Pendragon PLC

FULL YEAR RESULTS FOR 31 DECEMBER 2021 (issued 23 March 2022)

Strong strategic progress contributes to record underlying PBT

- Record underlying profit before tax of £83.0m (FY20: £8.2m)
- New sales performance ahead of franchise average and Used sales ahead of market on a like-for-like basis
- Disciplined strategic delivery driving productivity improvements and stronger margins
- Cost base transformation, costs significantly lower than pre-pandemic levels

Bill Berman, Chief Executive Officer, said:

"We have delivered a really strong set of results, with positive contributions from all parts of our business. Late in 2020, we set out our new strategy to transform our operations and adapt to the fast-changing retail environment. Our focus since then has been on creating value through the delivery of this strategy and we are seeing the operational and financial benefits of this hard work in our results today.

"Our sector has experienced a unique set of trading conditions during the period and I am delighted with how we have performed in this environment. We have made the most of the favourable market dynamics to deliver record underlying profits and we have also reported a return to profit for CarStore, our relaunched, used car brand.

"We expect existing supply chain constraints to continue in the current year, and we are mindful of the potential for further disruption to new vehicle supply chains as a result of the conflict in Ukraine. Despite this, we have the right strategy in place and we expect to make positive progress towards our long-term goals this year."

Group Financial Highlights

	FY21 £m's	FY20 £m's	Total change %	Like-for-like[1] change %
Group Revenue	**3,449.9**	**2,924.6**	18.0%	27.1%
Underlying Profit before tax	**83.0**	**8.2**	912.2%	
Non-Underlying charge	**(9.7)**	**(37.8)**	-74.3%	
Profit / (Loss) after tax	**61.5**	**(24.7)**	n/a	
Adjusted Net Debt[2]	(49.7)	(100.4)	-50.5%	

[1] Like for like (LFL) results only include trading businesses which have comparative trading periods in two consecutive financial years. Reconciliations of the like for like figures to the total reported figures can see seen in Note 1 – Alternative Performance Measures.

[2] Adjusted Net Debt – All loans and borrowings less cash and cash equivalents less IFRS 16 lease liabilities less vehicle stocking loans.

Operating Highlights

- **Strong financial performance**
  - Increase in Group Revenue of 18.0% to £3,449.9m (FY20: £2,924.6m). Revenue up 27.1% on a like-for-like basis.
  - Record underlying profit before tax of £83.0m, up 912.2% from the previous year (FY20: £8.2m).
  - After non-underlying items the Group reported profit before tax of £73.3m (FY20: loss of £29.6m).
  - Cost restructuring resulted in Group underlying operating expenses £121.0m lower than pre-pandemic in FY19, whilst gross profit is down just £31.4m in the same period, driving higher profitability.
  - Adjusted net debt reduced by £50.7m to £49.7m, including the repayment of £28.9m of VAT deferred from FY20.
- **Disciplined strategic delivery**

- Strong progress with strategy to “transform automotive retail through digital innovation and operational excellence” with a large number of new initiatives delivered across the Group.
- Significant progress to unlock value in UK Motor, with material changes to digital capabilities and operational efficiency.
- Pinewood development powering Group’s digital capabilities.
- CarStore relaunched with new website, full omnichannel purchasing journey and a revised customer proposition.
- Appointment of experienced Non-Executive Chairman, Ian Filby.

Outlook

- Performance over the first two months of FY22 has been good, with underlying profit in January and February ahead of 2021. Supply constraints in both new and used cars have continued to support higher gross margins. Both new and used margins are expected to reduce during the course of 2022 from extraordinary levels achieved in 2021.
- The shortage of new cars is expected to continue during FY22. The Board are conscious of inflationary cost pressures in labour and utilities in particular, which combined with the impact of business rates reverting to full levels will result in higher costs in FY22. We are mindful of the further impact that the conflict in Ukraine may have on both supply and costs.
- We remain confident we have the right strategy in place and we expect to make positive progress towards our long-term goals this year, and expect to deliver underlying profitability before tax in line with the Board’s expectations.

Conference call and presentation

A presentation for sell-side analysts on Pendragon’s full-year results will be held at 9.00am today and this will be followed by a Q&A session with the management team. Should you wish to listen to a live broadcast of the presentation and Q&A, please contact pendragon@headlandconsultancy.com to request the conference call details.

A webcast replay of the presentation will be made available on Pendragon’s website later in the day. The webcast will be published on: https://www.pendragonplc.com/financial-information/announcements/

Contacts

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Divisional Operating Highlights

- **Franchised UK Motor**
  - Revenue grew by 23.1% to £3,191.2m (FY20: £2,591.8m). Revenue up 26.7% on a like-for-like basis.
  - Underlying operating profit up 363.8% to £85.8m (FY20: £18.5m).
  - Strong performance during H1, despite Q1 lock-down, with underlying operating profit of £37.6m (H120: loss of £18.1m), accelerating in H2 to £48.2m (H220: £36.6m).
  - Reported operating profit after non-underlying items of £81.3m (FY20: operating losses of £11.6m).
  - Increased gross margins in all areas.
    - Used margin of 9.7% (FY20: 8.6%).
    - New margin of 7.3% (FY20: 6.5%).
    - Aftersales margin of 50.7% (FY20: 49.1%).
  - Used vehicle gross profit per unit increased by £530 to £1,730 (FY20: £1,200).
  - New vehicle gross profit per unit increased by £463 to £1,911 (FY20: £1,448).
  - Pendragon new units sold down 2.1% on a like-for-like basis (down 4.3% total reported), against the market for represented brands down 3.5% and the total market as measured by SMMT up 1%.
  - Used unit volume up 13.1% on a like-for-like basis against a market up 11.7%.

- **Software - Pinewood**
  - Revenue grew by 9.4% to £24.4m (FY20: £22.3m).
  - Operating profit up 3.3% to £12.5m (FY20: £12.1m).
  - 24% increase in international users.
  - Continued investment in product developments to enable Group digital capabilities, deliver finance products online and facilitate digital payments.
  - Achieved accreditation as first certified Dealer Management System (DMS) by BMW UK, and second global Retail Integration Strategy (RIS) partner.

- **CarStore**
  - Revenue grew by 59.9% to £141.5m (FY20: £88.5m).
  - Full year underlying operating profit of £1.6m (FY20: Loss of £1.2m).
  - Reported operating profit, after non-underlying items, of £1.3m (FY20: operating losses of £1.3m).
  - First profitable full-year leaves CarStore well-positioned to deliver future growth ambitions.
  - Improvement in gross margins to 9.1% (FY20: 8.2%).
  - Gross profit per unit at £1,221 (FY20: £865).
  - New customer proposition and fully transactional website launched. Customers able to shop fully online with home delivery, in store or across channels: a complete omni-channel proposition.
  - Used unit volume up 26.0% on a like-for-like basis against a market up 11.7%.

- **Leasing – Pendragon Vehicle Management**
  - Revenue grew by 4.2% to £89.9m (FY20: £86.3m).
  - Operating profit up 31.6% to £17.5m (FY20 : £13.6m).
  - Growth in profit driven by higher profit on disposal of de-fleeted vehicles.

- **US Motor Group**
  - Disposal of final US Motor assets completed in FY21.
  - Total proceeds of £106.0m from the combined total of all US sites since 2018.

Financial Summary

Consolidated Income Statement **Year ended 31 December**	**2021** **£m**	**2020** **£m**	**Change (%)**
Revenue	3,449.9	2,924.6	18.0%
Cost of sales	(3,008.6)	(2,571.4)	17.0%
Gross profit	**441.3**	**353.2**	24.9%
Underlying operating expenses	(325.0)	(307.3)	5.8%
Underlying operating profit	**116.3**	**45.9**	153.4%
Underlying net finance costs	(33.3)	(37.7)	-11.7%
Underlying profit before taxation	**83.0**	**8.2**	912.2%
Non-underlying loss before taxation	(9.7)	(37.8)	-74.3%
Total income tax (expense) / credit	(11.8)	4.9	n/a
Total profit / (loss) for the period	**61.5**	**(24.7)**	n/a
Earnings per share			
Basic earnings per share	4.4p	(1.8)p	n/a
Diluted earnings per share	4.3p	(1.8)p	n/a
Non GAAP Measure			
Underlying basic earnings per share	5.0p	0.6p	733.3%
Underlying diluted earnings per share	4.9p	0.6p	716.7%

Segmental Performance

Units Sold	H1 2021	H2 2021	FY21	H1 2020	H2 2020	FY20	Change (%)	LFL Change (%)
Used Units								
CarStore	5,526	5,039	**10,565**	4,321	4,066	**8,387**	26.0%	26.0%
Franchised UK Motor	48,368	39,393	**87,761**	38,992	43,953	**82,945**	5.8%	13.1%
US Motor	51	-	**51**	275	258	**533**	-90.4%	-
	53,945	**44,432**	**98,377**	**43,588**	**48,277**	**91,865**	**7.1%**	**14.4%**
New Units								
Franchised UK Motor	30,067	22,218	**52,285**	21,659	32,981	**54,640**	-4.3%	-2.1%
US Motor	397	-	**397**	945	1,219	**2,164**	-81.7%	-
	30,464	**22,218**	**52,682**	**22,604**	**34,200**	**56,804**	**-7.3%**	**-2.1%**

£m	H1 2021	H2 2021	FY21	H1 2020	H2 2020	FY20	Change (%)	LFL Change (%)
Revenue								
Franchised UK Motor	1,673.8	1,517.4	**3,191.2**	1,067.1	1,524.7	**2,591.8**	23.1%	26.7%
Software	12.1	12.3	**24.4**	10.8	11.5	**22.3**	9.4%	9.4%
CarStore	66.0	75.5	**141.5**	43.1	45.4	**88.5**	59.9%	60.4%
Leasing	49.0	40.9	**89.9**	37.3	49.0	**86.3**	4.2%	4.2%
US Motor	28.3	0.3	**28.6**	68.5	89.4	**157.9**	-81.9%	-
Inter-segment revenue	(13.6)	(12.1)	**(25.7)**	(8.5)	(13.7)	**(22.2)**	15.8%	15.8%
	1,815.6	**1,634.3**	**3,449.9**	**1,218.3**	**1,706.3**	**2,924.6**	**18.0%**	**27.1%**
Gross Profit								
Franchised UK Motor	182.3	202.1	**384.4**	108.9	180.9	**289.8**	32.6%	35.4%
Software	11.2	11.3	**22.5**	9.9	10.6	**20.5**	9.8%	9.8%
CarStore	5.3	7.6	**12.9**	2.9	4.4	**7.3**	77.8%	75.4%
Leasing	10.5	11.5	**22.0**	6.7	10.9	**17.6**	25.0%	25.0%
US Motor	4.0	-	**4.0**	9.0	14.3	**23.3**	-82.8%	-
Inter-segment revenue	(2.1)	(2.4)	**(4.5)**	(2.1)	(3.2)	**(5.3)**	-15.1%	-15.1%

	211.2	**230.1**	**441.3**	**135.3**	**217.9**	**353.2**	**24.9%**	**35.0%**
Underlying Operating Profit								
Franchised UK Motor	37.6	48.2	**85.8**	(18.1)	36.6	**18.5**	363.8%	171.3%
Software	6.7	5.8	**12.5**	5.9	6.2	**12.1**	3.3%	3.3%
CarStore	0.3	1.3	**1.6**	(1.7)	0.5	**(1.2)**	n/a	n/a
Leasing	8.1	9.4	**17.5**	4.7	8.6	**13.3**	31.6%	31.6%
US Motor	(0.8)	(0.3)	**(1.1)**	(1.6)	4.8	**3.2**	n/a	n/a
	51.9	**64.4**	**116.3**	**(10.8)**	**56.7**	**45.9**	**153.4%**	**109.6%**
Gross Margin %	**11.6%**	**14.1%**	**12.8%**	**11.1%**	**12.8%**	**12.1%**	**0.7%**	**0.8%**
Underlying Operating Margin %	**2.9%**	**3.9%**	**3.4%**	**(0.9)%**	**3.3%**	**1.6%**	**1.8%**	**1.4%**
Operating Profit / (Loss)	**48.1**	**59.5**	**107.6**	**(31.2)**	**40.4**	**9.2**	**1,069.6%**	

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Chief Executive's Review

I am delighted with the performance across each of our business divisions during FY21, which resulted in record levels of Group underlying profit before tax. The excellent work that our teams have delivered to adapt our digital channels and effect changes to our proposition helped us accomplish a strong FY21 and position us well going forward.

