

Pendragon PLC

HALF YEAR RESULTS FOR 30 JUNE 2022 (issued 21 September 2022)

Strong first half performance, underpinned by continued strategic progress

- Underlying profit before tax of £33.5m (HY21: £35.1m)
- Improved gross margin performance underpinned by higher gross profits per unit in both new and used vehicles
 - CarStore.com brand relaunch completed in May 2022
- Discussions with new energy car manufacturer, BYD, to be UK Launch partner at advanced stage

Bill Berman, Chief Executive Officer, said:

“We have made a really encouraging start to the year which is reflected in a strong set of financial results and continued momentum across the business. Good progress has again been made in the delivery of our strategy, including the brand relaunch of our used car business and multiple technology releases by Pinewood. We have transformed our digital capabilities over the past two years and this, combined with significant improvements to our operations, means we are well placed to offer our customers the best possible experience.

“We have delivered these results in the face of challenging trading conditions in our sector due to supply constraints on both new and used vehicles and the impacts of inflationary pressures. We expect the environment to remain challenging in the second half of the year, however we take confidence from how we have performed in the last six months and expect to make further positive progress towards our long-term goals this year.”

Group Financial Highlights

	H1 FY22 £m's	H1 FY21 £m's	Total change %	Like-for-like change %
Group Revenue	1,845.5	1,815.6	1.6%	3.9%
Underlying Profit before tax	33.5	35.1	-4.6%	
Non-Underlying charge	(0.6)	(4.3)	-86.0%	
Reported Profit before tax	32.9	30.8	6.8%	
Profit after tax	26.4	28.4	-7.0%	

	H1 FY22 £m's	H1 FY21 £m's	FY21 £m's	Change vs FY21 %
Adjusted Net Cash ¹	2.8	9.5	(49.7)	n/a

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

¹Adjusted Net Cash / (Debt) – All loans and borrowings less cash and cash equivalents less IFRS 16 lease liabilities less vehicle stocking loans.

Operating Highlights

- **Strong start to the financial year**
 - Group Revenue up by 1.6% to £1,845.5m (H1 FY21: £1,815.6m) and up 3.9% on a like-for-like basis.
 - Increased gross profits per unit in both new and used cars underpinning 9.9% improvement in gross profit to £232.2m, despite volume declines
 - Underlying profit before tax of £33.5m (H1 FY21: £35.1m).
 - Underlying cost increases of £20.8m, in line with previous guidance, including an increase in £7m of marketing costs to support the used car proposition and the reversal of £8.3m of government support, primarily rates rebates, received in HY21.
 - After non-underlying items the Group reported profit before tax of £32.9m (H1 FY21: £30.8m).
 - Adjusted net debt reduced by £52.5m since end of FY21, resulting in £2.8m net cash position at 30 June 2022.
- **Further strategic progress delivered**
 - Multiple technology releases by Pinewood powering delivery in the UK Motor division
 - Enhanced customer propositions across Finance & Insurance products driving improved penetration
 - Brand relaunch of CarStore.com, with new cross channel marketing campaign launched in May
 - Advanced discussions with leading EV manufacturer BYD, to be lead UK launch partner

Outlook

- We are pleased with the strong start to FY22 and confident we have the right strategy in place to deliver longer-term value.
- Trading through July and August has remained in line with our expectations.
- Both new and used vehicle supply shortfalls are expected to continue for at least the remainder of the current financial year. Our new car order bank remains strong, with over 22,000 orders as at the end of June.
- While the macro-economic backdrop remains challenging, with interest rate rises and other inflationary pressures, we continue to expect to deliver group underlying profit before tax in line with Board expectations for the current financial year.

Conference call and presentation

A presentation for analysts and investors will be held today via webcast at 09:00am (BST) 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, access details are:

<https://stream.brrmedia.co.uk/broadcast/63172aa3b6af591389e65638>

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/>

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Divisional Operating Highlights

- **UK Motor**
 - Previously reported Franchised UK Motor and Car Store divisions are now combined to reflect the new group-wide omni-channel approach to used car retailing,
 - Underlying operating profit of £37.2m (H1 FY21: Profit of £37.9m).
 - Revenue up 3.6% to £1,802.9m (4.3% on a like-for-like basis).
 - Gross margin of 11.7%, up from 10.8% in H1 FY21.
 - Strong margin performance in both new and used vehicles, underpinned by strategy to drive improved gross profits per unit
 - Used gross profit per unit increased by £310 to £1,676 (H1 FY21: £1,366).
 - New gross profit per unit increased by £956 to £2,576 (H1 FY21: £1,620).
 - Increased Aftersales gross margin to 51.3%, up 1.8% (H1 FY21: 49.5%)
 - New volumes down 17.5%, Used volumes down 13.7% on a like-for-like basis
 - Total operating costs up by £24.2m, or 16.2%, driven by non-repeat of government support measures, increased used car brand marketing and higher levels of cost inflation, partially offset by an ongoing focus on cost saving opportunities and utility hedging.

- **Software - Pinewood**
 - Revenue up 2.5% to £12.4m (H1 FY21: £12.1m).
 - Operating profit of £5.5m (H1 FY21: £6.7m), which was in line with expectations, with the reduction in operating profit largely driven by increased costs.
 - Cost increases reflect investment in resource needed to support product development and international expansion as well as a return to a more normal level of international travel.
 - Further 3.0% increase in international users, strong pipeline into H2. International users now represent 23% of external users.
 - Material product development to support Pendragons strategic agenda, opportunity to sell new developments to other external Pinewood customers.

- **Leasing – Pendragon Vehicle Management**
 - Revenue down 12.4% to £42.9m (H1 FY21: £49.0m).
 - Operating profit up 25.9% to £10.2m (H1 FY21 : £8.1m).
 - Growth in profit driven by higher profit on disposal of de-fleeted vehicles, supported by increase in used vehicle prices.
 - Vehicle supply also impacting lease fleet, but strong order bank of over 2,400 orders in place when supply improves.

Financial Summary

Consolidated Income Statement Six months ended 30 June Underlying unless stated	H1 2022 £m	H1 2021 £m	Change (%)
Revenue	1,845.5	1,815.6	1.6%
Cost of sales	(1,613.3)	(1,604.4)	0.6%
Gross profit	232.2	211.2	9.9%
Underlying operating expenses	(180.1)	(159.3)	13.1%
Underlying operating profit	52.1	51.9	0.4%
Underlying net finance costs	(18.6)	(16.8)	10.7%
Underlying profit before taxation	33.5	35.1	-4.6%
Non-underlying charges	(0.6)	(4.3)	-86.0%
Total income tax expense	(6.5)	(2.4)	170.8%
Total profit for the period	26.4	28.4	-7.0%
Earnings per share			
Basic earnings per share	1.9p	2.0p	-5.0%
Diluted earnings per share	1.9p	2.0p	-5.0%
Non GAAP Measure			
Underlying basic earnings per share	1.9p	2.3p	-17.4%
Underlying diluted earnings per share	1.9p	2.3p	-17.4%

Segmental Performance

Units Sold	H1 2022	H1 2021	Change (%)	LFL Change (%)
Used Units				
UK Motor	46,016	53,894	-14.6%	-13.7%
US Motor	-	51	-100.0%	n/a
	46,016	53,945	-14.7%	-13.7%
New Units				
UK Motor	24,686	30,067	-17.9%	-17.5%
US Motor	-	397	-100.0%	n/a
	24,686	30,464	-19.0%	-17.5%

£m	H1 2022	H1 2021	Change (%)	LFL Change (%)
Revenue				
UK Motor	1,802.9	1,739.8	3.6%	4.3%
Software	12.4	12.1	2.5%	2.5%
Leasing	42.9	49.0	-12.4%	-12.4%
US Motor	-	28.3	-100.0%	n/a
Inter-segment revenue	(12.7)	(13.6)	-6.6%	-6.6%
	1,845.5	1,815.6	1.6%	3.9%
Gross Profit				
UK Motor	211.1	187.6	12.5%	12.9%
Software	11.1	11.2	-0.9%	-0.9%
Leasing	12.5	10.5	19.0%	19.0%
US Motor	-	4.0	-100.0%	n/a
Inter-segment gross profit	(2.5)	(2.1)	19.0%	19.0%
	232.2	211.2	9.9%	12.4%
Underlying Operating Profit				
UK Motor	37.2	37.9	-1.8%	-5.1%
Software	5.5	6.7	-17.9%	-17.9%
Leasing	10.2	8.1	25.9%	25.9%
US Motor	(0.8)	(0.8)	-	-

	52.1	51.9	0.4%	-2.0%
Gross Margin %	12.6%	11.6%	1.0%	1.0%
Underlying Operating Margin %	2.8%	2.9%	-0.1%	-0.1%
Operating Profit	54.3	48.1	12.9%	

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Chief Executive's Review

I am pleased with the Group's performance in the first half, against a backdrop of ongoing supply shortages in both new and used vehicles and inflationary cost pressures. Our performance has been underpinned by the progress we have made with our strategy to "transform automotive retail through digital innovation and operational excellence", which we first launched back in 2020.

The Group has reported an excellent financial performance in the first half, delivering underlying profit before tax of £33.5m, overcoming the market-led reduction in sales volume in both new and used cars and the inflationary cost environment. The performance softened by just £1.6m compared to the same period last year, despite the benefit of £8.3m of government support, predominantly through rates relief, received in the first half of 2021.

The recent announcement about the possible offer for the Group from a large international corporation demonstrates great interest in the strength of our strategy and the prospects for the Group overall. Whilst this proposal did not proceed, the Board considered that it merited discussion with our shareholders, but we continue to strongly believe in our market-leading proposition and remain well positioned to capitalise on the long-term growth opportunities and navigate the near-term headwinds.

We have continued to make positive strides with the delivery of our strategy, implementing further initiatives, adding to the significant digital transformation we have already completed over the past two years.

