupational pension scheme, significant litigation or regulator action against or otherwise impacting the Group, failure of systems, reliance on the use of estimates, failure to attract, develop, motivate and retain good quality team members, failure to provide safe working and retail environments, failure to control environmental hazards, failure to comply with the General Data Protection Regulation and the potential impacts associated with the UK's decision to leave the EU. With regard to the UK's decision to leave the EU, we believe that the main risk factors are consumer confidence, potential import tariffs on motor vehicles or regulatory barriers and the potential impact of Sterling/Euro exchange rates on vehicle prices. The increased risks to the Group associated with the Coronavirus pandemic are detailed in the Basis of Preparation note. The Risk Control Group has met to consider these risks and uncertainties and will continue to monitor how these risks evolve. The Board has recently reviewed the risk factors and confirms that they remain an appropriate assessment of our risks for the rest of the current year. The Board considers the main areas of risk and uncertainty that could impact profitability to be used vehicle prices and economic and business conditions, including the UK's decision to leave the EU and Sterling/Euro exchange rates.

24 Responsibility Statement

We confirm that to the best of our knowledge:

(a) The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union;

(b) The interim management report includes a fair review of the information required by:

(i) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(ii) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board,

W Berman

Chief Executive Officer

M S Willis

Chief Financial Officer

29 September 2020

INDEPENDENT REVIEW REPORT TO PENDRAGON PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

John Leech

for and on behalf of KPMG LLP

Chartered Accountants

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Snowhill Queensway

Birmingham

B4 6GH

29 September 2020