Whilst challenges as a result of the Covid-19 pandemic remained prevalent in FY21, in particular the impact of the full lockdown for over 100 days at the start of the year, our digital capabilities meant we were able to trade with confidence despite the uncertainty. Our teams have put in significant efforts to continuously upgrade our digital capabilities throughout the year, capabilities that demonstrated the strength of an effective hybrid-channel offering allowing our associates to engage and transact with customers both physically and digitally and to ultimately be able to fulfil demand through a combination of full store experiences, home delivery options and click and collect.

We have worked hard to improve our digital capabilities, but it remains our belief, re-enforced with customer research and surveys that we conducted during the year, and evidenced by consumer behaviour post lock-downs, that around 90% of consumers want some form of physical interaction in their purchasing journey, whether this be in viewing, test-driving and inspecting the car or when they ultimately take ownership. Our focus therefore continues to be on providing our customers with a true omni-channel proposition across our business, developing our offering to allow seamless transition between physical and digital channels.

Group Strategy

Late in 2020 we launched our plan to "transform automotive retail through digital innovation and operational excellence". I am hugely encouraged with the progress we made during FY21, with a large number of new initiatives delivered in order to:

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

In the UK motor division, we successfully launched a number of new initiatives which are covered in more detail in the UK motor business review section of this report, but include significant enhancements to digital functionality such as online payments, new modules developed by Pinewood to improve consistency in our sales processes and improvements to our vehicle valuation tools to drive more efficient purchasing and higher purchase conversion rates. In addition, we introduced an enhanced range of used vehicle guarantee products, using data analytics to introduce new multi-price point products varying on vehicle age and mileage, developed self-service payment options for aftersales customers and reviewed our aftersales pricing. These initiatives, alongside supply dynamics, have underpinned our strong margin performance during FY21. In addition to delivering these changes, our team have identified a strong pipeline of initiatives that will be introduced in FY22.

Our software business has enabled many of the technology improvements required to deliver these initiatives, and remains a key advantage for the Group in order to facilitate and to maintain a high pace of change. Pinewood's product developments will also enable our future initiatives such as enhancements to our vehicle acquisition and management platform and will provide the technology for our revised used car proposition. Pinewood has also demonstrated its reputation as a leading DMS provider through its award of certified status with BMW, one of only two global partners to support BMW's retail integration strategy. Pinewood has also notably strengthened its partnership with Renault and achieved certification in the UK and Ireland. Pinewood remained focussed on its core objective to grow users, adding 24% to its international user base despite restrictive travel conditions.

Finally, we launched a re-branded CarStore proposition to the market late in 2021, with a refreshed brand identity and, as importantly, a new, fully transactional website, incorporating Pinewood's best in class functionality. These changes are supported by a new instore operating model. The result is a highly differentiated proposition which successfully blends physical and digital locations enabling customers with the flexibility to utilise both in-store and online channels as they choose. We also made good progress with the first of our new format stores, a conversion of our site in Chesterfield which, along with two new locations, will be completed in 2022. During 2022, we will develop our 'new' used car proposition further to maximise utilisation of the Group's inventory and physical sites.

Trading performance

All of the strategic improvements we have made aided us in maximising favourable market conditions, in particular during the second half of the year, to deliver a very strong trading performance. The new car market was heavily constrained by well publicised supply shortages but we outperformed the market in the brands we represent with unit volumes down 2.1% on a like-for-like basis compared to a represented franchises market down 3.5%, supported by excellent gross profit per unit ("GPU") performance of £1,911, up £463 year on year.

The used market benefited from the shortage in new cars, with demand driving up the price of used cars. Across UK Motor and CarStore combinedour used car revenue was up 43% compared to FY20 on a like-for-like basis. Volume was up 14.4% on a like-for-like basis, against a market up 11.7%. Our focus on initiatives designed to improve GPU, combined with the strong market dynamics resulted in combined used GPU of £1,673, up 39% vs FY20.

The changes we made to restructure our cost base and store estate during the latter part of FY20 underpinned our overall profitability in FY21. As a result of these changes we have reduced our underlying operating costs (adjusted to remove a combined impact of £12.2m from furlough, grants and rates relief) by approximately £110m compared to the same period in 2019 (down £121.0m reported), the last comparable period before the pandemic, whilst gross profit is down just £31.4m against FY19, despite the material reduction in the number of sites in the UK from 209 at the start of 2019 to 149 at the end of 2021 and the disposal of the US assets. I am confident that this revised cost structure positions us well for future profitability.

It was particularly pleasing to see the strong financial performance in Franchised UK Motor supported by solid performance in both our software and leasing businesses, both of which delivered increased operating profits . CarStore continued its trend of improvements, delivering its first full-year of operating profit. Finally, we successfully completed the sale of the remaining US assets, with total proceeds of £106m before tax now realised.

Overall, I am delighted with the progress we have made both strategically and operationally, which have resulted in record-breaking profitability, with the Group reporting underlying profit before tax of £83.0m and a reported profit before tax after non-underlying items of £73.3m.

Finally, I would like to extend my thanks to all of our associates who have performed exceptionally during the year. I am also delighted to welcome Ian Filby to our Board as the Company's new Non-Executive Chairman. Ian brings a wealth of digital retail expertise to our Board as well as being an experienced Chairman and NED.

Bill Berman
Chief Executive

23 March 2022

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
    - CarStore – Own brand, omni-channel 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. (Disposal completed H1 FY21)

Franchised UK Motor

£m	H1 2021	H2 2021	FY21	H1 2020	H2 2020	FY20	Change (%)
Used Revenue	£781.0m	£785.9m	**£1,566.9m**	£509.2m	£648.3m	**£1,157.5m**	35.4%
Aftersales Revenue	£131.1m	£130.8m	**£261.9m**	£97.7m	£128.6m	**£226.3m**	15.7%
New Revenue	£761.7m	£600.7m	**£1,362.4m**	£460.2m	£747.8m	**£1,208.0m**	12.8%
Total Revenue	**£1,673.8m**	**£1,517.4m**	**£3,191.2m**	**£1,067.1m**	**£1,524.7m**	**£2,591.8m**	**23.1%**
Used Gross Profit	£68.6m	£83.2m	**£151.8m**	£36.4m	£63.1m	**£99.5m**	52.6%
Aftersales Gross Profit	£65.0m	£67.7m	**£132.7m**	£45.3m	£65.9m	**£111.2m**	19.3%
New Gross Profit	£48.7m	£51.2m	**£99.9m**	£27.2m	£51.9m	**£79.1m**	26.3%
Total Gross Profit	**£182.3m**	**£202.1m**	**£384.4m**	**£108.9m**	**£180.9m**	**£289.8m**	**32.6%**
Gross margin rate	*10.9%*	*13.3%*	***12.0%***	*10.2%*	*11.9%*	***11.2%***	0.8%
Underlying Operating Expenses	£(144.7)m	£(153.9)m	**£(298.6)m**	£(127.0)m	£(144.3)m	**£(271.3)m**	10.0%
Underlying Operating Profit / (Loss)	**£37.6m**	**£48.2m**	**£85.8m**	**£(18.1)m**	**£36.6m**	**£18.5m**	**363.8%**
Underlying Operating margin rate	*2.2%*	*3.2%*	***2.7%***	*(1.7)%*	*2.4%*	***0.7%***	2.0%
Stocking Interest [1]	*£(4.7)m*	*£(4.6)m*	*£(9.3)m*	*£(7.4)m*	*£(5.3)m*	*£(12.7)m*	*-26.8%*
Profit / (Loss) after Stocking Interest	*£32.9m*	*£43.6m*	*£76.5m*	*£(25.5)m*	*£31.3m*	*£5.8m*	*1,219.0%*
Operating Profit / (Loss)	**£37.5m**	**£43.8m**	**£81.3m**	**£(32.0)m**	**£20.4m**	**£(11.6)m**	**n/a**
Total Revenue Change	56.9%	-0.5%	**23.1%**				
Like-for-like Revenue Change	64.1%	1.5%	**26.7%**				
Used Units Sold	48,368	39,393	**87,761**	38,992	43,953	**82,945**	5.8%
New Units Sold	30,067	22,218	**52,285**	21,659	32,981	**54,640**	-4.3%
Used GPU [2]	£1,418	£2,112	**£1,730**	£934	£1,437	**£1,200**	44.2%
New GPU [2]	£1,620	£2,304	**£1,911**	£1,256	£1,574	**£1,448**	32.0%
Number of Locations	141	140	**140**	160	144	**144**	-2.8%
Average Used Selling Price [3]	£14,357	£17,498	**£15,774**	£12,612	£13,723	**£13,224**	19.3%
Average New Selling Price [3]	£25,524	£26,549	**£25,976**	£21,764	£23,372	**£22,750**	14.2%

[1] Stocking interest. Whilst stocking interest is an interest expense and not part of operating profit, it is a cost directly related to the trading performance of both new and used cars. It is included as an alternative performance measure in the table above for information.

[2] GPU = Gross Profit per Unit. It is calculated as total New/Used GP divided by total New/Used retail units sold.

[3] 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).

The Franchised UK Motor business operated from 138 franchise points and two used cars only retail points which represent a range of volume and premium products offering both sales and service functions.

- Meaningful progress in respect of strategy to improve performance and unlock significant value in the Franchised UK Motor division.
- Introduced a number of new digital initiatives, underpinned by Pinewood, designed to enhance the customer journey across our range of brands and act as the foundation of our omni-channel model.
- Lean operating model, with further areas to drive efficiencies identified.

Strategy delivery – Unlock value in the franchised UK Motor division

The Group has made meaningful progress with its strategy 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

Whilst we fundamentally believe that there will always be a major role for bricks and mortar in vehicle purchasing, we expect that the changes in consumer habits towards the adoption of new digital channels, amplified by the Covid-19 pandemic will remain a major part of the customer journey. Following the rapid strengthening of our digital and home delivery capabilities we identified a number of initiatives to drive performance through digital innovation.