In this time we have seen rapid developments in the used car market in particular. Our market-leading technological capability, our website functionality and our truly omni-channel business model has positioned us at the forefront of these developments. As new trends have emerged, we have adapted our strategy away from a standalone proposition to a Group-wide proposition ensuring we fully utilise our entire used car inventory. To facilitate this, CarStore.com has become a primary destination market-place for all of our used car inventory, with over 10,000 cars now listed across our brands at this single platform, more than any of the new entrants to the market.

In addition to maximising the scale advantage of our entire existing network, we will continue to look for opportunities to expand our used car footprint. We completed the first of our new model CarStore physical sites in Chesterfield, in April. The new-look site has been well received by customers and is now the model for our future developments. Our next full-scale new site will be completed in Warrington during the second half of FY22. In addition, to facilitate our entry into new local markets and to add convenience for our customers, we have also opened a further 10 CarStore Direct locations so far this year. These are smaller format, low-cost locations that will support our ability to buy cars directly through our 'Sell-your-car' service and to offer more local options for click and collect fulfilment across our entire used car range.

To further support our used car proposition, and in particular Carstore.com, we launched a new cross-channel marketing campaign during May, including prime-time TV advertising, which aims to raise brand awareness and to highlight the omni-channel credentials of our offer, focussing on 'car buying that revolves around you'. I am very pleased with how this has landed, and early indications show a good uplift in web traffic of over 60%.

We have also invested in our new car Franchise business during the first half, notably with major investments into our BMW showrooms in Hull and Derby, our JLR showroom in Mayfair and the Mercedes showroom in Huddersfield. The new car franchise business continues to be an important part of the Group and we will continue to look to how we can grow this. To this end, we are excited to be in advanced discussions with electric vehicle manufacturer BYD to be their lead UK launch partner as they enter the market later this year.

Pinewood, our software business, continues to be an important enabler for a number of integral technology improvements required to support our strategy, and the pace, and cost, at which we are able to execute these changes remains a key competitive advantage. This continued during the first half of FY22, with multiple software changes implemented, supporting both the digitisation of, and the way in which we present finance and insurance options to our customers, improvements to the way we value part exchanges online, and also to the "sell-your-car" customer journey. These improvements are fundamental to the changes we are making in the UK motor division. Pinewood will continue to lead this development through the second half.

Overall, I am delighted with progress we are making against our strategy and continue to believe it will position us well for the future.

Outlook

We remain confident in the long-term opportunity that our strategy provides, and have made further progress towards our strategic objectives in the first half of the current financial year. While our new car order bank remains strong, with over 22,000 orders as the end of June, we are cautious about the near-term outlook given the increased consumer uncertainty, the ongoing constraints with the supply of new vehicles, and the impact on the cost of living of a high-inflation cost environment. Despite these challenges, we continue to believe that our market-leading proposition positions the Company to capitalise on the growth opportunities. As such, we currently expect that underlying profit before tax for the full year will be in line with the Board's expectations.

Bill Berman
Chief Executive
21 September 2022

Operating and Financial Review by Segment

- The business is organised into 3 segments, analysed as follows:
 - UK Motor – sale and servicing of vehicles in the UK
 - Software – Licencing of Software as a Service to global automotive business users
 - Leasing – Fleet and contract hire provider. Source of used vehicle supply

UK Motor

Underlying	H1 2022	H1 2021	Change (%)
Used Revenue	£948.9m	£846.1m	12.1%
Aftersales Revenue	£137.2m	£132.0m	3.9%
New Revenue	£716.8m	£761.7m	-5.9%
Total Revenue	£1,802.9m	£1,739.8m	3.6%
Used Gross Profit	£77.1m	£73.6m	4.8%
Aftersales Gross Profit	£70.4m	£65.3m	7.8%
New Gross Profit	£63.6m	£48.7m	30.6%
Total Gross Profit	£211.1m	£187.6m	12.5%
<i>Gross margin rate</i>	<i>11.7%</i>	<i>10.8%</i>	<i>0.9%</i>
Underlying Operating Expenses	£(173.9)m	£(149.7)m	16.2%
Underlying Operating Profit	£37.2m	£37.9m	-1.8%
<i>Underlying operating margin rate</i>	<i>2.1%</i>	<i>2.2%</i>	<i>-0.1%</i>
<i>Stocking Interest¹</i>	<i>£(5.7)m</i>	<i>£(5.0)m</i>	<i>14.0%</i>
<i>Profit after Stocking Interest</i>	<i>£31.5m</i>	<i>£32.9m</i>	<i>-4.3%</i>
Operating Profit	£39.4m	£37.8m	4.2%
Total Revenue Change	3.6%		
Like-for-like Revenue Change	4.3%		
Used Units Sold	46,016	53,894	-14.6%
New Units Sold	24,686	30,067	-17.9%
Used GPU ²	£1,676	£1,366	22.7%
New GPU ²	£2,576	£1,620	59.1%
Number of Locations	148	150	-1.3%

Average Used Selling Price ³	£18,965	£14,394	31.8%
Average New Selling Price ³	£29,213	£25,824	13.1%

¹ Stocking interest. Whilst stocking interest is an interest expense and not part of operating profit, it is a cost that can be 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 UK Motor business operated from 137 franchise points and 11 used cars only retail points which represent a range of volume and premium products offering both sales and service functions.

- Further progress in respect of strategy to improve performance and unlock significant value in the Franchised UK Motor division.
- Introduction of further digital initiatives, underpinned by Pinewood, to differentiate our omni-channel model
- Single market place for all of Group's used cars created via CarStore.co.uk

Strategy delivery – Unlock value in the franchised UK Motor division

The Group continued to make 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

We have introduced a number of new initiatives during the first half of FY22, as well as seeing full-year benefits of improvements made last year. Sales+, a layered DMS application embedded within the Pinewood system, has had further releases during the first half of FY22 which have enabled the automated inclusion of insurance products, subject to customer qualification, in all customer offers. This addition will support improved sales penetrations with better product presentation to the customer. Releases have also enabled real-time modification of the customer F&I offer, allowing our teams to amend all aspects of the offer, such as finance type, deposit amount, term of loan, annual mileage and additional insurance products, all of which improve customer flexibility and transparency. The cumulative improvements we have made to our F&I proposition has resulted in a 7% improvement in penetration compared to FY21, driving over £5m in improved used gross profit in the first-half.

We have made progress with our Group-wide vehicle acquisition, management and pricing platform, which is focussed on optimising the speed at which we are able to turn vehicle inventory and maximising the margin we can achieved on used vehicles. We have improved our online part-exchange and sell-your-car journey to include guaranteed customer valuations. We have also improved the use of automation to utilise market-based pricing with internal demand and vehicle supply indicators to set retail pricing.

During the second half of FY22 we expect to launch new functionality which will introduce menu pricing options within the customer presentation of F&I products. This will allow us to present options to customers in packages representing, 'good', 'better' and 'best' option packages, again with the aim of improving transparency and driving higher sales penetration. We will also be utilising Pinewood Technologies to develop further capability to surface personalised finance rates for customers, based upon a soft credit check in a new rate for risk model. We expect this personalised approach to further improve sales penetrations.

Drive operational excellence and best practice

We continue to develop new processes and products to support our used car margin performance. Our programme to target vehicle preparation efficiency is progressing well. We have sought to introduce process automation to reduce reliance on vehicles being brought into stock manually and speed up the availability to customers and we have improved the allocation of stock across the Group network to get the right cars, to the right location, quicker.

We have also seen improvements in our Aftersales performance with both revenue and margin rate improvements in the half. A number of operational improvements such as a revised technician incentive structure and revised local reporting have underpinned this. In addition, we have introduced a new trial functionality offering customers interest-free finance on aftersales work which is performing well, and driving higher penetration into the older vehicle car parc. Our revised guarantee product suite introduced in 2021 is continuing to have benefits in 2022. As a result of the new product options and operational procedures, our guarantee penetration has improved by over 4% across the eligible cars.

We continue to have a good pipeline of opportunity in to the second half of 2022, and will focus on cosmetic vehicle preparation efficiency, review aftersales discounting opportunities and continue to evolve the product guarantee range to open up further opportunities.

Operate from a lean and efficient cost base

Whilst costs have increased (see financial review below), driven by planned investment into marketing and investment in payroll, combined with higher utilities inflation, the Group continued to seek opportunity to mitigate cash costs where possible. During the first half, we completed a major property negotiation with our largest landlord (c.70 properties in total) that resulted in lease extensions at current rent levels at c.30 locations and the return to the landlord of 12 vacant properties, with the remaining sites to be reassessed as their leases expire. This deal will result in an annual cash saving of c.£3.5m across rent and rates at the returned sites. Over the past three years the Group has significantly reduced its vacant leased property exposure through a combination of surrenders, assignments, sublets and expiries, delivering over £6.0m in rent savings and a further £2.6m in rates savings.

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. Brand relaunch of the used car proposition
2. Differentiated value proposition
3. Build flexible acquisition & fulfilment capability and Scale physical estate

Brand relaunch & Differentiate value proposition

As we outlined with our FY21 full-year results our teams had done an excellent job to reposition the CarStore brand and land a market leading, omni-channel hybrid proposition. As a result of the evolving trends and opportunities in the used car market we have transformed our strategy away from a standalone proposition to a Group-wide proposition. To support this, we have made further developments to our digital capabilities, such that all group used vehicle stock is now presented on CarStore.com, resulting in excess of 10,000 used vehicles on a single transactional website. This revised proposition allows us to take a market-place approach to our Group used inventory, with consistent presentation with revised image standards. CarStore.com is the market leading digital proposition, supported by our extensive store network providing us with a truly omni-channel advantage.

In addition, during the first half we delivered a full launch of the new proposition supported by a cross-channel marketing campaign. This campaign included new content advertising across prime-time TV slots, commencing in May, in order to drive awareness of the repositioned brand. We have seen a strong increase in digital traffic to CarStore.com since the launch of these campaigns, with traffic up more than 60% year on year. We have also seen a very strong customer score on reputation.com, with CarStore scoring a market leading 4.7 out of 5.