Through the course of 2021 we introduced a number of new digital initiatives designed to enhance the customer journey across our range of brands and underpin our omni-channel model. These improvements have been focussed on improving customer experience and accelerating data-led decision making in order to improve consistency. We introduced a new "Sales+" module, developed by Pinewood, that implemented a consistent digital and instore customer journey from first point of enquiry through to completion of the sale, added additional functionality including remote digital signatures, and automatically offers guarantee products matched to the specific vehicles being purchased, or automatically matched to the length of a finance contract.

We are increasingly using data to power the business and have improved both the technology and processes that we use to value vehicles acquired through part-exchange and through our "Sell-Your-Car" service, with a single, data led, valuation tool implemented that provides improved valuations and condition grading, as well as developing the Customer Relationship Management (CRM) to maximise initial valuation to appointment conversion.

During the year, we also introduced online payment functionality alongside the ability for customers to purchase ancillary insurance products online. Following this, we successfully launched real time, automated finance application and approval process online in both Evans Halshaw and CarStore, with Stratstone brands to follow, for customers who want to purchase the vehicle fully online with financing.

In addition to these delivered changes, we have made further progress in our ambitions to develop a Group-wide platform to power the appraisal, purchase, preparation and dynamic pricing of used vehicles, identifying our roadmap and trialling elements such as data led, automated and centralised pricing. Each of these improvements will drive our medium-term margin improvement targets and will benefit from further developments during FY22.

During FY22 we will also develop Sales+ capabilities further to streamline the digital journey to improve Finance & Insurance (F&I) conversion rates by enhancing the products presented to the customer.

Drive operational excellence and best practice

There is further opportunity for us to improve our operational practices, and drive efficiencies. We are developing focussed internal reporting, utilising Power BI tools, to provide insight into performance in areas such as vehicle preparation efficiency and sales force effectiveness. These improvements will also reduce costs, and improve profit margins. Our strategic review also identified a series of opportunities and initiatives to drive substantial improvements to aftersales gross margin.

During FY21 we built upon the developments to our used car guarantee propositions. We initially reviewed our products in Q3 FY20, introducing a new three-year used-car guarantee product to complement our existing one and two year products, based upon a single price point for all vehicles. Following the launch we saw good migration into the three year-product. In FY21, we introduced a new, tiered, pricing model with multiple price points based on vehicle age and mileage, utilising data analytics to set differential pricing rather than single price points. We expect this new pricing model to drive improved margins in our guarantee products.

In addition, we improved margin performance in vehicles sold via trade channels as a result of offering vehicles via online platforms rather than physical auctions, which also delivered a wider UK customer reach. We also completed an internal review and external benchmarking of our aftersales labour rates in the year resulting in an improvement to the charging rate within Evans Halshaw in particular. Finally we developed our processes to improve the conversion rate of repair work we identified as required when a customer's car is in a service centre, developed self-serve finance payment options for this work to improve the customer journey and reviewed our service adviser incentivisation to improve conversion rates, all of which underpinned the improvement to aftersales revenues and gross margin.

During FY22 we plan to make a number of further changes to the way we operate. Firstly, we will implement a programme to target process improvements to improve the speed and quality of used vehicle preparation. This will improve the time taken to prepare a newly acquired used car, bringing it to market faster thereby maximising returns. This will be supported by an enhanced digital presentation of the vehicle to customers. We will also make further improvements to our aftersales and service plan propositions.

Operate from a lean and efficient cost base

In 2020 we made significant changes to our store and regional operating teams in order to right-size the model and to embed the efficiency gains we delivered during the Covid-19 pandemic. These changes have contributed significantly to the performance during FY21. In addition, we transitioned from company provided cars to cash allowances and associated preferential offers for a number of our associates, and decentralised various customer enquiries to dealerships, reducing certain central costs. During FY21 we completed a Finance Transformation programme, centralising core finance processes into a central shared service centre, supported by investment into automation technologies in key processes such as payments, receipts and reporting. We invested into new finance business partnering capabilities to support the businesses growth objectives through high quality analytics.

Operating Review

Overall, FY21 was an exceptional year for the UK motor division, despite continued significant disruption from Covid-19 during the first quarter, with the mandatory physical closure of showrooms from 1 January through to 12 April. The Group was able to largely mitigate this disruption as a result of the significant adaptations made to the Group's omni-channel capabilities. In illustration of the rapid adaptation, a total of over 40,000 vehicles were delivered to customers across the Group through a combination of home delivery and customer collection in the first-quarter, whilst dealerships were physically closed.

Performance during the rest of FY21, particularly during the second half was very strong, driven firstly by the implementation of strategic initiatives and secondly the strength of market conditions. As we emerged from the lock-downs of both 2020 and Q1 2021, there were high levels of pent up demand for both new and used cars, which combined with well-publicised supply constraints in both new and used cars, resulted in significant increases in gross margins.

New Car volumes were down 2.1% on a like-for-like basis (total reported down 4.3%), outperforming a reduction of 3.5% across the franchises in which Pendragon operates but slightly below the total market growth up 1.0%. New units were up 43.1% during the first-half as strong demand was supported by existing new car inventory. As supply was disrupted as a result of micro-chip shortages impacting the OEM supply chains and as inventory was exhausted, sales in the second half were limited by supply, and were down by 31% vs last year. This supply disruption resulted in a focus on margin, with lower levels of vehicle discounting required and OEM's focussing on production of higher margin models. As a result, the gross profit per unit ("GPU") was £1,911, up 32% compared to FY20, with the second half being particularly strong at £2,304 per unit, up 46.3% compared to H2 FY20.

Used Car volumes also rebounded strongly compared to FY20, up 13.1% on a like-for-like basis, outperforming the wider market which grew by 11.7%. Changes delivered through our strategy to "unlock value in UK Motor", combined with well-publicised tailwinds in used car pricing, led to a GPU of £1,730 up 44.2% compared to FY20. Margin strengthened significantly during the second half, reaching £2,112 per unit.

Aftersales revenue also grew in the period, up by 18.9% on a like-for-like basis (total reported up 15.7%) with the growth reflecting both the disruption from partial opening only in H1 FY20 as well as further like-for-like growth in the second half of FY21. In addition, the continued impact of strategy-led productivity improvements made resulted in an improvement in the gross margin of 160bps to 50.7% (FY20: 49.1%).

Financial Review

Revenue increased by 23.1% to £3,191.2m in FY21 (26.7% on a like-for-like basis), for the reasons outlined above.

Gross profit grew by 32.6% to £384.4m in FY21 (35.4% on a like-for-like basis). The improvements in margin in both new and used GPU's, together with improved efficiency in aftersales resulted in gross profit growth out performing revenue growth materially.

Whilst underlying operating expenses grew by 10.0% compared to H1 FY20, this is a reflection of the level of furlough support received in FY20. The leaner operating model with reduced headcounts introduced in H2 FY20, combined with the reduced cost base following the closure of 15 stores in H2 FY20 have resulted in a reported cost base of £298.6m which is a material reduction to a comparable cost base of £358.6m in FY19, before the Covid-19 pandemic. This material improvement in the cost base, together with the higher level of gross profit, is reflected in the underlying operating profit of £85.8m.

The division recorded an underlying operating profit of £85.8m (FY20: £18.5m) and a reported operating profit after non-underlying items of £81.3m (FY20: loss of £11.6m).

Software

£m	H1 2021	H2 2021	FY21	H1 2020	H2 2020	FY20	Change (%)
Revenue	**£12.1m**	**£12.3m**	**£24.4m**	**£10.8m**	**£11.5m**	**£22.3m**	**9.4%**
Gross Profit	**£11.2m**	**£11.3m**	**£22.5m**	**£9.9m**	**£10.6m**	**£20.5m**	**9.8%**
Gross margin rate	*92.6%*	*91.9%*	*92.2%*	*91.7%*	*92.2%*	*91.9%*	*0.3%*
Operating Expenses	£(4.5)m	£(5.5)m	£(10.0)m	£(4.0)m	£(4.4)m	£(8.4)m	19.0%
Operating Profit	**£6.7m**	**£5.8m**	**£12.5m**	**£5.9m**	**£6.2m**	**£12.1m**	**3.3%**
Operating margin rate	*55.4%*	*47.2%*	*51.2%*	*54.6%*	*53.9%*	*54.3%*	*-3.1%*
Revenue Change	12.0%	7.0%	9.4%				

A more detailed breakdown of the Pinewood financials for FY21 can be seen below:

£m	Contribution from Pendragon	Contribution from external customers	**Pinewood PLC standalone result**	Share of Pendragon Group overheads	**Pinewood segment as reported in Pendragon Group accounts**
Revenue	£4.9m	£19.5m	**£24.4m**	-	**£24.4m**
Gross Profit	£4.4m	£18.1m	**£22.5m**	-	**£22.5m**
Operating Expenses	£(2.0)m	£(7.7)m	**£(9.7)m**	£(0.3)m	**£(10.0)m**
Operating Profit	**£2.4m**	**£10.4m**	**£12.8m**	**£(0.3)m**	**£12.5m**

- 90% of revenues are recurring.
- Strong international growth was driven by system installations in the Nordic markets.
- Strong OEM support through partnerships with BMW and Renault.

Strategy delivery – Grow and diversify Pinewood

As part of its Group strategy presentation, Pendragon announced its plan to ‘grow and diversify Pinewood’. This included the key objectives of:

- Growing the international user base by 80% and the total user base by 10%; and,
- Further product extension enabling turn-key digital automotive retail solutions.

In FY21 Pinewood continued to focus on both elements of the 'grow and diversify' strategy.

- Grow: expansion of the direct sales model in the Nordic markets has been supported by incorporation in Sweden and new market hires. New market launches were delivered in Vietnam and Mauritius. Further international growth is planned in FY22.

- Diversify: development of the core DMS product continues. New products designed to support digital automotive retail are being developed to initially benefit Pendragon and, in the longer term, the external customer base. Pinewood will also be a key enabler in the development of vehicle acquisition, management and pricing platforms and powering the new standalone used car brand's web capabilities.

Operating Review

Pinewood, a software business provides Software as a Service (“SaaS”) in the UK and in a number of countries worldwide.

The UK Dealer Management Systems (DMS) market for Franchised Motor Dealers is estimated to be worth over £100m. Three DMS providers dominate the UK market. The global DMS market which is highly fragmented, is estimated to be worth approximately £2.5bn, with over 50 different DMS providers within Europe alone.

Pinewood’s unique approach to the DMS market is characterised by:

- a single product capable of global deployment, which simplifies future developments to the system and reduces operating costs;
- a feature-rich cloud-based solution, with no need for costly third-party add-ons;
- focus on strong manufacturer partnerships and supporting dealer profitability; and
- commitment to using the latest technology to reshape motor retail.

Pinewood was an early adopter of the SaaS business model and has focused on developing recurring revenue streams. Today, around 90% of Pinewood’s revenues are on a recurring basis. Whilst Pendragon remains an important customer to Pinewood, as Pinewood has grown, Pendragon’s proportion of the Pinewood total user base has been diluted to c.17% with intra-group charging maintained at a competitive market rate.

During FY21, overall net user numbers (excluding Pendragon) increased by 2%. Across Pinewood’s international markets there was a 24% increase in user numbers. Strong international growth was driven by system installations in the Nordic markets, which was supported by overseas hiring and the creation of a new team employed by Pinewood Technologies Northern Europe AB, based in Sweden. International user numbers also saw double digit percentage growth in Pinewood’s Asian and African markets, with successful launches in two new countries: Vietnam and Mauritius.

In the UK market (excluding Pendragon) there was a small decrease in user numbers, driven largely by two exceptional customer exits, one following acquisition by a competitor and another within the HGV market moving to a specialist system. Despite the user reduction, overall UK DMS revenues increased by 9% (3% after adjusting for the Covid discount which benefited the FY20 base period).

During FY21 Pinewood accelerated its investment in the functionality of its DMS platform. This included the development of online sales capabilities and tools, as well as further improvements to platform architecture and security. These developments included the release of the newly developed Sales+ module, which has been designed to improve the efficiency and consistency of the sales process. This module was developed with Pendragon and initially implanted across that business. In addition, new capabilities were launched to support both digital document signing and remote online payments. Further, Pinewood developed tools to support customer sales journeys such as functionality for photo background removal to improve image presentation consistency and video sound enhancement to allow better online presentation of personalised vehicle videos. These new capabilities will be available as ancillary products for customers and are expected to contribute to revenue growth in FY22.

There has been good further progress in terms of OEM support in the UK and internationally, most notably with Pinewood’s DMS achieving UK certification as part of BMW's Retail Integration Strategy alongside a role as a global partner to lead further development. Pinewood has also notably strengthened its partnership with Renault and achieved certification in the UK and Ireland. Both these OEM certifications have driven enquiries for the system and Pinewood starts FY22 with a healthy sales pipeline.

Pinewood delivered a strong performance in FY21 as reflected in the increased user numbers and revenue growth. The performance was particularly pleasing given the context of continuing pandemic related uncertainty and the restrictions on international travel. Pinewood continues to ensure full continuity of its services and develop the DMS to assist its customers in the new retail environment.

Financial Review

Total revenues increased by 9.4% compared to FY20. UK DMS recurring revenues grew by 9% in total (2% after adjusting for the impact of the Covid-19 discount in FY20), whilst international recurring revenues grew by 43%. In addition to recurring revenue growth, DMS transactional charges and system training and implementation revenues increased by 21%, driven by lockdown restrictions easing.

Gross profit increased by 9.8% to £22.5m largely driven by higher revenues, together with a slight increase in gross margins.

Operating costs increased by £1.6m, or 19.0%, compared to FY20. This increase was driven by higher amortisation and development expenditure, due to ongoing increases in investment in the development of the DMS software asset. There was also an increase in expenditure on international operations, driven by the start-up of Pinewood Technologies Northern Europe AB. In the UK there was an increase in payroll costs largely due to the reversal of the prior year benefit from the Coronavirus Job Retention Scheme. Operational efficiencies led to a slight reduction in administrative, travel and office expenditures.

As a result of these movements, underlying operating profit was £12.5m, an increase of 3.3%. Reported operating profit after non-underlying items was £12.5m (FY20: £12.1m).

CarStore

£m	H1 2021	H2 2021	FY21	H1 2020	H2 2020	FY20	Change (%)
Revenue	£66.0m	£75.5m	**£141.5m**	£43.1m	£45.4m	**£88.5m**	59.9%
Gross Profit	£5.3m	£7.6m	**£12.9m**	£2.9m	£4.4m	**£7.3m**	76.7%
Gross margin rate	*8.0%*	*10.1%*	***9.1%***	*6.7%*	*9.7%*	***8.2%***	*0.9%*
Underlying Operating Expenses	£(5.0)m	£(6.3)m	**£(11.3)m**	£(4.6)m	£(3.9)m	**£(8.5)m**	32.9%
Underlying Operating Profit / (Loss)	**£0.3m**	**£1.3m**	**£1.6m**	**£(1.7)m**	**£0.5m**	**£(1.2)m**	**n/a**
Underlying Operating margin rate	*0.5%*	*1.7%*	***1.1%***	*(3.9)%*	*1.1%*	***(1.4)%***	*2.5%*
Stocking Interest [1]	*£(0.2)m*	*£(0.3)m*	*£(0.5)m*	*£(0.2)m*	*£(0.2)m*	*£(0.4)m*	*25.0%*
Profit after Stocking Interest	*£0.1m*	*£1.0m*	*£1.1m*	*£(1.9)m*	*£0.3m*	*£(1.6)m*	*n/a*
Operating Profit / (Loss)	**£0.3m**	**£1.0m**	**£1.3m**	**£(1.7)m**	**£0.4m**	**£(1.3)m**	**n/a**
Total Revenue Change	53.1%	66.3%	**59.9%**				
Like-for-like Revenue Change	54.2%	66.3%	**60.4%**				
Units Sold	5,526	5,039	**10,565**	4,321	4,066	**8,387**	26.0%
Used GPU [2]	£959	£1,508	**£1,221**	£671	£1,071	**£865**	41.2%
Number of Locations	9	9	**9**	11	9	**9**	-
Average Selling Price [3]	£10,522	£12,696	£11,559	£8,677	£9,913	**£9,278**	24.6%

[1] Stocking interest. Whilst stocking interest is an interest expense and not part of operating profit, it is a cost directly related to the trading performance of used cars. It is included as an alternative performance measure in the table above for information.

[2] GPU = Gross Profit per Unit. It is calculated as total Used GP divided by total Used retail units sold.

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

- Relaunched the brand with a highly differentiated proposition, focussed on seamlessly blending physical and digital locations.
- Successful launch of a new website, incorporating all of the new Group capabilities developed by Pinewood, including the ability to fully transact online, including real time financing options and part exchange capability.
- By 2025, we are targeting the development of eight further physical full-scale, stand-alone locations to provide greater choice for customers and drive meaningful market share.

Strategy delivery - Disrupt 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.

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

In FY21 we defined the vision for the rebranded proposition, determined the brand values, behaviours and promises. In addition, we completed comprehensive research to determine the revised brand name look and feel ahead of its launch in December 2021. Following this research, the Group decided to retain the CarStore brand name, which benefits from excellent brand recognition and high trust scores (Trustpilot score of 4.6), and support it with a new brand identity, logo and tone of voice and a new website providing a complete omnichannel purchasing journey.

Differentiate the value proposition

During 2021 we completed an evaluation of the CarStore value proposition and relaunched the brand with a highly differentiated proposition, focussed on seamlessly blending physical and digital locations giving customers the freedom to approach the process in the way that works best for them. Our research confirmed that 88% of consumers prefer some form of personal or physical contact in their purchasing journey, or at least the opportunity to have one.

Changes to the proposition include the successful launch of a new website, incorporating all of the new Group capabilities developed by Pinewood (as outlined in the UK Motor and Pinewood business reviews), including the ability to fully transact online, including real time financing options and part exchange capability. This online capability is supported by the physical stores, where the operating model has a new sales structure implemented to support revised hybrid, omnichannel purchasing journeys; all supported by a personal adviser as a single point of customer contact, allowing customers to start and end their journey in either physical or digital locations, seamlessly. Comprehensive training and a new brand behaviours programme have been rolled out to all associates to support them in this new approach. Customers are able to visit stores and test drive vehicles, or if they prefer have it delivered directly to home, supported by a 14 day money-back guarantee.

The used car strategy will evolve to incorporate further locations, initially in Evans Halshaw, with 10 Evans Halshaw sites already benefitting from the improved used car journey established during FY21. Ultimately, we believe our used car proposition will benefit from offering the breadth of our inventory and strength of our national network infrastructure. Further Evans Halshaw inventory will be added to the CarStore.com website during FY22.

Scale the physical estate

By 2025, we are targeting the development of eight further physical full-scale, stand-alone locations to provide greater choice for customers and drive meaningful market share. During FY21, we identified Chesterfield, an existing CarStore location as the first site to test the new physical proposition. Chesterfield is a purpose-built CarStore with currently unutilised land owned adjacent to the current footprint, providing the right potential to develop to the required scale, with space for approximately 450 vehicles. The existing customer facilities are currently being developed to represent the new brand proposition and the conversion work will be completed early in Q2 FY22.

During FY22 we expect to commence two further builds on land owned in Borehamwood and Warrington. In addition, we will initially add 10 new 'CarStore' direct locations. These small format stores will extend the geographic reach of the Group's 'Sell Your Car' locations and provide further collection points for CarStore customers.

Operating Review

During FY21 CarStore recorded an underlying operating profit of £1.6m compared to operating losses of £1.2m in FY20, delivering CarStore's first full year of underlying profitability.

CarStore performed well in FY21, with volume up 26% on a like-for-like basis against the overall used car market which was up 11.7%, supported by the strategic developments above. In addition to strategic benefits, the business benefitted from favourable tailwinds which increased the full-year average selling price by 25% year on year. As a result of these factors, the gross profit per unit improved by 41% to £1,221 (FY20: £865).

Financial Review

Revenue grew by 59.9% to £141.5m in the period (60.4% on a like-for-like basis). Enhanced digital propositions helped to mitigate the impact of lock-down during the first quarter. Overall, volumes were up 26.0% on a like-for-like basis, with revenue growth also supported by increased used car selling prices throughout the second-half.

Gross profit increased by 76.7% to £12.9m (74.3% on a like-for-like basis), as a result of the volume growth combined with the improved gross profit per unit of £1,221.

Operating costs increased by 33.7% from £8.5m to £11.3m with the increase in costs principally driven by the year on year reduction in support via the Coronavirus job retention scheme received in H1 FY20.

The underlying operating profit for CarStore was £1.6m (FY20: loss of £1.2m) and the reported operating profit after non-underlying items was £1.3m (FY20: loss of £1.3m).

Leasing

£m	H1 2021	H2 2021	FY21	H1 2020	H2 2020	FY20	Change (%)
Revenue	£49.0m	£40.9m	**£89.9m**	£37.3m	£49.0m	**£86.3m**	4.2%
Gross Profit	£10.5m	£11.5m	**£22.0m**	£6.7m	£10.9m	**£17.6m**	25.0%
Gross margin rate	*21.4%*	*28.1%*	***24.5%***	*18.0%*	*22.2%*	***20.4%***	*4.1%*
Operating Expenses	£(2.4)m	£(2.1)m	**£(4.5)m**	£(2.0)m	£(2.3)m	**£(4.3)m**	4.7%
Operating Profit	**£8.1m**	**£9.4m**	**£17.5m**	**£4.7m**	**£8.6m**	**£13.3m**	**31.6%**
Operating margin rate	*16.5%*	*23.0%*	***19.5%***	*12.6%*	*17.6%*	***15.4%***	*4.1%*
Revenue Change	31.4%	-16.5%	**4.2%**				

Operating Review

Pendragon Vehicle Management (PVM), a vehicle leasing business offers a complete range of fleet leasing and contract hire solutions. Its customers represent all business sectors with varied fleet sizes. The fleet of vehicles is financed through third party asset funders which results in a high return on capital.

PVM delivered a strong financial performance in FY21 with operating profit growth of 31.6%. This growth was principally driven by the exceptional profit per unit on de-fleeted vehicles, which were up by 55% year on year, as a result of increased used vehicle prices compared to residual values set on historical contracts. Overall, the fleet size declined during FY21 by approximately 15%, with the ability to transact new customers constrained by the availability of new vehicles. PVM has a strong pipeline of customers and expects to reverse this reduction as new car supply eases.