Build flexible acquisition & fulfilment capability and Scale physical estate

The first concept store to launch our physical proposition was formally launched in Chesterfield during April. The new store format has been very well received by customers and now acts as a blue print for further expansion. During the second half, we expect to open our next new format store, a completely new build in a fantastic location in Warrington which will showcase approximately 400 vehicles on site and will further support the digital proposition.

In addition, we are scaling our small-format locations, CarStore Direct, with a further 10 new locations introduced in the first-half, across the UK. These new format stores facilitate our Sell-your-car proposition and offer greater choice for click and collect fulfilment by providing convenient, small footprint locations, unlocking potential new local markets for CarStore to enter.

Operating Review

The UK Motor division performed well in H1 FY22 and despite the backdrop of ongoing supply chain issues impacting new vehicle supply as well as inflationary cost pressures, profitability was only marginally behind last year. The overall new car market continues to be constrained by the well-known and ongoing issues with supply, predominantly the result of semi-conductor shortages, with the market down 11.9% compared to 2021. The Group has built a strong order bank across its brands, with over 22,000 orders as at the end of June, which it expects to deliver when supply eases, and in the short-term as focussed on achieving higher margins on the vehicles that are supplied. The shortage in new car supply since 2020 is now also impacting on the used car market, with the significant reduction in new vehicles manufactured in this period that would ordinarily flow in to the important 'nearly new' sector now not available.

Group New Car volumes were down 17.5% on a like-for-like basis (total reported down 17.9%), which was behind the total market reduction of 11.9%, driven principally by product mix in a single brand. We expect this shortfall to reverse as supply eases. Our focus on maximising margins through lower levels of vehicle discounting combined with the OEM's focussing on production of higher margin models resulted in new gross profit per unit of £2,576, up 59.1% or £956 compared to H1 FY21.

Used volumes were down 13.7% on a like-for-like basis (total reported down 14.6%), with the total market down 8.0%. As anticipated, margins have declined compared to the unprecedented levels seen in the second half of FY21 where the Group recorded a used GPU of £2,112. However, supported by our strategic changes, the first-half FY22 GPU of £1,676 remains 22.7% higher than the same period last year, an increase of £310 per unit.

Aftersales revenue grew in the period, up by 4.7% on a like-for-like basis (total reported up 3.9%). The continued impact of strategy-led productivity improvements made also resulted in an improvement in the gross margin of 180bps to 51.3% (H1 FY21: 49.5%).

Financial Review

Revenue increased by 3.6% to £1,802.9m in H1 FY22 (4.3% on a like-for-like basis), with the volume declines in both new and used vehicles more than offset by higher average selling prices.

Gross profit grew by 12.5% to £211.1m in H1 FY22 (12.9% on a like-for-like basis). The improvements in margin in both new and used GPU's, together with continued improvements in aftersales efficiency resulted in gross profit growth out performing revenue growth.

Underlying operating expenses have increased by 16.2% (17.8% on a like-for-like basis). £8.3m of the £24.2m increase in operating expenses was a result of the non-repeat of government support received in H1 FY21 and £7.0m of the increase was as a result of increased marketing expenditure, primarily on the Car Store re-brand. Other inflationary cost increases, particularly in labour costs and utilities were broadly as expected. These increases have been partially mitigated by a continued focus on cost-saving initiatives. Utility costs continue to present additional cost pressure, prior to the cost increases, electricity represented c.75% of the Group utility expenses, with Gas representing c.25%. At the start of FY22 we were hedged at c.55% for electric and c.25% for Gas. We anticipate that the unhedged element in FY22 will result in additional expense of c.£4-5m compared to FY21. We continue to have hedging in place for electric in 2023 at c.70%, helping to mitigate our exposure next year.

The division recorded an underlying operating profit of £37.2m (H1 FY21: £37.9m) and a reported operating profit after non-underlying items of £39.4m (H1 FY21: £37.8m).

Software - Pinewood

Underlying	H1 2022	H1 2021	Change (%)
Revenue	£12.4m	£12.1m	2.5%
Gross Profit	£11.1m	£11.2m	-0.9%
<i>Gross margin rate</i>	<i>89.5%</i>	<i>92.6%</i>	<i>-3.1%</i>
Operating Expenses	£(5.6)m	£(4.5)m	24.4%
Operating Profit	£5.5m	£6.7m	-17.9%
<i>Operating margin rate</i>	<i>44.4%</i>	<i>55.4%</i>	<i>-11.0%</i>
Revenue Change	-		

A more detailed breakdown of the Pinewood financials for H1 FY22 can be seen below:

	Contribution from Pendragon	Contribution from external customers	Pinewood standalone result	Share of Pendragon Group overheads	Pinewood segment as reported in Pendragon Group accounts
Revenue	£2.9m	£9.5m	£12.4m	-	£12.4m
Gross Profit	£2.5m	£8.6m	£11.1m	-	£11.1m
Operating Expenses	£(1.0)m	£(4.4)m	£(5.4)m	£(0.2)m	£(5.6)m
Operating Profit	£1.5m	£4.2m	£5.7m	£(0.2)m	£5.5m

- Approximately 90% of revenues are recurring.
- Strong international growth driven by system installations in European markets.
- Strong partnerships with strategic OEMs.

Strategy update – 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.

Pinewood made further progress with growing its international user base in the first half of FY22, with a further 3% growth in international users. It continues to develop conversations with a number of potential customers, both through retail channels and through OEM relationships, as outlined in the operational review below.

As outlined in the UK motor division review, Pinewood has played an integral part in the development of a large number of new applications within Pendragon, and ultimately for the external market. These developments include further releases in the Sales+ module, functionality to allow real time modification of the customer F&I offer and the integration of open banking to improve payment options. During the second half, a number of further developments to the software will be delivered which will enable personalised rate financing proposals for customers and better presentation of F&I bundles through menu pricing options.

Operating Review

Pinewood is a software business that 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 £100 million in the UK. 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 operates a SaaS business model which delivers recurring revenue streams, with around 90% of Pinewood’s revenues being on a recurring basis. Whilst Pendragon remains an important customer to Pinewood, the vast majority of Pinewood’s revenue is from external customers, with Pendragon’s proportion of the Pinewood total user base representing just c.17% of the total user base, with intra-group charging maintained at a competitive market rate.

During H1 FY22, overall net user numbers (excluding Pendragon) were flat (0% increase). Across Pinewood’s international markets there was a 3% net increase in user numbers. International growth was driven by system installations in the European markets, which were supported by the Pinewood Technologies Northern Europe AB team based in Sweden. Further international system implementations are expected in H2 FY22. In the UK&I market (excluding Pendragon) there was a small decrease in user numbers in H1 FY22 driven primarily by user reductions from continuing customers. The UK&I market order bank continues to grow following the reduction in COVID-19 related uncertainty. New system implementations are expected to accelerate in H2 FY22.

In H1 FY22 Pinewood continued to invest in the functionality of its DMS platform. This included the development of online sales capabilities, most notably the launch of open banking tools. Substantial investments have also been made in platform architecture and security with greatly expanded use of the Microsoft Azure platform.

There has also been good further progress in terms of OEM support at an international level. Pinewood continues to build a strong partnership with Volkswagen AG and Porsche, which has enabled constructive dialogue with large international dealer groups. Building on the Retail Integration Strategy partnership with BMW announced last year, Pinewood has now achieved certification with BMW in the Northern Europe Region. This is expected to enable further system implementations in the Nordic markets.

Financial Review

Total revenues were up by £0.3m at £12.4m compared to H1 FY21. UK&I DMS recurring revenues declined in the period, driven by the impact of two exceptional customer exits in H2 FY21: one following acquisition by a competitor and another within the HGV market moving to a specialist system.

International DMS recurring revenues increased by 17% in the period, reflecting the underlying user growth and expansion of the direct sales model. In addition to recurring revenues, there was a small reduction in DMS transactional charges and system training and implementation revenues.

Gross profit decreased by 0.9% to £11.1m. There was a reduction in gross margins driven by the expanded use of the Microsoft Azure platform. This transition is a one-off event, and the related cost increase will not recur in future periods.

Operating costs increased by 24.4% compared to H1 FY21. The increase was driven by higher associate costs and a higher amortisation charge, both reflecting ongoing increases in investment in the development of the software asset and Pinewood’s operational capabilities. Further cost increases arose as a result of higher travel expenditure following the reduction in COVID-19 restrictions, as well as higher energy costs.

As a result of these movements, underlying operating profit was £5.5m, a reduction of 17.9% compared to H1 FY21.

Leasing - Pendragon Vehicle Management

Underlying	H1 2022	H1 2021	Change (%)
Revenue	£42.9m	£49.0m	-12.4%
Gross Profit	£12.5m	£10.5m	19.0%
<i>Gross margin rate</i>	<i>29.1%</i>	<i>21.4%</i>	<i>7.7%</i>
Operating Costs	£(2.3)m	£(2.4)m	-4.2%
Operating Profit	£10.2m	£8.1m	25.9%
<i>Operating margin rate</i>	<i>23.8%</i>	<i>16.5%</i>	<i>7.3%</i>
Revenue Change	-12.4%		

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.

The decrease in revenue compared to H1 FY21 was due to a reduction in the exceptionally high level of disposals of de-fleeted vehicles in H1 2021. However, high residual values achieved on disposals led to the increase in gross profit.

PVM's fleet continues to experience a rapid change in the powertrains demanded by customers in the corporate car sector so employers improve their green footprint whilst providing their associates with low CO2 vehicles. This, coupled with manufacturer supply constraints, has resulted in new vehicle delivery lead times increasing significantly compared to lead times prior to the pandemic. PVM has a strong order bank, with over 2,400 customer vehicles on order as at the end of June, which will support growth in the fleet when supply constraints ease.

Financial Review

Revenue decreased by 12.4% to £42.9m, and gross profit rose by 19.0% to £12.5m owing to the strong residual values as described above. Underlying operating costs were down 4.2% to £2.3m.

Underlying operating profit increased by 25.9% to £10.2m.