PVM's fleet is experiencing a rapid change in the powertrains being requested by customers as the corporate sector seek to improve their green footprint whilst providing their associates with reduced levels of Company Car Benefit in Kind Taxation.

Financial Review

Revenue increased by 4.2%, with growth largely resulting from increased turnover on disposals. Gross profit increased by 25.0% and with operating expenses growing by 4.7%. As a result of these movements, operating profit increased by 31.6% to £17.5m (FY20: £13.3m).

US Motor

£m	FY21	FY20	Change (%)
Used Revenue	£3.0m	**£22.0m**	-86.4%
Aftersales Revenue	£2.8m	**£17.3m**	-83.8%
New Revenue	£22.8m	**£118.6m**	-80.8%
Total Revenue	**£28.6m**	**£157.9m**	**-81.9%**
Used Gross Profit	£0.2m	**£1.7m**	-88.2%
Aftersales Gross Profit	£1.6m	**£9.1m**	-82.4%
New Gross Profit	£2.2m	**£12.5m**	-82.4%
Total Gross Profit	**£4.0m**	**£23.3m**	**-82.8%**
Gross margin rate	*14.0%*	***14.8%***	*-0.8%*
Underlying Operating Expenses	£(5.1)m	**£(20.1)m**	-74.6%
Underlying Operating (Loss) / Profit	**£(1.1)m**	**£3.2m**	**n/a**
Underlying Operating margin rate	***-3.8%***	***2.0%***	*-5.8%*
Operating Loss	**£(5.0)m**	**£(3.3)m**	51.5%

Operating Review

The revenue and gross profit performance is principally driven by the final months of trading in the two remaining US Motor Group locations until their disposal during the first half of FY21, which together with low levels of ongoing operational costs associated with the winding up of US operations, resulted in an underlying operating loss of £1.1m (FY20: profit of £3.2m and a reported operating loss after non-underlying items of £5.0m (FY20: loss of £3.3m).

The remaining disposals were both completed during FY21, with Santa Monica completed on the 29 March 2021 for consideration of £10.8m and Los Angeles completed on 29 January 2021 for consideration of £16.3m.

Total cumulative proceeds since the first sale in 2018 of £106.0m have been received for the disposal of the US Motor Group, against a target objective of £100m.

Ongoing operating expenses to support the full-wind up of US activities of approximately £1.5m are expected during FY22.

Industry Insight

Used Car Market

We believe the UK is the most attractive used car market globally, with a ratio of over three used cars sold for every one new. The used car market in FY21 in the UK was 7.2m units, an increase of 11.7% against 2020. 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. The used market is more stable than the new 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 risen marginally to 35.1m vehicles at FY21, a rise of 0.4% on the prior year. The car parc can also be segmented into markets representing different age groups. At the end of FY21, around 15% of the car parc was represented by less than three-year-old cars, around 20% by four to six-year-old cars and 65% 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.

New Car Market

The UK new car market which comprised 1.65m vehicles in FY21, representing an increase of 1.0% over the prior year, 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 49% 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 51% of the market in the year.

UK New Car Registrations '000	2021	2020	Change (%)
Total UK Registrations	**1,647.2**	**1,631.1**	**1.0%**
Group Represented* Registrations	**925.1**	**959.1**	**-3.5%**

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

Underlying Net Financing Costs

	2021	2020	Change (%)
Interest payable on bank borrowings, senior note and loan notes	£(9.1)m	£(8.0)m	13.8%
Vehicle stocking plan interest	£(9.8)m	£(13.6)m	-27.9%
Net lease interest	£(11.7)m	£(13.0)m	-10.0%
Unwinding of discounts in contract hire residual values	£(2.7)m	£(3.1)m	-12.9%
Total Underlying Net Financing Costs	**£(33.3)m**	**£(37.7)m**	**-11.7%**

Underlying net financing costs reduced by £4.4m to £33.3m, principally driven by a reduction of £3.8m in vehicle stocking plan interest as a result of lower inventories. The increase in interest payable on bank borrowings was driven by an increase in the interest rate of the revolving credit facility to 6.00% agreed as part of the extension of the facility earlier in 2021, together with amortisation of arrangement fees, partially offset by lower average utilisation during the period.

Non-underlying Items

	H1 2021 £m	H2 2021 £m	**2021 £m**	**2020 £m**
Impairment of goodwill, property, assets held for sale and right of use assets	(5.4)	(4.2)	(9.6)	(16.5)
Termination and severance costs	(0.9)	(0.9)	(1.8)	(6.3)
Gains / (losses) on the sale of businesses and property, plant and equipment	2.4	0.3	2.7	(6.8)
Business closure costs	0.1	(0.1)	-	(2.8)
Pension costs	(0.5)	(0.5)	(1.0)	(5.4)
Total non-underlying items before tax	**(4.3)**	**(5.4)**	**(9.7)**	**(37.8)**
Non-underlying items in tax	0.8	1.4	2.2	4.1
Total non-underlying items after tax	**(3.5)**	**(4.0)**	**(7.5)**	**(33.7)**

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 £9.7m of pre-tax non-underlying items against a charge of £37.8m in FY20. The current year charge includes non-cash impairments of property right of use assets amounting to £9.6m. These charges include a £5.0m impairment of assets relating to US leases retained on disposal of the remaining businesses and a charge of £4.6m for the impairment of vacant UK leasehold property assets.

Pension costs of £1.0m reflect the interest charge on pension scheme obligations.

The Group recorded profits on the sale of properties, plant and equipment and businesses in the period of £2.7m, arising from a combination of profits on disposal of the remaining US businesses of £0.7m, a net £2.0m profit on the disposal of surplus UK property during the year.

There were termination and severance costs of £1.8m in FY21 of which £1.3m relates to the transfer of Finance process from dealerships to a centralised shared service centre as outlined part of the Finance Transformation in the UK motor business review. The remaining £0.5m is driven by a combination of a small number of further redundancy payments, relocation costs and Director recruitment fees relating to the search for the Group's Non-Executive Chairman.

Capital Allocation

Adjusted Net debt* has reduced by £50.7m from £100.4m at 31 December 2020 to £49.7m at 31 December 2021. This reduction includes the repayment of deferred VAT amounting to £28.9m within the year. The adjusted net debt to underlying EBITDA ratio* was 0.3x for the rolling 12 months to FY21. The adjusted net debt to underlying EBITDA ratio has moved from 0.8x at FY20 principally as a result of the strong trading performance in the year, combined with the disposal proceeds from the sale of the remaining US assets received early in 2021. Overall, since the process began in 2018, the Group has received total proceeds of £106.0m, before tax for the disposal of its US dealership assets.

* This is an Alternative Performance Measure (APM), see page below for more detail.

Cash Flow

The following table summarises the cash flows and adjusted net debt of the Group for the twelve-month periods ended 31 December 2021 and 31 December 2020 as follows:

£m	**2021**	**2020**
Underlying Operating Profit	**116.3**	**45.9**
Depreciation and Amortisation	36.1	43.7
Share Based Payments	2.9	1.2

Non-underlying Items	(1.8)	(10.1)
Contribution into defined benefit pension scheme	(12.8)	(12.5)
Working Capital and Contract Hire Vehicle Movements[1]	(41.2)	(0.7)
Cash Generated from Operations	**99.5**	**67.5**
Capital Expenditure	(17.7)	(23.6)
Fixed Asset Vehicles Net Movement	-	4.9
Business and Property Disposals	31.7	36.7
Net Capital Income[2]	**14.0**	**18.0**
Tax Paid	(7.1)	(4.4)
Interest Paid excluding lease interest[3]	(17.5)	(20.5)
Lease Payments & Receipts[4]	(36.7)	(39.8)
Other	(1.5)	(1.5)
Decrease in Adjusted Net Debt	**50.7**	**19.3**
Opening Adjusted Net Debt	100.4	119.7
Closing Adjusted Net Debt	**49.7**	**100.4**

[1]being the change in trade and other receivables, change in trade and other payables, change in stocking loans and movement in contract hire vehicle balances.

[2]being the proceeds from sale of businesses, purchase of property, plant, equipment and intangible assets and proceeds from sale of property, plant, equipment and intangible assets.

[3] being bank and stocking interest paid.

[4]being receipts of lease receivables and payment of lease liabilities including lease interest paid and received.

Reconciliation to Consolidated Cash Flow Statement

£m	**2021**	**2020**
Net cash from operating activities	**63.2**	**29.6**
Net capital income	14.0	18.0
Receipt of lease receivables	2.2	1.9
Net cash from investing activities	**16.2**	**19.9**
Financing cash flows as included above:		
Payment of lease liabilities	(27.2)	(28.7)
Financing cash flows not included above relating to loans:		
Repayment of loans	(88.8)	(40.0)
Proceeds from issue of loans (net of directly attributable transaction costs)	18.7	18.2
Net cash outflow from financing activities	**(97.3)**	**(50.5)**

The cash generated from operations was an inflow of £99.5m in FY21 compared to an inflow of £67.5m in FY20 with an increase in underlying operating profit of £70.4m to £116.3m (FY20: £45.9m) with the year on year growth driven by a combination of a very strong trading period and the comparative period last year being impacted by the more severe impact of the first national lock-down in the first half of FY20. In addition to the improvement in underlying operating profit, there was also a significant reduction in cash non-underlying items, falling to £1.8m in FY21 compared to £10.1m in FY20.

These improvements were partially offset by a working capital outflow of £41.2m (FY20: £0.7m) which was driven by combination of the payment of VAT deferred from 2020 under the Covid-19 government support scheme amounting to £28.9m, an out flow of approximately £17m following the reduction in new car inventory and the associated loss of VAT timing benefits, and an approximate £17m outflow relating to increased cash funding of used vehicles as a result of an approximate 40% increase in used car valuations over FY21. These outflows were partially offset by approximately £20m of inflows, driven by a combination of factors including; higher levels of customer deposits; inflows relating to lower levels of manufacturer bonus and finance income debt and; a winding down in US debtors following the disposal of the remaining businesses.

The net capital income of £14.0m (FY20: £18.0m) was principally driven by £31.7m cash received from business and property disposals, comprising of £16.3m from the disposal of Los Angeles, £10.8m from the disposal of Santa Monica and £4.6m from the disposal of other excess property. Capital expenditure of £17.7m remained at a lower level as we continued to exercise caution as the risk of disruption from Covid remained prevalent. In addition, a number of major projects that were expected to be completed in the second-half of FY21 were impacted by supply constraints and will complete in FY22.

Lease payments and receipts were £3.1m lower year on year at £36.7m. The impacts of annual rent increases were more than offset by reductions from re-assignment, sublet or expiry of a total of 12 leases of vacant stores, a small number of compounds and other properties in the UK completed in FY21, and which will result in an annual equivalent rent reduction of c.£2.0m, together with the full-year impact of the 15 lease exits completed during FY20 and a reduction relating to the disposal of US leases. The Group continues to focus on the management of its vacant leasehold property portfolio and expects to make further progress with the exit of a number of these leases in FY22.

With effect from March 2021 in respect of light commercial vehicles, and with effect from June 2021 in respect of passenger vehicles, the way in which the Group acquires vehicles from Ford changed. From these two respective dates, the Group became the importer of Ford vehicles into the UK, rather than acquiring the vehicles from Ford UK. This has led to changes in both the amounts ultimately payable to Ford for vehicles (the liabilities due to Ford shall be lower because no VAT will be charged) and the removal of VAT recovery in respect of the acquisition of vehicles. Taking into account the revised expectation of new car supply, the resulting change in monthly cashflows over the course of a year is estimated in the range of -£1m to -£21m, dependant on the month, although the impact on the Group’s peak borrowing is not expected to be significant. As at 31 December 2021, the impact increased adjusted net debt by approximately £1.6m, which was lower than originally expected due to lower stock levels than originally anticipated.

Balance sheet

The following table summarises the balance sheet of the Group at 31 December 2021 and 31 December 2020.

Balance Sheet	**Dec-21**	**Dec-20**
Property	217.6	222.8
Plant & Equipment	24.2	46.6
Goodwill	150.3	150.3
Intangible Assets	11.1	10.2
Right of Use Assets – property	126.5	146.0
Contract hire vehicle assets	131.2	157.4
Inventories	512.8	608.8
Receivables[1]	118.9	113.2
Net Assets Held as for Sale[2]	10.4	31.7
Net Tax Balance[4]	26.6	37.8
Total Assets	**1,329.6**	**1,524.8**
Payables[3]	(689.1)	(829.3)
Lease Liabilities	(222.1)	(243.2)
Contract hire vehicle liabilities	(119.5)	(149.7)
Retirement Benefit Obligations	(23.6)	(75.5)
Adjusted Net Debt[5]	(49.7)	(100.4)
Total Liabilities	**(1,104.0)**	**(1,398.1)**
Shareholders' Funds	**225.6**	**126.7**

1 being trade and other receivables and finance lease receivables

2 being assets classified as held for sale and liabilities directly associated with assets held for sale

3 being trade and other payables less contract hire vehicle liabilities

4 being deferred tax assets, current tax assets and current tax payable

5 being cash and cash equivalents and interest bearing loans and borrowings

Net assets have increased from £126.7m at 31 December 2020 to £225.6m at 31 December 2021.

At 31 December 2021, the Group had £217.6m (£344.1m including IFRS16 right of use assets) of land and property assets (31 December 2020: £222.8m (£368.8m including IFRS16 right of use assets)). The reduction in property principally reflects the disposal of excess property together with depreciation, partially offset by capital investments.

The movement in plant and equipment is largely driven by a combination of ongoing depreciation, which is impacted by a lower level of capital expenditure, together with a transfer of vehicle fixed assets to inventory. Previously included within plant & equipment were cars used as employee cars and as service loan vehicles amounting to approximately £19m. These vehicles are turned several times during the year and are made available for sale either immediately or not long after purchase as part of the Groups normal business activities. Considering the short life span of these assets it was decided that as at 1 January 2021 those vehicles would be reclassified as inventory to better reflect their current asset nature.

Stock has reduced by £95.9m to £512.8m (31 December 2020: £608.8m), which is largely as a result of a reduction of c.£210m in new car inventory driven by manufacturing shortfalls resulting from the well-publicised chip shortages. This reduction has been partially offset by an increase in used vehicle inventory of approximately £110m driven by an increase in the average value of used cars in stock, which have appreciated by c.40% compared to FY20 combined with the transfer of cars from fixed assets to inventory of £18.9m as outlined above, partially offset by a lower level of demonstrator vehicles.

Net assets held as for sale have reduced by £21.3m to £10.4m, principally driven by the completion of the disposal of the remaining US assets early in 2021.

The reduction in payables of £140.2m to £689.1m (31 December 2020: £829.3m) principally relates to the lower vehicle creditors as a result of the reduction in vehicle inventory together with a reduction in the VAT creditor driven by the repayment of £28.9m of deferred VAT.

The net liability for defined benefit pension scheme obligations has decreased from £75.5m at FY20 to £23.6m at FY21. The decrease of £51.9m comprises of contributions of £12.8m, a net interest expense recognised in the income statement of £1.0m and a net actuarial gain of £40.1m. The net actuarial gain has arisen due in part to changes in the principal assumptions used in the valuation of the scheme's assets and liabilities and also the change in value of the assets held over the year. The Group contributed £12.8m to the Pension Scheme in the period in line with the Group's commitment as agreed in the triennial actuarial valuation of the company's pension scheme as at 31 December 2018.

Dividend

The Group is not proposing a final dividend for 2021.

Revolving Credit Facility (RCF)

In March 2022 the Group refinanced its £175m RCF and £60m Private Placement, both of which were due to mature in March 2023. The new facilities comprise a 5 year, amortising, £100m Term Loan, maturing March 2027, with the Group's existing Private Placement lender plus a new lender, and a £75m 3+1+1 RCF with the Group's existing bankers, maturing March 2025, with extensions available at the election of lenders to March 2026 and then March 2027.

Detailed Financials

Consolidated Income Statement Year ended 31 December 2021	Continuing operations £m	Discontinued operations * £m	2021 £m	Continuing operations £m	Discontinued operations * £m	2020 £m
Revenue	3,421.3	28.6	3,449.9	2,766.7	157.9	2,924.6
Cost of sales	(2,984.0)	(24.6)	(3,008.6)	(2,436.8)	(134.6)	(2,571.4)
Gross profit	**437.3**	**4.0**	**441.3**	**329.9**	**23.3**	**353.2**
Operating expenses	(326.5)	(9.9)	(336.4)	(317.1)	(20.1)	(337.2)
Operating profit/(loss) before other income	**110.8**	**(5.9)**	**104.9**	**12.8**	**3.2**	**16.0**
Other income - gains /(losses) on the sale of businesses and property, plant and equipment	1.8	0.9	2.7	(0.3)	(6.5)	(6.8)
Operating profit/(loss)	**112.6**	**(5.0)**	**107.6**	**12.5**	**(3.3)**	**9.2**
Analysed as						
Underlying operating profit	117.4	(1.1)	116.3	42.7	3.2	45.9
Non-underlying operating (loss)/profit **	(4.8)	(3.9)	(8.7)	(30.2)	(6.5)	(36.7)
Finance expense	(34.9)	(0.3)	(35.2)	(39.0)	(0.8)	(39.8)
Finance income	0.9	-	0.9	1.0	-	1.0
Net finance costs	(34.0)	(0.3)	(34.3)	(38.0)	(0.8)	(38.8)
Analysed as						
Underlying net finance costs	(33.0)	(0.3)	(33.3)	(36.9)	(0.8)	(37.7)
Non-underlying net finance costs **	(1.0)	-	(1.0)	(1.1)	-	(1.1)
Profit/(loss) before taxation	**78.6**	**(5.3)**	**73.3**	**(25.5)**	**(4.1)**	**(29.6)**
Analysed as						
Underlying profit before taxation	84.4	(1.4)	83.0	5.8	2.4	8.2
Non-underlying (loss) before taxation **	(5.8)	(3.9)	(9.7)	(31.3)	(6.5)	(37.8)
Income tax (expense)/credit	(13.1)	1.3	(11.8)	3.9	1.0	4.9
Profit/(loss) for the year	**65.5**	**(4.0)**	**61.5**	**(21.6)**	**(3.1)**	**(24.7)**

Analysed as						
Underlying profit/(loss) for the year	70.0	(1.0)	69.0	6.0	3.0	9.0
Non-underlying (loss)/profit for the year **	(4.5)	(3.0)	(7.5)	(27.6)	(6.1)	(33.7)
Earnings per share						
Basic earnings per share	4.7p	(0.3)p	4.4p	(1.6p)	(0.2p)	(1.8p)
Diluted earnings per share	4.6p	(0.3)p	4.3p	(1.6p)	(0.2p)	(1.8p)
Non-GAAP Measure						
Underlying basic earnings per share	4.9p	0.1p	5.0p	(0.3p)	0.9p	0.6p
Underlying diluted earnings per share	4.8p	0.1p	4.9p	(0.3p)	0.9p	0.6p

* The discontinued operations are in respect of the Group's US business which prior to disposal was classified as held for sale.

** Non-underlying, see note 2 for explanation.

Consolidated Statement of Comprehensive Income **Year ended 31 December 2021**	**2021** **£m**	**2020** **£m**
Profit/(loss) for the year	**61.5**	**(24.7)**
Other comprehensive income		
Items that will never be reclassified to profit and loss:		
Defined benefit plan remeasurement gains and (losses)	**40.1**	**(24.6)**
Income tax relating to defined benefit plan remeasurement gains and (losses)	**(6.9)**	**5.7**
	33.2	**(18.9)**
Items that are or may be reclassified to profit and loss:		
Foreign currency translation differences of foreign operations	-	-
Other comprehensive income for the year, net of tax	**33.2**	**(18.9)**
Total comprehensive income for the year	**94.7**	**(43.6)**
Total comprehensive income for the period attributable to equity shareholders of the company arises from:		
Continuing operations	**98.7**	**(40.5)**
Discontinued operations	**(4.0)**	**(3.1)**
	94.7	**(43.6)**

Consolidated Statement of Changes in Equity Year ended 31 December 2021	**Share Capital** **£m**	**Share Premium** **£m**	**Other Reserves** **£m**	**Translation Differences** **£m**	**Retained Earnings** **£m**	**Total** **£m**
Balance at 1 January 2021	**69.9**	**56.8**	**18.2**	**(1.0)**	**(17.2)**	**126.7**
Total comprehensive income for 2021						
Profit for the year	-	-	-	-	61.5	61.5
Translation differences taken to profit and loss on termination of operation	-	-	-	1.0	-	1.0
Other comprehensive income for the year, net of tax	-	-	-	-	33.2	33.2
Total comprehensive income for the year	**-**	**-**	**-**	**1.0**	**94.7**	**95.7**
Share based payments	-	-	-	-	2.9	2.9
Income tax relating to share based payments	-	-	-	-	0.3	0.3
Balance at 31 December 2021	**69.9**	**56.8**	**18.2**	**-**	**80.7**	**225.6**
Balance at 1 January 2020	**69.9**	**56.8**	**18.2**	**(1.0)**	**25.0**	**168.9**
Total comprehensive income for 2020						
Loss for the year	-	-	-	-	(24.7)	(24.7)
Other comprehensive income for the year, net of tax	-	-	-	-	(18.9)	(18.9)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(43.6)**	**(43.6)**
Share based payments	-	-	-	-	1.2	1.2
Income tax relating to share based payments	-	-	-	-	0.2	0.2
Balance at 31 December 2020	**69.9**	**56.8**	**18.2**	**(1.0)**	**(17.2)**	**126.7**

Consolidated Balance Sheet **At 31 December 2021**	**2021** **£m**	**2020** **£m**
Non-current assets		
Property, plant and equipment	499.5	572.8
Goodwill	150.3	150.3
Other intangible assets	11.1	10.2
Finance lease receivables	15.5	16.6
Deferred tax assets	22.1	36.4
Total non-current assets	**698.5**	**786.3**
Current assets		
Inventories	512.8	608.8
Trade and other receivables	101.3	94.6
Finance lease receivables	2.1	2.0
Current tax assets	4.5	1.4
Cash and cash equivalents	37.6	56.0
Assets classified as held for sale	10.4	99.0
Total current assets	**668.7**	**861.8**
Total assets	**1,367.2**	**1,648.1**
Current liabilities		
Lease liabilities	(26.7)	(24.5)
Trade and other payables	(692.7)	(834.9)
Deferred income	(37.2)	(42.9)
Liabilities directly associated with the assets held for sale	-	(67.3)
Total current liabilities	**(756.6)**	**(969.6)**
Non-current liabilities		
Interest bearing loans and borrowings	(87.3)	(156.4)
Lease liabilities	(195.4)	(218.7)
Trade and other payables	(41.9)	(60.4)