Industry Insight

New Car Market

The UK new car market was 802k vehicles in the first half of FY22 which was a decrease of 11.9% over the prior year, reflecting the continued shortfall in supply as a result of microchips. The UK new car market is divided into two markets, retail and fleet. The retail market is the direct selling of vehicle units to individual customers and operates at a higher margin than the fleet market. The retail market is the key market opportunity for the Group and represents 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.

Used Car Market

In the first half of FY22, there were 3.4m used cars sold in the UK, an decrease of 8.0% on the prior year. This represents a market opportunity that is more than four times the size by volume of the new car 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 slightly to 35.3m vehicles at H1 FY22, a rise of 0.2% from the end of FY21. The car parc can also be segmented into markets representing different age groups. At H1 FY22, around 14% of the car parc was represented by less than three-year-old cars, around 19% by four to six-year-old cars and 67% is greater than seven-year-old cars. The demand for servicing and repair activity is less affected than other sectors by economic conditions, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons.

UK New Car Registrations '000	H1 2022	H1 2021	Change (%)
UK Retail Registrations	428.0	410.7	4.2%
UK Fleet Registrations	374.1	499.3	-25.1%
Total UK Registrations	802.1	910.0	-11.9%
Group Represented* UK Retail Registrations	251.6	242.7	3.7%
Group Represented* UK Fleet Registrations	222.3	275.7	-19.7%
Group Represented* Registrations	473.8	518.4	-8.6%

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

The new retail market was up by 4.2% in H1 2022, and the new fleet market decreased by 25.1% in the period. All new car market figures are from the Society of Motor Manufacturers and Traders (SMMT).

Underlying Net Financing Costs

	H1 2022	H1 2021	Change (%)
Interest payable on bank borrowings, senior note and loan notes	£(5.1)m	£(4.4)m	15.9%
Vehicle stocking plan interest	£(5.7)m	£(5.0)m	14.0%
Net lease interest	£(6.6)m	£(5.9)m	11.9%
Unwinding of discounts in contract hire residual values	£(1.2)m	£(1.5)m	-20.0%
Total Underlying Net Financing Costs	£(18.6)m	£(16.8)m	10.7%

Underlying net financing costs increased by £1.8m to £18.6m. Interest payable on bank borrowings increased from £4.4m to £5.1m, largely driven by higher borrowing rates associated with the Group's new banking facility together with the impact of increases in the base interest rate. The increase in vehicle stocking plan interest increase from £5.0m to £5.7m was driven by higher bank base rates and higher average values per unit in used cars, partially offset by lower new car stock holding.

The net lease interest increased from £5.9m to £6.6m which was principally due to the accounting impact of a lease regear with our largest property partner in which 30 prime leaseholds were extended until 2042 with the Group benefitting from reductions in rent payable from the agreement to hand-back 12 vacant properties to the landlord in exchange for the lease extensions. The transaction has resulted in an increase in the net lease liability and consequently the net interest charge has risen by £1.4m year on year (though this has been offset by a reduction in the depreciation charge on these properties of £1.6m due to the amortisation period being extended). This increase in the lease interest has been partially offset by a reduction in the lease interest charge as a result of lease terminations made in the previous year and the natural wind down of lease liabilities as they are paid off.

Non-underlying Items

£m	H1 2022	H1 2021
Impairment of goodwill	(3.6)	-
Impairment of property, plant and equipment – owned	(1.0)	-
Impairment of right of use assets	(0.2)	(5.4)
Termination and severance costs	(0.2)	(0.9)
Gains on the sale of businesses and property, plant and equipment	7.2	2.4
Business closure costs	-	0.1
Pension costs	(0.2)	(0.5)
Loss on refinancing	(2.6)	-
Total non-underlying items before tax	(0.6)	(4.3)
Non-underlying items in tax	0.5	0.8
Total non-underlying items after tax	(0.1)	(3.5)

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 first-half the Group has recognised a net charge of £0.6m of pre-tax non-underlying items compared to a charge of £4.3m in H1 FY21.

An impairment of goodwill charge of £3.6m relates to an ongoing disposal process of our truck brand, DAF, franchise assets. Whilst this process is ongoing, we expect it to complete early during the second half and have therefore accordingly recognised the impairment of the goodwill.

Gains of £7.2m on the sale of business and property, plant and equipment mainly arise from the disposal of certain UK freehold properties. Pension costs of £0.2m represent the interest charge for the first half of FY22 (H1 FY21: £0.5m)

The loss on refinancing charge £2.6m relates to the costs of the 2022 Group refinancing exercise, and principally comprised of early repayment charges on the previous private placement loan notes.

Capital Allocation

Net cash* has improved by £52.5m from an adjusted net debt of £49.7m at 31 December 2021 to adjusted net cash of £2.8m at 30 June 2022. The adjusted net debt to underlying EBITDA ratio* was 0.0x for the rolling 12 months to H1 FY22. The adjusted net debt to underlying EBITDA ratio has moved from 0.1x at FY 2021, principally as a result of the strong trading performance in the first-half, combined with the disposal proceeds from the sale of the property received in the period.

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

Cash Flow

The following table summarises the cash flows and adjusted net debt of the Group for the six-month periods ended 30 June 2022 and 30 June 2021 as follows:

£m	H1 2022	Restated* H1 2021
Underlying Operating Profit	52.1	51.9
Depreciation and Amortisation	17.0	18.4
Share Based Payments	1.7	1.4
Non-underlying Items	(0.2)	(0.8)
Contribution into defined benefit pension scheme	(6.5)	(6.3)
Working Capital and Contract Hire Vehicle Movements ¹	24.2	59.8
Cash Generated from Operations	88.3	124.4
Capital Expenditure	(19.1)	(16.5)
Fixed Asset Vehicles Net Movement	-	3.0
Business and Property Disposals	12.6	28.8
Net Capital (Expenditure) / Income ²	(6.5)	15.3
Tax Received / (Paid)	0.5	(1.6)
Interest Paid excluding lease interest ³	(9.6)	(8.4)
Lease Payments & Receipts ⁴	(16.9)	(19.0)
Non underlying finance cost	(2.6)	-
Other	(0.7)	(0.8)
Decrease in Adjusted Net Debt	52.5	109.9
Opening Adjusted Net Debt ¹	(49.7)	(100.4)
Closing Adjusted Net Cash	2.8	9.5

* see note 4

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

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

³being bank and stocking interest paid.

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

Reconciliation to Consolidated Cash Flow Statement

£m	H1 2022	Restated* H1 2021
Net cash from operating activities	70.0	108.5
Net capital (expenditure) / income	(6.5)	15.3
Receipt of lease receivables	1.0	1.2
Net cash (outflow) / inflow from investing activities	(5.5)	16.5
Financing cash flows as included above:		
Payment of lease liabilities	(11.3)	(14.3)
Financing cash flows not included above relating to loans:		
Repayment of loans	(88.5)	(81.7)
Proceeds from issue of loans (net of directly attributable transaction costs)	94.4	(1.4)
Disposal of shares by EBT	0.1	-
Net cash outflow from financing activities	(5.3)	(97.4)

* see note 4

Cash generated from operations was an inflow of £88.3m compared to an inflow of £124.4m in the first-half of 2021. With operating profit flat year on year, the reduction is principally driven by a lower level of working capital inflow of £24.2m compared to £59.8m in FY21, with FY21 benefitting from a timing benefit of approximately £35m in relation to new car VAT. The inflow of £24.2m is driven primarily by short-term timing differences, most of which are expected to reverse in the second half of FY22.

The net capital expenditure of £6.5m (H1 FY21: inflow of £15.3m) comprised capital expenditure of £19.1m partially offset by property disposals of £12.6m. Capital expenditure of £19.1m (H1 FY21: £16.5m) increased year on year, driven by investments into a number of brands including BMW, Mercedes and Porsche as well as investment into our new Car Store development in Warrington, together with increased investment into Pinewood's software development. Property disposals were principally driven by the disposal of a vacant property in St Albans for £10.5m.

Lease payments & receipts reduced by £2.1m to £16.9m, with the decrease primarily resulting from the impact of inflationary rent increases, more than offset by a reduction in the number of leasehold properties as a result of the full-year impact of previously announced lease exits and a further benefit resulting from the impact of a lease regear with our largest property partner in which 30 prime leaseholds were extended until 2042 with the Group benefitting from reductions in rent payable from the agreement to hand-back 12 vacant properties to the landlord in exchange for the lease extensions.

Non underlying finance costs of £2.6m are the cash costs of the 2022 Group refinancing exercise, and principally comprised of early repayment charges on the previous private placement loan notes.

Balance sheet

The following table summarises the balance sheet of the Group at 30 June 2022, 30 June 2021 and 31 December 2021.

Balance Sheet	Jun-22	*Restated Jun-21	Dec-21
Property	222.5	219.4	217.6
Plant & Equipment	24.3	32.1	24.2
Goodwill	144.6	150.3	150.3
Intangible Assets	11.7	10.7	11.1
Right of Use Assets - property	133.8	133.2	126.5
Contract hire vehicle assets	127.1	138.1	131.2
Inventories	529.9	477.6	512.8
Receivables ¹	134.8	138.2	118.9
Net Assets Held as for Sale ²	7.6	8.6	10.4
Net Tax Balance ³	16.0	31.2	26.6
Retirement benefit surplus	4.2	-	-
Cash and cash equivalents	96.7	83.2	37.6
Total Assets	1,453.2	1,422.6	1,367.2
Payables ⁴	(749.7)	(752.8)	(689.1)
Lease Liabilities	(224.1)	(228.7)	(222.1)
Contract hire vehicle liabilities	(113.9)	(146.1)	(119.5)
Retirement benefit obligations	-	(34.9)	(23.6)
Interest bearing loans and borrowings	(93.9)	(73.7)	(87.3)
Total Liabilities	(1,081.6)	(1,236.2)	(1,141.6)
Shareholders' Funds	271.6	186.4	225.6

* see note 4

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 deferred tax assets and current tax assets

4 being trade and other payables and deferred income

Net assets have increased from £225.6m at 31 December 2021 to £271.6m at 30 June 2022.

At 30 June 2022, the Group had £222.5m (£356.3m including IFRS16 right of use assets) of land and property assets (31 December 2021: £217.6m (£344.1m including IFRS16 right of use assets)). The increase in property principally reflects capital investments, partially offset by disposal of excess property together with depreciation.

Stock has increased by £17.1m to £529.9m (31 December 2021: £512.8m), which is a result of an increase of c.£50m in the level of new car inventory held at 30 June 2022 prior to delivery, partially offset by a reduction of c.£30m in used car inventory. New car inventory remains significantly below historic records as a result of the ongoing supply shortages.

The increase in payables of £60.6m to £749.7m (31 December 2021: £689.1m) principally relates to the higher vehicle creditors as a result of the increase in new vehicle inventory, together with short-term timing differences which are expected to reverse in the second half of FY22.

The net tax balance has decreased from £26.6m at 31 December 2021 to £16.0m primarily the lower deferred tax asset arising from the decrease in the pension deficit and the use of brought forward tax losses against taxable profits in the period.

The net liability for defined benefit pension scheme obligations has improved from a £23.6m liability at FY21 to a £4.2m asset at HY22. The improvement of £27.8m comprises of contributions of £6.5m, a net interest expense recognised in the income statement of £0.2m and a net actuarial gain of £21.5m. 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 £6.5m 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 an interim dividend for 2022.

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 Six months ended 30 June	2022 £m	Continuing operations £m	Discontinued operations * £m	2021 £m
Revenue	1,845.5	1,787.3	28.3	1,815.6
Cost of sales	(1,613.3)	(1,580.1)	(24.3)	(1,604.4)
Gross profit	232.2	207.2	4.0	211.2
Operating expenses	(185.1)	(155.9)	(9.6)	(165.5)
Operating profit/(loss) before other income	47.1	51.3	(5.6)	45.7
Other income - profit on the sale of businesses and property	7.2	1.3	1.1	2.4
Operating profit/(loss)	54.3	52.6	(4.5)	48.1
Analysed as				
Underlying operating profit/(loss)	52.1	52.7	(0.8)	51.9
Non-underlying operating profit/(loss)**	2.2	(0.1)	(3.7)	(3.8)
Finance expense	(21.9)	(17.5)	(0.2)	(17.7)
Finance income	0.5	0.4	-	0.4
Net finance costs	(21.4)	(17.1)	(0.2)	(17.3)
Analysed as				
Underlying net finance costs	(18.6)	(16.6)	(0.2)	(16.8)
Non-underlying net finance costs **	(2.8)	(0.5)	-	(0.5)
Profit/(loss) before taxation	32.9	35.5	(4.7)	30.8
Analysed as				
Underlying profit/(loss) before taxation	33.5	36.1	(1.0)	35.1
Non-underlying loss before taxation**	(0.6)	(0.6)	(3.7)	(4.3)
Income tax (expense)/credit	(6.5)	(3.1)	0.7	(2.4)
Profit/(loss) for the period	26.4	32.4	(4.0)	28.4
Earnings per share				
Basic earnings per share	1.9p	2.3p	(0.3p)	2.0p
Diluted earnings per share	1.9p	2.3p	(0.3p)	2.0p

Non-GAAP Measure				
Underlying basic earnings per share	1.9p	2.6p	(0.3p)	2.3p
Underlying diluted earnings per share	1.9p	2.6p	(0.3p)	2.3p

* The discontinued operations in 2021 are in respect of the Group's US business.

** Non-underlying, see note 8 for explanation.

Consolidated Statement of Comprehensive Income Six months ended 30 June	H1 2022 £m	H1 2021 £m
Profit for the period	26.4	28.4
Other comprehensive income		
Items that will never be reclassified to profit and loss:		
Defined benefit plan remeasurement gains/(losses)	21.5	34.8
Income tax relating to defined benefit plan remeasurement gains/(losses)	(4.1)	(5.8)
	17.4	29.0
Items that are or may be reclassified to profit and loss:		
Foreign currency translation differences of foreign operations	0.4	(0.1)
Other comprehensive income for the year, net of tax	17.8	28.9
Total comprehensive income for the year	44.2	57.3
Total comprehensive income for the period attributable to equity shareholders of the company arises from:		
Continuing operations	44.2	61.4
Discontinued operations - see note 15	-	(4.1)
	44.2	57.3

Consolidated Statement of Changes in Equity Six months ended 30 June	Share Capital £m	Share Premium £m	Other Reserves £m	Translation Differences £m	Retained Earnings £m	Total £m
Balance at 1 January 2022	69.9	56.8	18.2	-	80.7	225.6
Total comprehensive income for H1 2022						
Profit for the period	-	-	-	-	26.4	26.4
Other comprehensive income for the period, net of tax	-	-	-	0.4	17.4	17.8
Total comprehensive income for the period	-	-	-	0.4	43.8	44.2
Share based payments	-	-	-	-	1.7	1.7
Own shares issued by EBT	-	-	-	-	0.1	0.1
Balance at 30 June 2022	69.9	56.8	18.2	0.4	126.3	271.6
2021						
Balance at 1 January 2021	69.9	56.8	18.2	(1.0)	(17.2)	126.7
Total comprehensive income for H1 2021						
Profit for the period	-	-	-	-	28.4	28.4
Translation differences taken to profit and loss on termination of operation	-	-	-	1.0	-	1.0
Other comprehensive income for the period, net of tax	-	-	-	(0.1)	29.0	28.9
Total comprehensive income for the year	-	-	-	0.9	57.4	58.3
Share based payments	-	-	-	-	1.4	1.4
Balance at 30 June 2021	69.9	56.8	18.2	(0.1)	41.6	186.4

Consolidated Balance Sheet	30 June 2022 £m	Restated * 30 June 2021 £m	31 December 2021 £m
Non-current assets			
Property, plant and equipment	507.7	522.8	499.5
Goodwill	144.6	150.3	150.3
Other intangible assets	11.7	10.7	11.1
Finance lease receivables	15.8	16.6	15.5
Retirement benefit surplus	4.2	-	-
Deferred tax assets	12.4	30.1	22.1
Total non-current assets	696.4	730.5	698.5
Current assets			
Inventories	529.9	477.6	512.8
Trade and other receivables	116.8	119.4	101.3
Finance lease receivables	2.2	2.2	2.1
Current tax assets	3.6	1.1	4.5
Cash and cash equivalents	96.7	83.2	37.6
Assets classified as held for sale	7.6	8.6	10.4
Total current assets	756.8	692.1	668.7
Total assets	1,453.2	1,422.6	1,367.2
Current liabilities			
Interest bearing loans and borrowings	(2.0)	-	-
Lease liabilities	(20.9)	(25.5)	(26.7)
Trade and other payables	(749.0)	(774.8)	(692.7)
Deferred income	(36.2)	(38.8)	(37.2)
Current tax payable	-	-	-
Total current liabilities	(808.1)	(839.1)	(756.6)
Non-current liabilities			
Interest bearing loans and borrowings	(91.9)	(73.7)	(87.3)
Lease liabilities	(203.2)	(203.2)	(195.4)
Trade and other payables	(39.8)	(46.2)	(41.9)
Deferred income	(38.6)	(39.1)	(36.8)
Retirement benefit obligations	-	(34.9)	(23.6)
Total non-current liabilities	(373.5)	(397.1)	(385.0)

Total liabilities	(1,181.6)	(1,236.2)	(1,141.6)
Net assets	271.6	186.4	225.6
Capital and reserves			
Called up share capital	69.9	69.9	69.9
Share premium account	56.8	56.8	56.8
Capital redemption reserve	5.6	5.6	5.6
Other reserves	12.6	12.6	12.6
Translation reserve	0.4	(0.1)	-
Retained earnings	126.3	41.6	80.7
Total equity attributable to equity shareholders of the Company	271.6	186.4	225.6

* see note 4

Consolidated Cash Flow Statement	For the six months ended 30 June 2022 £m	Restated * For the six months ended 30 June 2021 £m	For the twelve months ended 31 December 2021 £m
Cash flows from operating activities			
Profit for the period	26.4	28.4	61.5
Adjustment for net financing expense	21.4	17.3	34.3
Adjustment for taxation	6.5	2.4	11.8
	54.3	48.1	107.6
Depreciation and amortisation	17.0	18.4	36.1
Share based payments	1.7	1.4	2.9
Profit on sale of businesses and property	(7.2)	(2.4)	(2.7)
Impairment of goodwill	3.6	-	-
Impairment of assets property, plant and equipment	0.6	5.4	9.6
Impairment of assets held for sale	0.6	-	-
Contributions into defined benefit pension scheme	(6.5)	(6.3)	(12.8)
Changes in inventories	(2.9)	156.8	107.8
Changes in trade and other receivables	(15.8)	(19.8)	(1.1)
Changes in trade and other payables	54.6	(37.6)	(111.1)
Movement in contract hire vehicle balances	(11.7)	(39.6)	(36.8)
Cash generated from operations	88.3	124.4	99.5
Taxation received/(paid)	0.5	(1.6)	(7.1)
Lease interest paid	(7.1)	(6.3)	(12.6)

Lease interest received	0.5	0.4	0.9
Bank and stocking interest paid	(12.2)	(8.4)	(17.5)
Net cash from operating activities	70.0	108.5	63.2
Cash flows from investing activities			
Proceeds from sale of businesses	0.3	27.2	27.2
Purchase of property, plant, equipment and intangible assets	(20.6)	(15.0)	(18.6)
Proceeds from sale of property, plant, equipment and intangible assets	13.8	3.1	5.4
Receipt of lease receivables	1.0	1.2	2.2
Net cash (used in)/from investing activities	(5.5)	16.5	16.2
Cash flows from financing activities			
Payment of lease liabilities	(11.3)	(14.3)	(27.2)
Repayment of loans	(88.5)	(81.7)	(88.8)
Proceeds from issue of loans (net of directly attributable transaction costs)	94.4	(1.4)	18.7
Disposal of shares by EBT	0.1	-	-
Net cash outflow from financing activities	(5.3)	(97.4)	(97.3)
Net increase/(decrease) in cash and cash equivalents	59.2	27.6	(17.9)
Opening cash and cash equivalents	37.6	56.0	56.0
Effects of exchange rate changes on cash held	(0.1)	(0.4)	(0.5)
Closing cash and cash equivalents	96.7	83.2	37.6

* see note 4

Reconciliation of net cash flow to movement in adjusted net cash/(debt)	For the six months ended 30 June 2022 £m	For the six months ended 30 June 2021 £m	For the twelve months ended 31 December 2021 £m
Net increase/(decrease) in cash and cash equivalents	59.2	27.6	(17.9)
Repayment of loans	88.5	81.7	88.8
Proceeds from issue of loans (net of directly attributable transaction costs)	(94.4)	1.4	(18.7)
Non-cash movements	(0.8)	(0.8)	(1.5)
Increase in adjusted net cash/decrease in adjusted net debt in the period	52.5	109.9	50.7
Opening adjusted net debt	(49.7)	(100.4)	(100.4)
Closing adjusted net cash/(debt)	2.8	9.5	(49.7)

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

Notes

1 Basis of Preparation

Pendragon PLC (the 'Company') is a public company incorporated, domiciled and registered in England in the UK. The registered number is 2304195 and the registered address is Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottinghamshire, NG15 ODR. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2022 comprise the Company and its subsidiaries (together referred to as the 'Group').

Going concern

The Directors are, at the time of approving the financial statements, satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. The Directors have considered the potential impact of a macro-economic downturn, a market correction in used pricing and shortfalls in both new and used 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. 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 remained compliant with its banking covenants throughout the period to 30 June 2022.

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 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 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, which is regularly re-evaluated and updated to reflect current market conditions. Cost inflation has been considered and additional costs have been included to account for increased cost pressures.

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 externally sourced forecasts. This considers both a worsening in economic conditions and restricted new car supply due to manufacturing constraints. 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 its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and therefore the directors believe it remains appropriate to prepare the financial statements on a going concern basis.

Alternative Performance Measures

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

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

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

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

Underlying operating profit / profit before tax - results on an underlying basis exclude items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business. The detail of the non-underlying results is shown in note 8.

Operating profit reconciliation

	2022 £m	2021 £m
Underlying operating profit	52.1	51.9
Profit on the sale of businesses and property (see note 8)	7.2	2.4
Impairment of goodwill (see note 15)	(3.6)	-
Impairment of property, plant and equipment - owned (see note 8)	(1.0)	-
Impairment of right of use assets (see note 8)	(0.2)	(5.4)
Closure costs (see note 8)	-	0.1
Termination and severance costs (see note 8)	(0.2)	(0.9)
Non-underlying operating profit/(loss) items	2.2	(3.8)
Operating profit	54.3	48.1

Profit before tax reconciliation

	2022 £m	2021 £m
Underlying profit before tax	33.5	35.1
Non-underlying operating profit/(loss) items (see reconciliation above)	2.2	(3.8)
Non-underlying finance (costs)/income (see note 8)	(2.8)	(0.5)
Non-underlying operating profit/(loss) and finance cost items	(0.6)	(4.3)
Profit before tax	32.9	30.8

Profit after tax reconciliation

	2022 £m	2021 £m
Underlying profit after tax	26.5	31.9
Non-underlying operating profit/(loss) and finance cost items (see reconciliation above)	(0.6)	(4.3)
Non-underlying tax (see note 8)	0.5	0.8
Non-underlying operating profit/(loss), finance and tax cost items	(0.1)	(3.5)
Profit/(loss) after tax	26.4	28.4

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

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

Adjusted net (debt)/cash – 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 adjusted net cash/(debt) to underlying EBITDA to assess the use of the Group's financial resources.

Leverage ratio – reconciliation

	2022 £m	2021 £m
Underlying operating profit (12 months rolling 1 July 2020 to 30 June 2021)	116.5	108.6
Depreciation and amortisation (12 months rolling 1 July 2020 to 30 June 2021)	71.3	79.6
Underlying EBITDA (12 months rolling 1 July 2020 to 30 June 2021)	187.8	188.2
Adjusted net cash	2.8	9.5
Adjusted net cash : Underlying EBITDA ratio	0.0	0.1

Like for Like reconciliations

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

Revenues by Department – UK Motor	2022 Group revenue £m	2022 Disposals revenue £m	2022 Other non like for like revenue £m	2022 Like for like revenue £m
Aftersales revenue	137.2	-	-	137.2
Used vehicle revenue	948.9	-	-	948.9
New vehicle revenue	716.8	-	-	716.8
Total Revenue	1,802.9	-	-	1,802.9

Revenues by Department – 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	132.0	(1.0)	-	131.0
Used vehicle revenue	846.1	(7.6)	-	838.5
New vehicle revenue	761.7	(2.9)	-	758.8
Total Revenue	1,739.8	(11.5)	-	1,728.3

Gross Profit by Department – UK Motor	2022 Group gross profit £m	2022 Disposals gross profit £m	2022 Other non like for like gross profit £m	2022 Like for like gross profit £m
Aftersales gross profit	70.4	-	-	70.4

Used vehicle gross profit	77.1	-	-	77.1
New vehicle gross profit	63.6	-	-	63.6
Total Gross profit	211.1	-	-	211.1

Gross Profit by Department – 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	65.3	(0.5)	-	64.8
Used vehicle gross profit	73.6	(0.1)	-	73.5
New vehicle gross profit	48.7	(0.1)	-	48.6
Total Gross profit	187.6	(0.7)	-	186.9

Underlying operating profit	2022 Group Underlying operating profit/(loss) £m	2022 Disposals Underlying operating profit £m	2022 Other non like for like Underlying operating profit £m	2022 Like for like Underlying operating profit/(loss) £m
Franchised UK Motor	37.2	0.1	-	37.3
Software	5.5	-	-	5.5
Leasing	10.2	-	-	10.2
US Motor	(0.8)	0.8	-	-
Total underlying operating profit	52.1	0.9	-	53.0

Underlying operating profit	2021 Group Underlying operating (loss)/profit £m	2021 Disposals Underlying operating (loss)/profit £m	2021 Other non like for like Underlying operating (loss)/profit £m	2021 Like for like Underlying operating (loss)/profit £m
Franchised UK Motor	37.9	1.4	-	39.3
Software	6.7	-	-	6.7
Leasing	8.1	-	-	8.1
US Motor	(0.8)	0.8	-	-
Total underlying operating profit	51.9	2.2	-	54.1

As all trading activity in the US Motor segment ceased in 2021, all of the US Motor figures are not like for like.

2 Statement of compliance

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2022 has been prepared in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. It does not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2021, which are prepared in accordance with International Financial Reporting Standards as adopted in the United Kingdom.

These condensed consolidated interim financial statements were approved by the board of directors on 21 September 2022.

3 Significant accounting policies

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2021, except as explained below.

Adoption of new and revised standards

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

4 Restatement

In preparing the Group's Financial Statements for the year ended 31 December 2021, it was decided that as at 1 January 2021 certain motor vehicles that were presented within Property, plant and equipment, which were cars used as employee cars and as service loan vehicles, would be reclassified as inventory to better reflect their current asset nature. 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 Group's normal business activities. The Condensed financial Statements prepared for the six month period ended 30 June 2021 included these vehicles as Property, plant and equipment and therefore their disclosure as such was inconsistent with the policy adopted for the full year ended 31 December 2021. In order to provide consistency in the reporting between the first and second halves of 2021 the Condensed Consolidated Balance Sheet and Condensed Consolidated Cash Flow Statement have been restated for the reclassification on 1 January 2021 as follows:

Consolidated Balance Sheet At 30 June 2021	As previously reported £m	Adjustments £m	As restated £m
Non-current assets			
Property, plant and equipment	531.4	(8.6)	522.8
Others	207.7	-	207.7
Total non-current assets	739.1	(8.6)	730.5
Current assets			
Inventories	469.0	8.6	477.6
Others	214.5	-	214.5
Total current assets	683.5	8.6	692.1
Total assets	1,422.6	-	1,422.6
Total liabilities	(1,236.2)	-	(1,236.2)
Net assets	186.4	-	186.4

Consolidated Cash Flow Statement 6 months ended 30 June 2021	As previously reported £m	Adjustments £m	As restated £m
Cash flows from operating activities			
Profit for the period	28.4	-	28.4

Adjustment for net financing expense	17.3	-	17.3
Adjustment for taxation	2.4	-	2.4
	48.1	-	48.1
Depreciation and amortisation	19.1	(0.7)	18.4
Changes in inventories	146.5	10.3	156.8
Other movements in cash from operating activities	(114.8)	-	(114.8)
Net cash from operating activities	98.9	9.6	108.5
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	(16.8)	1.8	(15.0)
Proceeds from sale of property, plant, equipment and intangible assets	14.5	(11.4)	3.1
Other movements in cash (used in)/from investing activities	28.4	-	28.4
Net cash (used in)/from investing activities	26.1	(9.6)	16.5
Net cash outflow from financing activities	(97.4)	-	(97.4)
Net increase in cash and cash equivalents	27.6	-	27.6

5 Estimates and judgements

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

Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2021.

Assets held for resale are held at the lower of their carrying value and fair value less costs to sell. The fair value (a Level 2 valuation, determined based on prices for similar assets) is £7.6m.

The Group assessment of fair values of used inventory of £332.4m involves an element of estimation. The key assumptions underpinning the net realisable value of the used vehicle inventory are (i) the time to sell each vehicle; (ii) the expected sales price at the date of sale. We conduct this analysis by looking at stock by age category and comparing historical trends and our forward expectations on these assumptions.

If the average time to sell a vehicle is increased by 30 days then it would reduce the value of the used vehicle inventory by £2.1m (HY 2021: £3.5m). If the expected sales prices at the date of sale were to decrease by £500 per vehicle then it would reduce the value of the used vehicle inventory by £3.3m (HY 2021: £5.2m) at the balance sheet date. Whereas if the average time to sell a vehicle is decreased by 30 days then it would increase the value of the used vehicle inventory by £2.2m (HY 2021: £2.6m). Also if the expected sales prices at the date of sale were to increase by £500 per vehicle then it would increase the value of the used vehicle inventory by £2.1m (HY 2021: £3.0m) at the balance sheet date.

During the six months ended 30 June 2022 management reassessed its estimates and assumptions in respect of employee post-retirement benefit obligations. The obligations under these plans are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates and return on assets, details of which are provided in note 22 below.

The estimates in respect of the anticipated tax rate to be applied for the full financial year 2022 and subsequently used in the preparation of the results for the six month period to 30 June 2022 are set out in note 12.

6 Comparative figures

The comparative figures for the financial year ended 31 December 2021 are extracted from the Group's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

7 Revenue

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

Disaggregation of revenue

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

For the six months ending 30 June 2022	UK Motor £m	Software £m	Leasing £m	US Motor* £m	Total £m
Primary geographical markets					
Europe	1,802.9	9.1	33.1	-	1,845.1
North America	-	-	-	-	-
Africa	-	0.3	-	-	0.3
Asia	-	0.1	-	-	0.1
Revenue from External customers	1,802.9	9.5	33.1	-	1,845.5
Major products/service lines					
Aftersales revenue	137.2	-	-	-	137.2
Used vehicle revenue	948.9	-	-	-	948.9
New vehicle revenue	716.8	-	-	-	716.8
Software revenue	-	9.5	-	-	9.5
Leasing revenue	-	-	33.1	-	33.1
Revenue from External customers	1,802.9	9.5	33.1	-	1,845.5
Timing of revenue recognition					
At point in time	1,798.2	0.8	16.1	-	1,815.1
Over time	4.7	8.7	17.0	-	30.4
Revenue from External customers	1,802.9	9.5	33.1	-	1,845.5

For the six months ending 30 June 2021	UK Motor £m	Software £m	Leasing £m	US Motor* £m	Total £m
Primary geographical markets					
Europe	1,739.8	9.5	37.7	-	1,787.0
North America	-	-	-	28.3	28.3
Africa	-	0.2	-	-	0.2
Asia	-	0.1	-	-	0.1
Revenue from External customers	1,739.8	9.8	37.7	28.3	1,815.6
Major products/service lines					
Aftersales revenue	132.0	-	-	2.8	134.8
Used vehicle revenue	846.1	-	-	3.0	849.1
New vehicle revenue	761.7	-	-	22.5	784.2
Software revenue	-	9.8	-	-	9.8

Leasing revenue	-	-	37.7	-	37.7
Revenue from External customers	1,739.8	9.8	37.7	28.3	1,815.6
Timing of revenue recognition					
At point in time	1,735.3	1.1	18.0	28.3	1,782.7
Over time	4.5	8.7	19.7	-	32.9
Revenue from External customers	1,739.8	9.8	37.7	28.3	1,815.6

* The Group's US business is a discontinued operation (see note 15).

8 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.

	2022 £m	2021 £m
Within operating expenses:		
Impairment of goodwill	(3.6)	-
Impairment of property, plant and equipment - owned	(1.0)	-
Impairment of right of use assets	(0.2)	(5.4)
Income on business closure	-	0.1
Termination and severance costs	(0.2)	(0.9)
	(5.0)	(6.2)
Within other income - gains on the sale of businesses, property and investments:		
Profit on the sale of businesses	-	1.0
Profit on the sale of property	7.2	1.4
	7.2	2.4
Within finance expense:		
Loss on refinancing	(2.6)	-
Net interest on pension scheme obligations	(0.2)	(0.5)
	(2.8)	(0.5)
Total non-underlying items before tax	(0.6)	(4.3)
Non-underlying items in tax	0.5	0.8
Total non-underlying items after tax	(0.1)	(3.5)

Goodwill has been reviewed for any possible impairment and as a result of this review there was an impairment charge of £3.6m made during the period (2021: £nil).

Following the sale of the businesses in the US a net £0.1m credit was recognised as a non-underlying item in 2021 relating to various costs incurred and rent contributions received post sale. During the previous year the Group undertook a review of its operations during the year which resulted in a number of business closures with resultant costs of closure of these sites of £0.8m which were recognised as a non-underlying item in 2020.

Group property, plant and equipment and assets held for sale have been reviewed for possible impairments. As a result of this review there was an impairment charge against assets held for sale during the period of £0.6m (2021: £nil). Property, plant and equipment were impaired by £0.4m (2021: £nil) and right of use assets by £0.2m (2021: £5.4m). 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 (2021: £nil).

During the period a number of employees were offered compensation on either being made redundant or terminating their employment contracts which amounted to £0.2m (2021: £0.9m).

Other income, being the profit on disposal of businesses and property was £7.2m (2021: £2.4m). This comprises a profit of £7.2m (2021: £1.4m profit) on disposal of property and a profit on the disposal of motor vehicle dealerships of £nil (2021: £1.0m).

On completion of the Group re-financing in March 2022 an expense of £2.6m was incurred in settling obligations under the previous arrangement which has been recognised as a non-underlying finance expense during the period (2021: £nil).

The net interest expense on pension obligations in respect of the defined benefit schemes closed to future accrual is shown as a non-underlying item due to the volatility and non-trading nature of this amount. A net interest expense of £0.2m has been recognised during the period (2021: £0.5m).

9 Segmental Analysis

The Group has revised its reporting segments. In January 2022 the Group re-organised its management and reporting structure. The significant changes were that the Franchised UK Motor and Car Store operations were brought under the management of the UK Motor operation. This revised segmental structure is reflected in the internal reporting structure as presented to the Chief Operating Decision Maker. In the 2022 financial statements therefore, the Franchised UK Motor and Car Store segments are no longer reported separately.

The results of the Franchised UK Motor and Car Store segments for the comparative period have been aggregated into the new UK Motor Group segment and is re-presented as follows for the period ended 30 June 2021:

UK Motor Segment restatement For the six months ending 30 June 2021	Franchised UK Motor £m	Car Store £m	UK Motor segment as restated £m
Total gross segment turnover	1,673.8	66.0	1,739.8
Inter-segment turnover	-	-	-
Revenue from external customers	1,673.8	66.0	1,739.8
Operating profit before non-underlying items	37.6	0.3	37.9
Other income and non-underlying items	(0.1)	-	(0.1)
Operating profit	37.5	0.3	37.8
Finance expense	(10.7)	(0.4)	(11.1)
Finance income	-	-	-
Segmental profit/(loss) before tax	26.8	(0.1)	26.7
Depreciation and amortisation	16.7	0.2	16.9
Impairment of right of use assets	0.5	-	0.5

For the six months ending 30 June 2022	UK Motor £m	Software £m	Leasing £m	US Motor £m	Group Interest £m	Total £m
Total gross segment turnover	1,802.9	12.4	42.9	-	-	1,858.2
Inter-segment turnover	-	(2.9)	(9.8)	-	-	(12.7)
Revenue from external customers	1,802.9	9.5	33.1	-	-	1,845.5
Operating profit/(loss) before non-underlying items	37.2	5.5	10.2	(0.8)	-	52.1
Other income and non-underlying items	2.2	-	-	-	-	2.2

Operating profit/(loss)	39.4	5.5	10.2	(0.8)	-	54.3
Finance expense	(15.1)	-	(1.5)	-	(5.3)	(21.9)
Finance income	-	-	-	-	0.5	0.5
Segmental profit/(loss) before tax	24.3	5.5	8.7	(0.8)	(4.8)	32.9
Depreciation and amortisation	14.9	2.0	17.8	-	-	34.7
Impairment of goodwill	3.6	-	-	-	-	3.6
Impairment of property, plant and equipment - owned	1.0	-	-	-	-	1.0
Impairment of right of use assets	0.2	-	-	-	-	0.2

For the six months ending 30 June 2021	UK Motor £m	Software £m	Leasing £m	US Motor* £m	Group Interest £m	Total £m
Total gross segment turnover	1,739.8	12.1	49.0	28.3	-	1,829.2
Inter-segment turnover	-	(2.3)	(11.3)	-	-	(13.6)
Revenue from external customers	1,739.8	9.8	37.7	28.3	-	1,815.6
Operating (loss)/profit before non-underlying items	37.9	6.7	8.1	(0.8)	-	51.9
Other income and non-underlying items	(0.1)	-	-	(3.7)	-	(3.8)
Operating (loss)/profit	37.8	6.7	8.1	(4.5)	-	48.1
Finance expense	(11.1)	-	(1.5)	(0.2)	(4.9)	(17.7)
Finance income	-	-	-	-	0.4	0.4
Segmental (loss)/profit before tax	26.7	6.7	6.6	(4.7)	(4.5)	30.8
Depreciation and amortisation	16.9	2.0	19.7	0.1	-	38.7
Impairment of goodwill	0.5	-	-	4.9	-	5.4

*Discontinued operation

10 Finance Expense

	2022 £m	2021 £m
Recognised in profit and loss		
Interest payable on bank borrowings, Senior note and loan notes	5.1	4.4
Lease interest	7.1	6.3
Vehicle stocking plan interest	5.7	5.0
Loss on refinancing (non-underlying - see note 8)	2.6	-
Net interest on pension scheme obligations (non-underlying - see note 8)	0.2	0.5
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	20.7	16.2

Unwinding of discounts in contract hire residual values	1.2	1.5
Total finance expense	21.9	17.7

11 Finance Income

	2022 £m	2021 £m
Recognised in profit and loss		
Lease interest receivable	0.5	0.4
Total finance income	0.5	0.4

12 Taxation

Based upon the anticipated profit on underlying activities for the full year, the effective rate on underlying profit for 2022 is estimated at 20.9% (2021: 9.3%). The effective rate for 2022 is higher than the current rate of UK tax due to the expenditure not allowable for UK corporation tax purposes and a loss in the USA (discontinued operations) for which no US tax relief is anticipated. The 2021 rate of 9.3% included the impact of revaluing the net deferred tax asset balances forecast at 01 April 2023 (the date from which a 25% UK corporate tax rate will be applicable from), without the impact of the rate change in 2021 the effective rate for 2021 would have been 19.63%.

13 Earnings per share

	2022 Pence	2021 Pence
Basic earnings per share	1.90	2.04
Effect of adjusting items	-	0.25
Underlying earnings per share (Non-GAAP measure)	1.90	2.29
Diluted earnings per share	1.85	2.02
Effect of adjusting items	-	0.25
Underlying diluted earnings per share (Non-GAAP measure)	1.85	2.27

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

Number of shares (millions)	2022 number	2021 number
Weighted average number of shares used in basic and adjusted earnings per share calculation	1,391.5	1,390.5
Weighted average number of dilutive shares under option	35.8	13.9
Diluted weighted average number of shares used in diluted earnings per share calculation	1,427.3	1,404.4
Earnings	2022 £m	2021 £m
Profit for the period	26.4	28.4
Adjusting items:		
Non-underlying items attributable to the parent (see note 8)	0.6	4.3
Tax effect of non-underlying items	(0.5)	(0.8)
Earnings for adjusted earnings per share calculation	26.5	31.9

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

14 Business and property disposals

During the period the Group generated net proceeds of £0.3m (2021: £27.2m) with a profit on disposal of £nil (2021: £1.0m) from the sale of businesses. One small business was sold in 2022.

The Group sold property generating net proceeds of £12.3m (2021: £1.6m) with a profit on disposal of £7.2m (2021: £1.4m).

15 Assets held for sale and Discontinued operations

During the first half of 2021 the Group sold its two remaining stores of its US motor business, which was sold off to various buyers over the previous three years for proceeds totalling £106.0m. The results of the US Business were shown as a discontinued operation within these consolidated financial statements in 2021. The operation has maintained a small presence in the US to facilitate the settlement of outstanding transactions and provide support in assisting the complete wind down of the business which is likely to be in excess of one year in duration. For 2022 the impact of this remaining function in the US is deemed immaterial in the context of the Group financials so no further financial information is provided as a discontinued operation.

The results of the discontinued operation for the previous year are set out on the face of the condensed consolidated income statement. Other financial information relating to the discontinued operation for the 2021 period is set out below.

			2022 £m	2021 £m
Exchange differences on translation of discontinued operation			-	(0.1)
Other comprehensive income from discontinued operation			-	(0.1)

			2022 £m	2021 £m
Net cash (used in)/from operating activities			-	(5.3)
Net cash from investing activities			-	26.6
Net cash used in financing activities			-	(22.7)
Net cash decrease generated by discontinued operation			-	(1.4)

			2022 pence	2021 pence
Basic earnings per share from discontinued operation			-	(0.29)
Diluted earnings per share from discontinued operation			-	(0.28)

The Group also holds a number of properties that are currently being marketed for sale which are expected to be disposed of during the next 12 months. No impairment loss has been recognised in the income statement for the six months to 30 June 2022 on re-measurement of properties to the lower of their carrying amount and their fair value less costs to sell (2021: £nil).

In addition, the Group held for sale 4 motor vehicle dealerships at 30 June 2022 whose sale completed on 1 August 2022. Goodwill in respect of these businesses was impaired by £3.6m down to £2.1m which was the fair value less costs to sell and an impairment of £0.6m on property, plant and equipment was also made in respect of this transaction.

During the period to 30 June 2022 disposals of assets classified as held for sale resulted in a profit of £8.0m on disposal (2021: £1.2m).

	30 June 2022 £m	30 June 2021 £m	31 December 2021 £m
Goodwill	2.1	-	-
Property, plant and equipment	5.5	8.6	10.4
Assets classified as held for sale	7.6	8.6	10.4

16 Cash and cash equivalents

	30 June 2022 £m	30 June 2021 £m	31 December 2021 £m
Bank balances and cash equivalents	96.7	83.2	37.6

17 Net Borrowings

	30 June 2022 £m	30 June 2021 £m	31 December 2021 £m
Cash and cash equivalents (note 16)	96.7	83.2	37.6
Current interest bearing loans and borrowings	(2.0)	-	-
Non-current interest bearing loans and borrowings	(91.9)	(73.7)	(87.3)
Adjusted net cash/(debt)	2.8	9.5	(49.7)
Lease liabilities	(224.1)	(228.7)	(222.1)
Net Borrowings	(221.3)	(219.2)	(271.8)

18 Deferred Income

	30 June 2022 £m	30 June 2021 £m	31 December 2021 £m
Warranty policies sold	19.4	16.2	16.5
Contract hire leasing income	55.4	61.7	57.5
	74.8	77.9	74.0
Current	36.2	38.8	37.2
Non-current	38.6	39.1	36.8
	74.8	77.9	74.0

19 Change to contract hire vehicle balances

	30 June 2022 £m	30 June 2021 £m	31 December 2021 £m
Depreciation	17.7	19.6	38.5
Changes in trade and other payables and deferred income	(5.6)	(19.8)	(30.2)
Purchases of contract hire vehicles	(22.6)	(37.9)	(42.4)
Unwinding of discounts in contract hire vehicle balances	(1.2)	(1.5)	(2.7)
Cash flow movement in contract hire vehicle balances	(11.7)	(39.6)	(36.8)

20 Change in inventories

	30 June 2022 £m	Restated * 30 June 2021 £m	31 December 2021 £m
Movement in inventory	(17.1)	131.2	96.0
Reclassification from property, plant and equipment	-	18.9	18.9
Inventory changes in business combinations and disposals	-	-	(0.6)
Impact of exchange differences	-	-	0.1
Non-cash movement in consignment vehicles	5.2	(47.7)	(54.5)
Classified as held for sale	-	16.8	17.8
Transfer value of contract hire vehicles from fixed assets to inventory	9.0	37.6	30.1
Cash flow (decrease)/increase due to movements in inventory	(2.9)	156.8	107.8

*see note 4

21 Trade and other payables

Trade and other payables due within one year include the following in respect of vehicle stocking loans.

	30 June 2022 £m	30 June 2021 £m	31 December 2021 £m
Consignment vehicle liabilities	32.4	34.7	27.2
Stocking loans - Manufacturer finance arm	177.5	175.5	158.1
Stocking loans - Third party stock finance	248.5	196.0	262.5
Stocking loans	458.4	406.2	447.8

22 Pension scheme obligations

The net asset for defined benefit obligations has increased from £23.6m deficit at 31 December 2021 to a £4.2m surplus at 30 June 2022, which comprises a defined benefit obligation of £420.9m and pension scheme assets of £425.1m. The increase of £27.8m comprises a net interest expense of £0.2m recognised in the income statement, a net remeasurement gain of £21.5m and contributions paid of £6.5m. The net remeasurement gain has arisen in part due to changes in the principal assumptions used in the valuation of the scheme's liabilities over those used at 31 December 2021. The assumptions subject to change are the discount rate of 3.85% (31 Dec 2021: 1.80%), the inflation rate (RPI) of 3.25% (31 Dec 2021: 3.50%), the inflation rate (CPI) of 2.75% (31 Dec 2021: 3.00%) and the mortality assumptions adopted at 30 June 2022 are 111% of the standard tables S3PMA/S3PFA projected using CMI_2021 converging to 1.25% p.a. (31 Dec 2021: 100% of 2018 VitaCurves projected using CMI_2020 converging to 1.25% p.a.).

The Trust Deed provides Pendragon PLC with an unconditional right to a refund of surplus assets assuming the full settlement of scheme liabilities in the event of a scheme wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up, or otherwise augment the benefits due to members of the scheme. Based on these rights, any net surplus in the Pendragon Group Pension Scheme is recognised in full, assuming the gradual settlement of plan liabilities over time until all members have left the plan.

23 Related party transactions

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

24 Risks and uncertainties

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

The principal risks identified were: failure to adopt the right strategy or failure of our adopted strategy to be effectively implemented or to deliver the desired results, dependence on vehicle manufacturers for the success of our business, failure to

meet competitive challenges to our business model or sector, European economic instability affecting the UK in particular impacting used vehicle prices, UK governmental spending constraints, impacts of international import tariffs on motor vehicles, changes to the type of vehicles sold (including the trend away from the purchase and use of diesel vehicles) or the amount of road use, availability of debt funding, funding requirements of the occupational pension scheme, significant litigation or regulator action against or otherwise impacting the Group, failure of systems, reliance on the use of estimates, failure to attract, develop, motivate and retain good quality team members, failure to provide safe working and retail environments, failure to control environmental hazards, failure to comply with the General Data Protection Regulation and the potential impacts associated with the UK's decision to leave the EU. Additionally, there are vehicle credit stocking facilities which are secured against inventory and are made available to the group on a continuous basis with notice periods of between 1 and 4 months. Based on discussions with the main providers of these facilities and historic availability, the directors expect these stocking facilities to remain available to the Group throughout the forecast period. There is also a short-term risk to new car supply from the impact of micro-chip shortages.

The Risk Control Group has met to consider these risks and uncertainties and will continue to monitor how these risks evolve. The Board has recently reviewed the risk factors and confirms that they remain an appropriate assessment of our risks for the rest of the current year. The Board considers the main areas of risk and uncertainty that could impact profitability to be used vehicle prices, economic and business conditions and Sterling/Euro exchange rates.

25 Responsibility Statement

We confirm that to the best of our knowledge:

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

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

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

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

By order of the Board,

W Berman

Chief Executive Officer

M S Willis

Chief Financial Officer

21 September 2022

INDEPENDENT REVIEW REPORT TO PENDRAGON PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2022 which comprises the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Basis for conclusion

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

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

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern, and the above conclusions are not a guarantee that the group will continue in operation.

Directors' responsibilities

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

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with UK-adopted international accounting standards.

The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed set of financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

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

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

Craig Parkin

for and on behalf of KPMG LLP

Chartered Accountants

One Snowhill
Snowhill Queensway
Birmingham B4 6GH

21 September 2022