Deferred income	(36.8)	(40.8)
Retirement benefit obligations	(23.6)	(75.5)
Total non-current liabilities	**(385.0)**	**(551.8)**
Total liabilities	**(1,141.6)**	**(1,521.4)**
Net assets	**225.6**	**126.7**
Capital and reserves		
Called up share capital	69.9	69.9
Share premium account	56.8	56.8
Capital redemption reserve	5.6	5.6
Other reserves	12.6	12.6
Translation reserve	-	(1.0)
Retained earnings	80.7	(17.2)
Total equity attributable to equity shareholders of the Company	**225.6**	**126.7**

Consolidated Cash Flow Statement **Year ended 31 December 2021**	**2021** **£m**	**2020** **£m**
Cash flows from operating activities		
Profit/(loss) for the year	61.5	(24.7)
Adjustment for taxation	11.8	(4.9)
Adjustment for net financing expense	34.3	38.8
	107.6	**9.2**
Depreciation and amortisation	36.1	43.7
Share based payments	2.9	1.2
Pension past service costs	-	3.3
(Profit)/loss on sale of businesses and property, plant and equipment	(2.7)	6.8
Impairment of goodwill	-	12.5
Impairment of assets held for sale	-	0.8
Impairment of property, plant and equipment	9.6	3.2
Retirement benefit obligations	(12.8)	(12.5)
Changes in inventories	107.8	294.8
Changes in trade and other receivables	(1.1)	23.4

Changes in trade and other payables	(111.1)	(267.6)
Movement in contract hire vehicle balances	(36.8)	(51.3)
Cash generated from operations	**99.5**	**67.5**
Taxation paid	(7.1)	(4.4)
Bank and stocking interest paid	(17.5)	(20.5)
Lease interest paid	(12.6)	(14.0)
Finance lease interest received	0.9	1.0
Net cash from operating activities	**63.2**	**29.6**
Cash flows from investing activities		
Proceeds from sale of businesses	27.2	16.6
Purchase of property, plant, equipment and intangible assets	(18.6)	(60.2)
Proceeds from sale of property, plant, equipment and intangible assets	5.4	61.6
Receipt of lease receivables	2.2	1.9
Net cash from in investing activities	**16.2**	**19.9**
Cash flows from financing activities		
Payment of lease liabilities	(27.2)	(28.7)
Repayment of loans	(88.8)	(40.0)
Proceeds from issue of loans (net of directly attributable transaction costs)	18.7	18.2
Net cash outflow from financing activities	**(97.3)**	**(50.5)**
Net decrease in cash and cash equivalents	**(17.9)**	**(1.0)**
Cash and cash equivalents at 1 January	**56.0**	**55.7**
Effects of exchange rate changes on cash held	(0.5)	1.3
Cash and cash equivalents at 31 December	**37.6**	**56.0**

Reconciliation of net cash flow to movement in adjusted net debt **Year ended 31 December 2021**	**2021** **£m**	**2020** **£m**
Net decrease in cash and cash equivalents	(17.9)	(1.0)
Repayment of loans	88.8	40.0
Proceeds from issue of loans	(18.7)	(18.2)
Non-cash movements	(1.5)	(1.5)
Decrease in adjusted net debt in the year	**50.7**	**19.3**

Opening adjusted net debt	**(100.4)**	**(119.7)**
Closing adjusted net debt	**(49.7)**	**(100.4)**

Note: The reconciliation of net cash flow to movement in adjusted 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

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Pendragon PLC transitioned to UK adopted International Accounting Standards ("Adopted IFRSs"), on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The Group summary financial statements have been prepared and approved by the directors in accordance with international accounting standards being the International Financial Reporting Standards as adopted by the UK.

The summary financial statements are presented in millions of UK pounds, rounded to the nearest £0.1m. They have been prepared under the historical cost convention except for certain financial instruments which are stated at their fair value. In addition, non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The preparation of summary financial statements in conformity with adopted IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the summary financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Going concern

The Directors are, at the time of approving the financial statements, satisfied that the Group and Company have adequate resources to continue in operational existence for a period of at least 12 months. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. The Directors have considered the potential impact of further Covid-19 lockdowns, a macro-economic downturn, a market correction in used pricing and shortfalls in new car supply resulting from shortages in microchips impacting manufacturing.

The Group meets its day-to-day working capital requirements from a revolving credit facility of £75m and senior note of £100m together with cash balances and a requirement for ongoing access to rolling vehicle credit stocking facilities. The senior note is due for renewal in March 2027 and the revolving credit facility is due for renewal in March 2025, with a further two, one-year options (available at the election of lenders). The senior note and revolving credit facility have quarterly leverage and fixed charge covenants, as well as an absolute EBITDA covenant, a breach of which would result in the amounts drawn becoming repayable on demand. The Group did not make 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 year to 31 December 2021.

In the context of the above, the directors have prepared cash flow forecasts for the period to 31 December 2023 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 disruption to new car supply and have modelled scenarios as follows:

1. A base cash flow forecast. The 2022 figures in this forecast are based on the Group's 2022 budget, which is based on externally sourced forecasts and reflect current run-rates and expected strategic improvements. The 2023 figures in the base cash flow forecast are taken from the Group's 5 year strategy plan, as announced in H2 2020. Cost inflation has been considered and additional costs have been included to account for increased wage inflation.

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, when compared to the base case. This scenario reflects a severe downturn to vehicle volumes and margins, based on more pessimistic assumptions than are assumed in externally sourced forecasts. This considers both a worsening in economic conditions and restricted new car supply due to manufacturing constraints, together with the impact of two further national lock-downs of one month duration as a result of government-imposed restrictions. In this scenario, capital expenditure has been reduced to run-rate expenditure and projects committed to. This scenario demonstrates that the Group would remain within its facility limits and in compliance with the relevant covenants.

The Directors are mindful of the potential impacts to macro-economic conditions and further risk of disruption to supply chains that the conflict in Ukraine presents, but after assessing the risks do not believe there to be a material risk to going concern.

Based on the above, the directors are confident that the Group and Company will have sufficient funds to continue to meet their 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.

Adoption of new and revised standards

No new or amended standards and interpretations have been adopted during the year.

2 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.

	2021 £m	2020 £m
Within operating expenses:		
Impairment of goodwill	-	(12.5)
Impairment of assets held for sale	-	(0.8)
Impairment of right of use assets	(9.6)	(3.2)
Termination and severance costs	(1.8)	(6.3)
Business closure costs	-	(2.8)
Pension scheme administration costs	-	(1.0)
Past service costs in respect of pension obligations	-	(3.3)
	(11.4)	**(29.9)**
Within other income - gains on the sale of businesses, property, plant and equipment:		
Gains/(losses) on the sale of businesses	0.7	(6.5)
Gains on the sale of property	2.0	1.1
Losses on the disposal of property, plant and equipment	-	(1.4)
	2.7	**(6.8)**
Within net finance expense:		
Net interest on pension scheme obligations	(1.0)	(1.1)
	(1.0)	**(1.1)**
Total non-underlying items before tax	**(9.7)**	**(37.8)**
Non-underlying items in tax	2.2	4.1
Total non-underlying items after tax	**(7.5)**	**(33.7)**

The following amounts have been presented as non-underlying items in these summary financial statements:

Goodwill has been reviewed for any possible impairment and as a result of this review there was no impairment charge made during the year (2020: £12.5m).

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 made during the year (2020: £0.8m) and an impairment against property, plant and equipment of £9.6m

(2020: £3.2m) which was all in respect of right of use assets. 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 (2020: £nil).

The High Court ruling in the Lloyds Banking Group Pension Trustees Limited v Lloyds Bank plc and others published in October 2018 held that UK pension schemes with Guaranteed Minimum Pensions (GMPs) accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women. Following a further High Court ruling on 20 November 2020 the case extends the scope of the GMP equalisation to include previous transfer values paid from the scheme since 1990. No charge was made during the year for an allowance for the estimated impact of this was included in the benefit obligations at 31 December 2021 (2020: £3.3m and is recorded as a non-underlying past service cost in the Income Statement).

The administration costs of the pension scheme in respect of the Pension Protection Fund levy of £1.0m was shown as a non-underlying item in 2020 due to the significant increase in this charge of over four times that of the previous year. As this charge has now normalised for 2021 the cost is now taken as an underlying administration expense.

The net financing return on pension obligations in respect of the defined benefit schemes closed to future accrual is shown as a non-underlying item due to the irregularity of this amount historically and it is not incurred in the normal course of business. A net expense of £1.0m has been recognised during the year (2020: £1.1m).

Other income consists of the profit or loss on disposal of businesses and property, plant and equipment. This comprises a £0.7m gain (2020: £6.5m loss) on disposals of motor vehicle dealerships during the year (of which £0.7m was in respect of discontinued operations (2020: £6.5m loss)), a £2.0m profit on sale of properties (2020: £1.1m). In the previous year £1.4m was recognised in respect of losses on the disposal of plant and equipment as a result of the closure of businesses during that year. These do not include routine transactions in relation to the disposal of individual assets, and only relates to the disposal or closure of motor vehicle dealerships and associated properties.

The Group undertook a review of its operations during the previous year which resulted in a number of business closures. There was not net cost recognised during the year as a £0.2m expense in the UK was matched by a £0.2m credit in the US. In 2020 the resultant costs of closure of these sites was £2.8m and was recognised as a non-underlying item. These costs were in addition to the £1.4m losses on plant and equipment in 2020 referred to above, making the total closure cost for the previous year £4.2m.

There were termination and severance costs of £1.8m in FY21 (2020: £6.3m) of which £1.3m relates to the transfer of Finance process from dealerships to a centralised shared service centre as outlined part of the Finance Transformation in the UK motor business review. The remaining £0.5m is driven by a combination of a small number of further redundancy payments, relocation costs and Director recruitment fees relating to the search for the Group's Non-Executive Chairman.

3 Earnings per share

	2021 Earnings per share Pence	2021 Earnings total £m	2020 Earnings per share Pence	2020 Earnings total £m
Basic earnings per share	**4.4**	**61.5**	**(1.8)**	**(24.7)**
Adjusting items:				
Non-underlying items attributable to the parent (see note 2)	0.7	9.7	2.7	37.8
Tax effect of non-underlying items	(0.2)	(2.2)	(0.3)	(4.1)
Underlying earnings per share (Non-GAAP measure)	**5.0**	**69.0**	**0.6**	**9.0**
Diluted earnings per share	4.3	61.5	(1.8)	(24.7)
Diluted earnings per share - underlying (Non-GAAP measure)	4.9	69.0	0.6	9.0

The calculation of basic, adjusted and diluted earnings per share is based on the following number of shares in issue (millions):

		2021 Number		2020 Number
Weighted average number of ordinary shares in issue		1,390.7		1,390.5
Weighted average number of dilutive shares under option		25.1		6.1
Weighted average number of shares in issue taking account of applicable outstanding share options		1,415.8		1,396.6

Non-dilutive shares under option		28.7		8.7

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

4 Finance expense

	2021 £m	2020 £m
Recognised in profit and loss		
Interest payable on bank borrowings, Senior note and loan notes	9.4	8.5
Vehicle stocking plan interest	9.8	13.6
Interest payable on leases	12.6	14.0
Net interest on pension scheme obligations (non-underlying - see note 2)	1.0	1.1
Less: interest capitalised	(0.3)	(0.5)
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	**32.5**	**36.7**
Unwinding of discounts in contract hire residual values	2.7	3.1
Total finance expense	**35.2**	**39.8**

5 Finance income

	2021 £m	2020 £m
Recognised in profit and loss		
Interest receivable on finance leases	**0.9**	1.0
Total finance income	**0.9**	**1.0**

6 Adjusted Net debt

	2021 £m	2020 £m
Cash and cash equivalents	**37.6**	56.0
Non-current interest bearing loans and borrowings	**(87.3)**	(156.4)
	(49.7)	**(100.4)**

The Group has on adoption of IFRS 16 Leases excluded Lease liabilities from its measure of Net Debt.

7 Movement in contract hire vehicle balances

	2021	2020

	£m	£m
Depreciation	38.5	40.9
Changes in trade and other payables and deferred income	(30.2)	(16.5)
Purchases of contract hire vehicles	(42.4)	(72.6)
Unwinding of discounts in contract hire residual values	(2.7)	(3.1)
	(36.8)	**(51.3)**

8 Pension Funds

The net liability for defined benefit obligations has decreased from £75.5m at 31 December 2020 to £23.6m at 31 December 2021. The decrease of £51.9m comprises contributions of £12.8m, an interest expense recognised in the income statement of £1.0m and a net actuarial gain of £40.0m. The net actuarial gain has arisen due in part to changes in the principal assumptions used in the valuation of the scheme's assets and liabilities and also the change in value of the assets held over the year. The main assumptions subject to change are the discount rate of 1.80% (2020: 1.40%), inflation rate (RPI) of 3.50% (2020: 3.05%) and inflation rate (CPI) of 3.00% (2020: 2.55%).

9 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 KPIs 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 KPIs 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 KPIs on a consistent basis and they are defined and reconciled as follows:

Dividend per share - dividend per share is defined as the interim dividend per share plus the proposed final year dividend for a given period.

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

Operating margin % - operating margin is defined as operating profit as a percentage of revenue.

Underlying operating profit/profit before tax - results on an underlying basis exclude items that have non-trading attributes due to their size, nature or incidence. The detail of the non-underlying results is shown in note 2 and this is also shown on the face of the consolidated income statement to reconcile from the underlying to total results.

Operating profit reconciliation

	2021 £m	2020 £m
Underlying operating profit	**116.3**	**45.9**
Gains/(losses) on the sale of businesses and property, plant and equipment (see note 2)	2.7	(6.8)
Past service costs (see note 2)	-	(3.3)
Impairment of goodwill (see note 2)	-	(12.5)
Impairment of assets held for sale (see note 2)	-	(0.8)
Impairment of right of use assets (see note 2)	(9.6)	(3.2)
Business closure costs (see note 2)	-	(2.8)
Pension scheme administration costs	-	(1.0)
Termination and severance payments (see note 2)	(1.8)	(6.3)
Non-underlying operating 9loss0 items	(8.7)	(36.7)

Operating profit	**107.6**	**9.2**

Profit/(loss) before tax reconciliation

	2021 £m	2020 £m
Underlying profit before tax	**83.0**	**8.2**
Non-underlying operating profit items (see reconciliation above)	(8.7)	(36.7)
Non-underlying net finance (costs) (see note 2)	(1.0)	(1.1)
Non-underlying operating (loss) and finance costs items	(9.7)	(37.8)
Profit/(loss) before tax	**73.3**	**(29.6)**

Profit/(loss) after tax reconciliation

	2021 £m	2020 £m
Underlying profit after tax	**69.0**	**9.0**
Non-underlying operating profit and finance costs items (see reconciliation above)	(9.7)	(37.8)
Non-underlying tax (see note 2)	2.2	4.1
Non-underlying operating (loss), finance costs and tax items	(7.5)	(33.7)
Profit/(loss) after tax	**61.5**	**(24.7)**

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 3.

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, LTIPs and share warrants. A full reconciliation of how this is derived is found in note 3.

Adjusted net debt – All loans and borrowings less cash and cash equivalents less IFRS 16 lease liabilities less vehicle stocking loans.

Leverage ratio – the Group uses the ratio of net debt to underlying EBITDA to assess the use of the Group's financial resources. The reconciliation of this and the composition of underlying EBITDA is shown below.

Net franchise capital expenditure – total franchise specific (manufacturer new vehicle partners) capital expenditure incurred in the period less franchise specific disposal proceeds.

	2021 £m	2020 £m
Underlying operating profit	116.3	45.9
Depreciation	70.4	80.6

Amortisation	4.2	3.9
Underlying EBITDA	**190.9**	**130.4**
Net debt	**49.7**	**100.4**
Leverage ratio	**0.3**	**0.8**

Like for Like reconciliations

Like for like (LFL) results only include trading businesses which have comparative trading periods in two consecutive financial years. 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 those businesses which are not like-for-like which have recently commenced operation and therefore do not have a full current year and prior year history plus any retail points closed during the current or previous period. The like-for-like adjustments are split between those in relation to businesses disposed and those other adjustments which relate to the elimination of results for a period in a year which does not have a corresponding amount in the comparative year.

Revenues by Department - Franchised UK Motor	**2021 Group revenue £m**	**2021 Disposals revenue £m**	**2021 Other non like for like revenue £m**	**2021 Like for like revenue £m**
Aftersales revenue	**261.9**	-	(1.2)	**260.7**
Used vehicle revenue	**1,566.9**	-	(7.9)	**1,559.0**
New vehicle revenue	**1,362.4**	-	(9.6)	**1,352.8**
Total Revenue	**3,191.2**	-	(18.7)	**3,172.5**

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	**226.3**	(7.1)	-	**219.2**
Used vehicle revenue	**1,157.5**	(58.8)	-	**1,098.7**
New vehicle revenue	**1,208.0**	(22.7)	-	**1,185.3**
Total Revenue	**2,591.8**	(88.6)	-	**2,503.2**

Revenues by Department – Car Store	**2021 Group revenue £m**	**2021 Disposals revenue £m**	**2021 Other non like for like revenue £m**	**2021 Like for like revenue £m**
Used vehicle revenue	**141.5**	-	-	**141.5**
Total Revenue	**141.5**	-	-	**141.5**

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
Used vehicle revenue	**88.5**	(0.3)	-	**88.2**
Total Revenue	**88.5**	(0.3)	-	**88.2**

Revenues by Department - US Motor	2021 Group revenue £m	2021 Disposals revenue £m	2021 Other non like for like revenue £m	2021 Like for like revenue £m
Aftersales revenue	**2.8**	(2.8)	-	-
Used vehicle revenue	**3.0**	(3.0)	-	-
New vehicle revenue	**22.8**	(22.8)	-	-
Total Revenue	**28.6**	(28.6)	-	-

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	**17.3**	(17.3)	-	**-**
Used vehicle revenue	**22.0**	(22.0)	-	**-**
New vehicle revenue	**118.6**	(118.6)	-	**-**
Total Revenue	**157.9**	(157.9)	-	**-**

Gross Profit by Department - Franchised UK Motor	2021 Group gross profit £m	2021 Disposals gross profit £m	2021 Other non like for like gross profit £m	2021 Like for like gross profit £m
Aftersales gross profit	**132.7**	-	(0.6)	**132.1**
Used vehicle gross profit	**151.8**	-	(0.4)	**151.4**
New vehicle gross profit	**99.9**	-	(1.4)	**98.5**
Total Gross profit	**384.4**	-	(2.4)	**382.0**

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	**111.2**	(3.1)	-	**108.1**
Used vehicle gross profit	**99.5**	(3.5)	-	**96.0**
New vehicle gross profit	**79.1**	(1.2)	-	**77.9**
Total Gross profit	**289.8**	(7.8)	-	**282.0**

Gross Profit by Department – Car Store	2021 Group gross profit £m	2021 Disposals gross profit £m	2021 Other non like for like gross profit £m	2021 Like for like gross profit £m
Used vehicle gross profit	**12.9**	-	-	**12.9**
Total Gross profit	**12.9**	-	-	**12.9**

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
Used vehicle gross profit	**7.3**	0.1	-	**7.4**
Total Gross profit	**7.3**	0.1	-	**7.4**

Gross Profit by Department – US Motor	2021 Group gross profit £m	2021 Disposals gross profit £m	2021 Other non like for like gross profit £m	2021 Like for like gross profit £m
Aftersales gross profit	**1.6**	(1.6)	-	-
Used vehicle gross profit	**0.2**	(0.2)	-	-
New vehicle gross profit	**2.2**	(2.2)	-	-
Total Gross profit	**4.0**	(4.0)	-	-

Gross Profit by Department – US Motor	2020 Group gross profit	2020 Disposals gross profit	2020	2020 Like for like gross profit

	£m	£m	Other non like for like gross profit £m	£m
Aftersales gross profit	**9.1**	(9.1)	-	-
Used vehicle gross profit	**1.7**	(1.7)	-	-
New vehicle gross profit	**12.5**	(12.5)	-	-
Total Gross profit	**23.3**	(23.3)	-	-

Underlying operating profit/(loss)	**2021 Group Underlying operating profit/(loss) £m**	**2021 Disposals Underlying operating profit/(loss) £m**	**2021 Other non like for like Underlying operating profit/(loss) £m**	**2021 Like for like Underlying operating profit/(loss) £m**
Franchised UK Motor	**85.8**	1.2	(1.0)	**86.0**
Car Store	**1.6**	-	-	**1.6**
Software	**12.5**	-	-	**12.5**
Leasing	**17.5**	-	-	**17.5**
US Motor	**(1.1)**	1.1	-	-
Total underlying operating profit	**116.3**	2.3	(1.0)	**117.6**

Underlying operating profit/(loss)	**2020 Group Underlying operating profit/(loss) £m**	**2020 Disposals Underlying operating profit/(loss) £m**	**2020 Other non like for like Underlying operating profit/(loss) £m**	**2020 Like for like Underlying operating profit/(loss) £m**
Franchised UK Motor	**18.5**	13.1	0.1	**31.7**
Car Store	**(1.2)**	0.2	-	**(1.0)**
Software	**12.1**	-	-	**12.1**
Leasing	**13.3**	-	-	**13.3**
US Motor	**3.2**	(3.2)	-	-
Total underlying operating profit	**45.9**	10.1	0.1	**56.1**

10 Annual Report

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2021 or 2020 but is derived from those accounts. Statutory accounts for 2020 have been delivered to the registrar of companies, and those for 2021 will be delivered in due course.

The auditor has reported on those accounts; their reports were (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.

Full financial statements for the year ended 31 December 2021 will be published on the Group's website at www.pendragonplc.com and will be posted to shareholders and after adoption at the Annual General Meeting on 21 June 2022 they will be delivered to the registrar.

Copies of this announcement are available from Pendragon PLC, Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR.