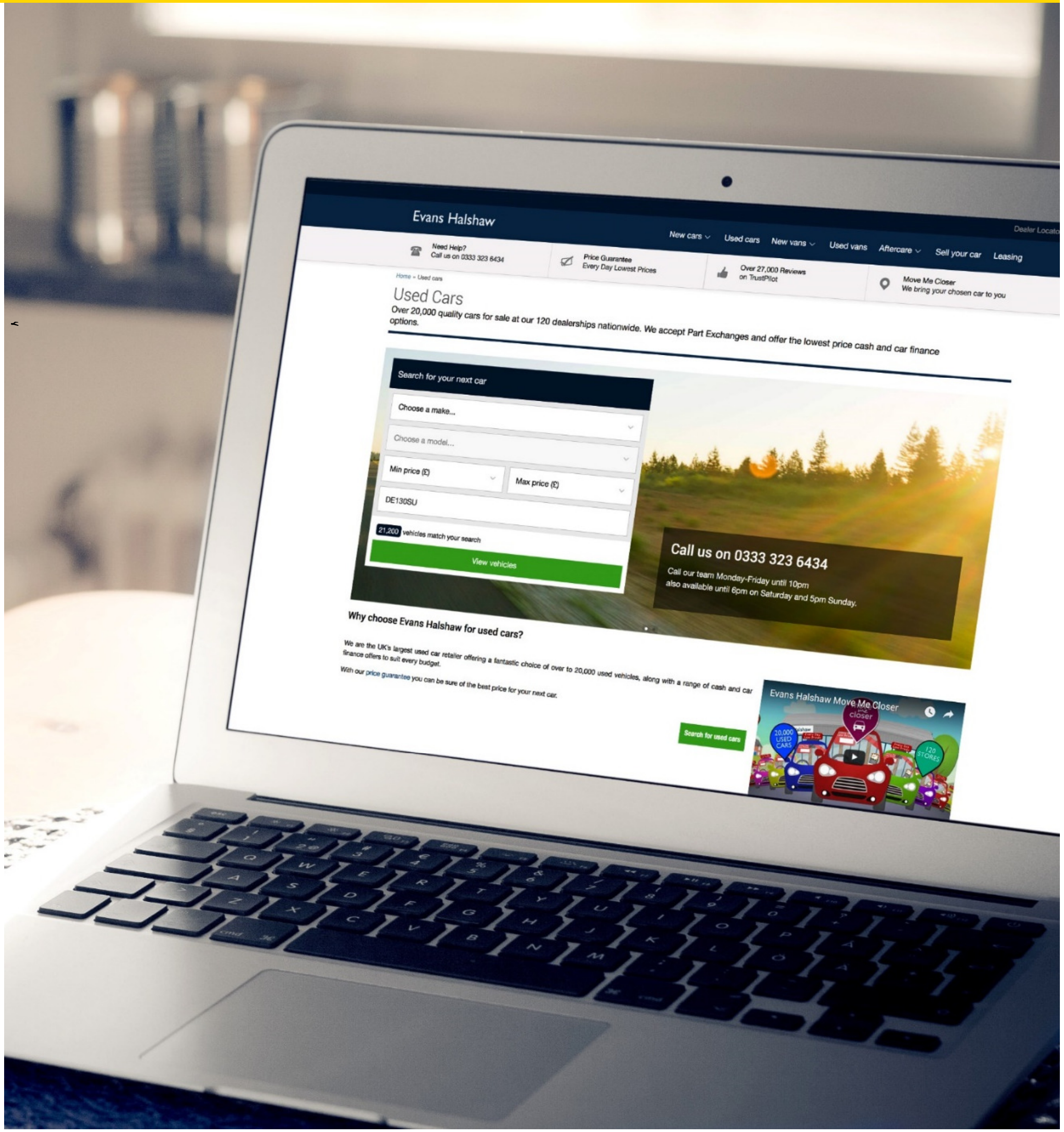
Pendragon | PLC



2019 Half Year Results
18 September 2019

Agenda

- Business Review — Martin Casha
- Financial Review — Mark Willis
- Q&A

H1 Highlights

- H1 challenging for the Group;
  - Combination of factors impacted performance
  - Action taken to reduce car stock to appropriate levels drove significant losses
  - Weakened market conditions impacting both new and used performance
- Group remains a destination of choice for consumers;
  - Like-for-like revenue growth of 2.9% (Total revenue down 0.8%)
- Board initiated a detailed review of Car Store business
  - Confirmation of significant market opportunity
  - Short-term actions to significantly improve performance
- Pinewood and Leasing performed well, in line with our expectations
- Good progress made with disposal of US motor group, with sales agreed for c.£80m
- Underlying Loss Before Tax £(32.2)m (2018 : £28.4m profit)
- Closing Net Debt - £104.3m (FY18 : £126.1m) down 17.3%

Business Review

Businesses

Car Store
Sale of used vehicles in the UK

Franchised UK Motor
Sale/Servicing of vehicles in the UK

Software
SaaS solutions for retailers in international markets

Leasing
Vehicle leasing and fleet in the UK

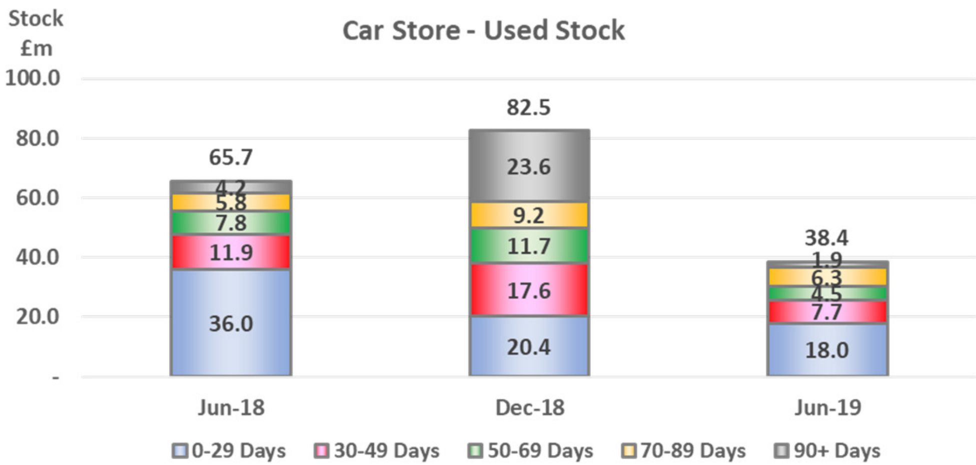
US Motor
Sale/Servicing of vehicles in the US

Car Store – Summary

Car Store (£m)					
	H1 2019	**H1 2018**	**% Change**	**% Change LFL**	***H1 2019*** [1]
Revenue	170.8	146.7	**+16.4%**	**+5.1%**	*170.8*
Gross Profit	**5.3**	**10.3**	**-48.5%**	**-57.3%**	***5.3***
Operating Costs	(24.4)	(16.7)	**+46.1%**	**+32.3%**	*(25.0)*
Operating Loss	**(19.1)**	**(6.4)**	**+198.4%**	**+176.6%**	***(19.7)***
Gross Margin %	3.1%	7.0%	**-3.9%**	**-4.1%**	*3.1%*
Operating Margin %	-11.2%	-4.4%	**-6.8%**	**-7.1%**	*-11.5%*

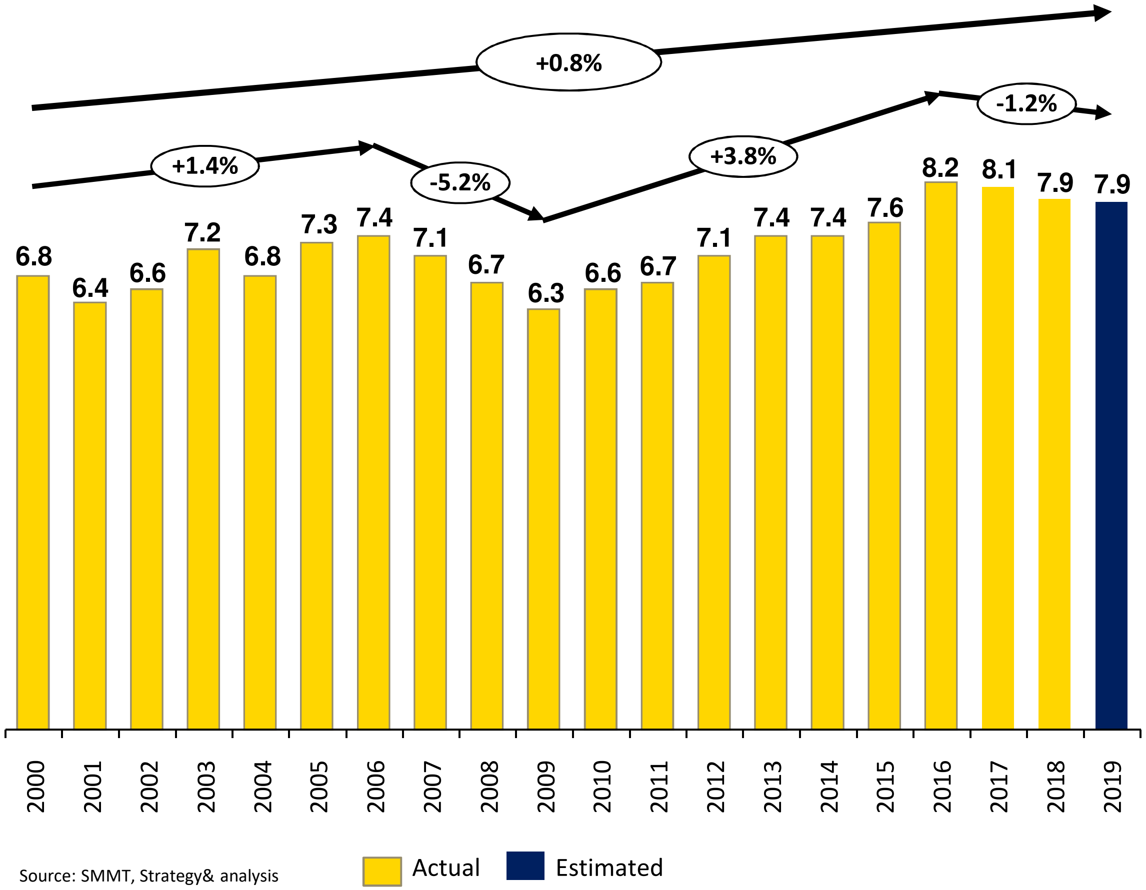
[1] Restated to exclude impact of IFRS 16 for comparison purposes

- Revenue up 16.4%, with LFL revenue up 5.1%
- Positive engagement with customers attracted to the proposition
- Operating losses increased by 198% to £(19.1m)
- Board initiated a detailed strategic review of the business
- Review confirmed the substantial and attractive market opportunity for Car Store
- Short-term actions identified to significantly improve financial performance, including closing 22 stores and one preparation centre



Car Store Review - Market

UK used car market evolution (2000-2019, million units)



Source: SMMT, Strategy& analysis

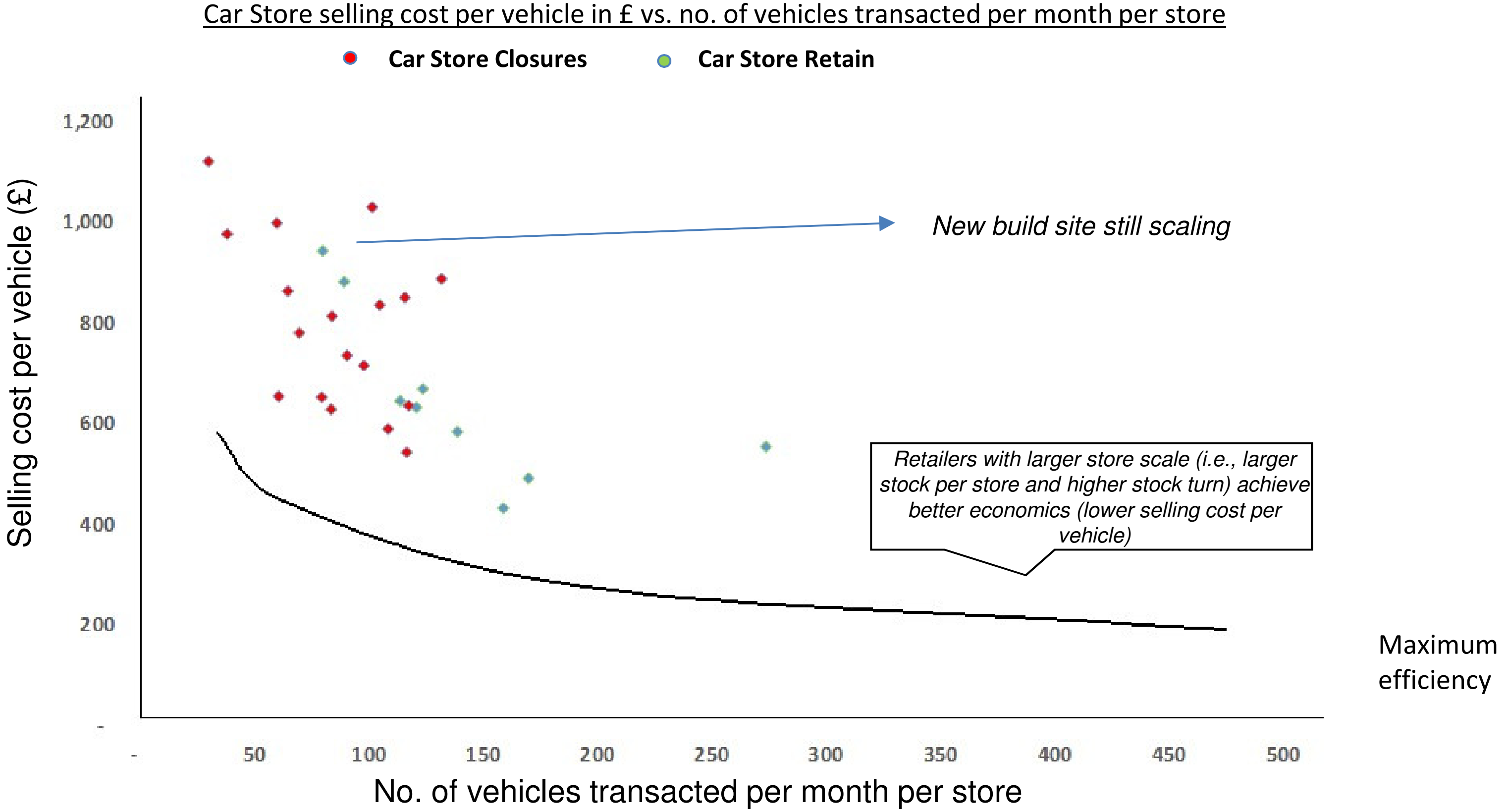
- The UK used car market opportunity is large and highly attractive
    - UK has the highest used-to-new transaction ratio (3.4:1)
    - European markets are in 1.5-2.5 range (Italy: 1.6:1, France 2.6:1)
- Car Store focus on customers whose priorities are based on a low-pressure sales experience, and trust
- Target vehicles between 2 – 7 years old. This segment has annual sales volume of c.3m cars.

Car Store Review - Market

	car store	Retailer A	Retailer B	Retailer C	Retailer D
Average stock size per store	~ 140	~ 300	~ 500	700-1,000	~ 2,300
Average car age	~ 4.2 yrs	~ 2.8 yrs	~ 1.5 yrs	~ 4.0 yrs	~ 2.5 yrs
Operating margin	*(11%)*	*c.4%*	*c.2%*	*c.4%*	*c.5%*

- The competitor set demonstrate attractive operating margins of 4-5% can be acheived
- Car Store HY 19 operating margin (11)% significantly underperforming the competitor group
- Highest performers operate through larger average stock holding sites
- Pendragon can leverage Group capabilities to build a winning Car Store model
    - Stock purchasing scale and relationships
    - Scale purchasing advantages of parts – important for vehicle preparation
    - High levels of brand referrals and cross-site traffic from the Group
- Market analysis confirms a material opportunity for Pendragon but current model requires adaptation

Car Store Review – Store Economies of Scale



- Existing store estate is sub-optimal to driving higher returns
  - Many stores are too small
  - Conversions of ex-franchise locations often too little display space / high occupancy costs
- Short-term actions will be taken to immediately improve fiancial performance ahead of full-strategic update
  - 22 stores to be closed in H2
  - Focus on improvements to sourcing, stock days, ancillary revenues and preparation efficiency

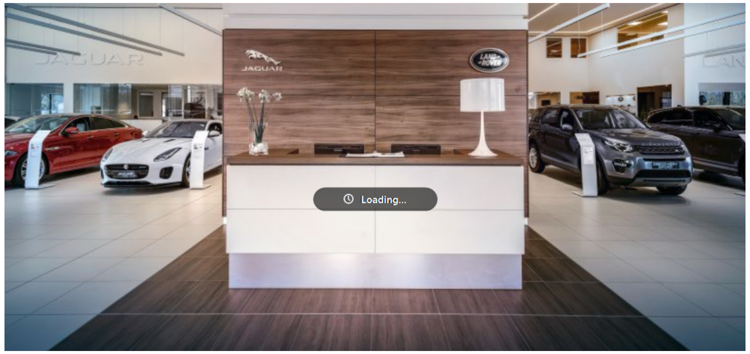
Car Store Review – Store Closures

- 22 sites and 1 preparation centre not suited to the future proposition will be closed
  - 17 ex-franchise conversions
    - High rental costs
    - Inefficienct space allocation
    - High costs per unit
  - 5 small-format locations (Avg of c.30 display spaces)
- Annualised improvement of c. £15m from site closures
- Closure programme to commence immediately, with sites exited during Q4 FY19.
- 12 sites will remain open with the right characteristics, supported by two preparation centres
  - 9 fit-for-purpose full sites
  - 3 collection points within London
- Full future strategy and capital requirements will be developed and communicated upon successful recruitment of the new Car Store MD

Franchised UK Motor – Summary

UK Motor (£m)					
	H1 2019	**H1 2018**	**% Change**	**% Change LFL**	***H1 2019*[1]**
Revenue	1,999.2	2,048.3	**-2.4%**	**+2.6%**	*1,999.2*
Gross Profit	**182.2**	**227.1**	**-19.8%**	**-16.3%**	***182.2***
Operating Costs	(189.9)	(195.3)	**-2.8%**	**+1.9%**	*(195.8)*
Operating Profit	**(7.7)**	**31.8**	**-124.2%**	**-115.6%**	***(13.6)***
Gross Margin %	9.1%	11.1%	**-2.0%**	**-2.1%**	*9.1%*
Operating Margin %	-0.4%	1.6%	**-2.0%**	**-2.1%**	*-0.7%*

[1] Restated to exclude impact of IFRS 16 for comparison purposes

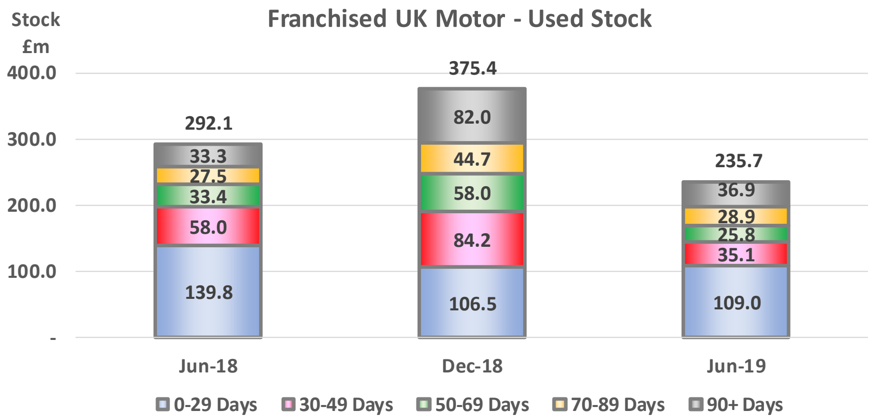


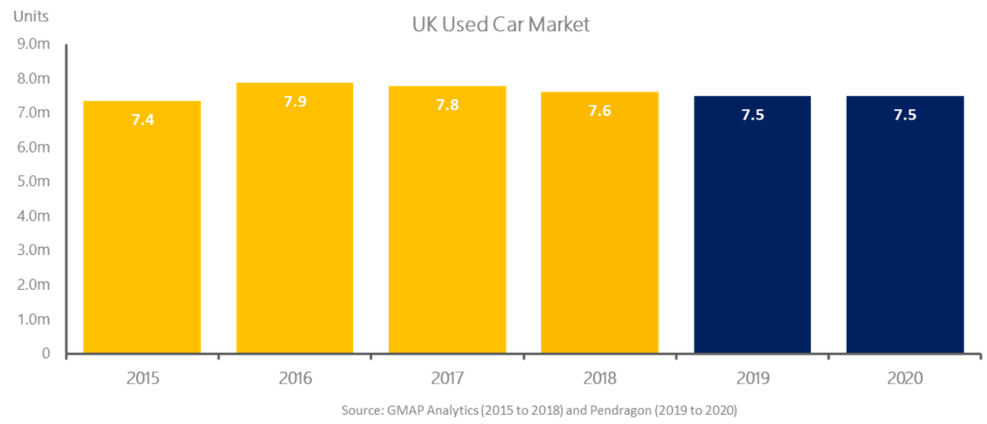
- Revenue down 2.4%, with the reduction in premium locations
- LFL revenue growth of 2.6%
- LFL gross profit down 16.3% mainly as a result of the reduction in excess stock
- Operating costs have increased by 1.9% on a LFL basis largely due to wage inflation

Franchised UK Motor - Used

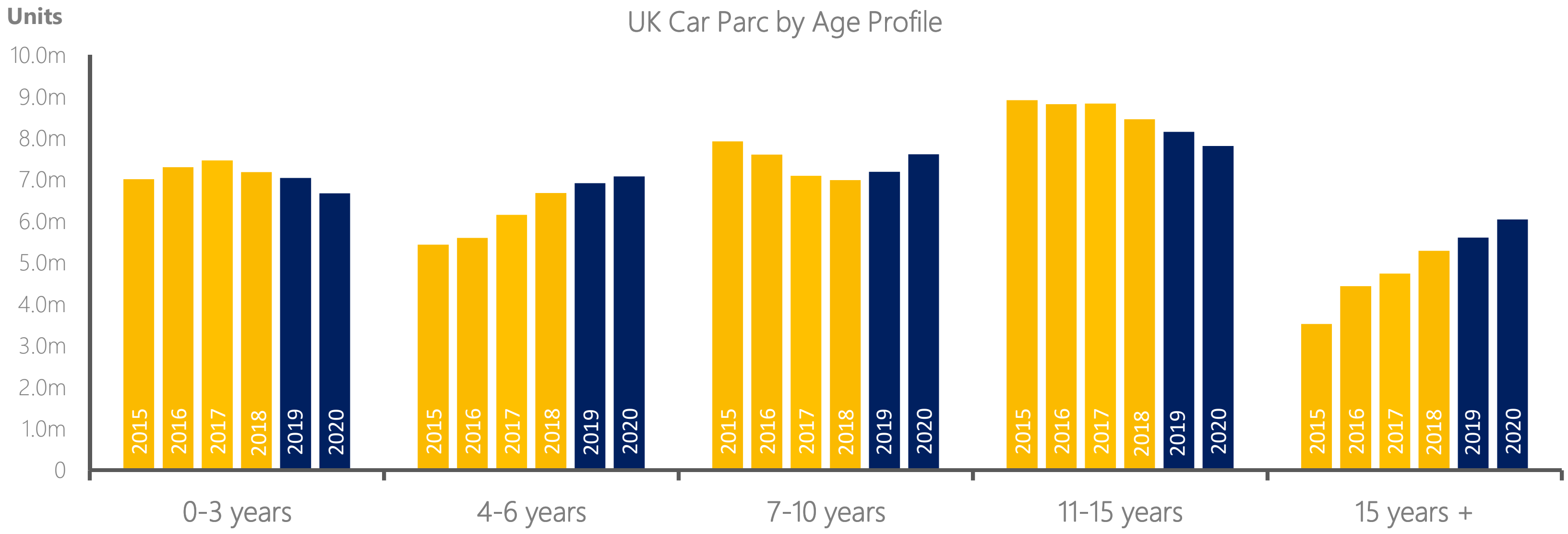
Used (£m)				
	H1 2019	H1 2018	% Change	% Change LFL
Revenue	959.4	984.7	**-2.6%**	**+3.9%**
Gross Profit	**47.0**	**68.3**	**-31.2%**	**-27.5%**
Gross Margin %	4.9%	6.9%	**-2.0%**	**-2.2%**

- Franchised UK Motor used LFL revenue up 3.9%. The UK used market was down 1.6% by volume in HY19
- Increases in used car stock at the end of FY18 without an associated increase in sales rates led to excess used car stock during HY19
- Used stock down 36% from £376m to £236m during the period, with LFL gross profit down 27.5%
- The stock reduction programme had a c.£24m profit impact on used profitability





Franchised UK Motor – Aftersales

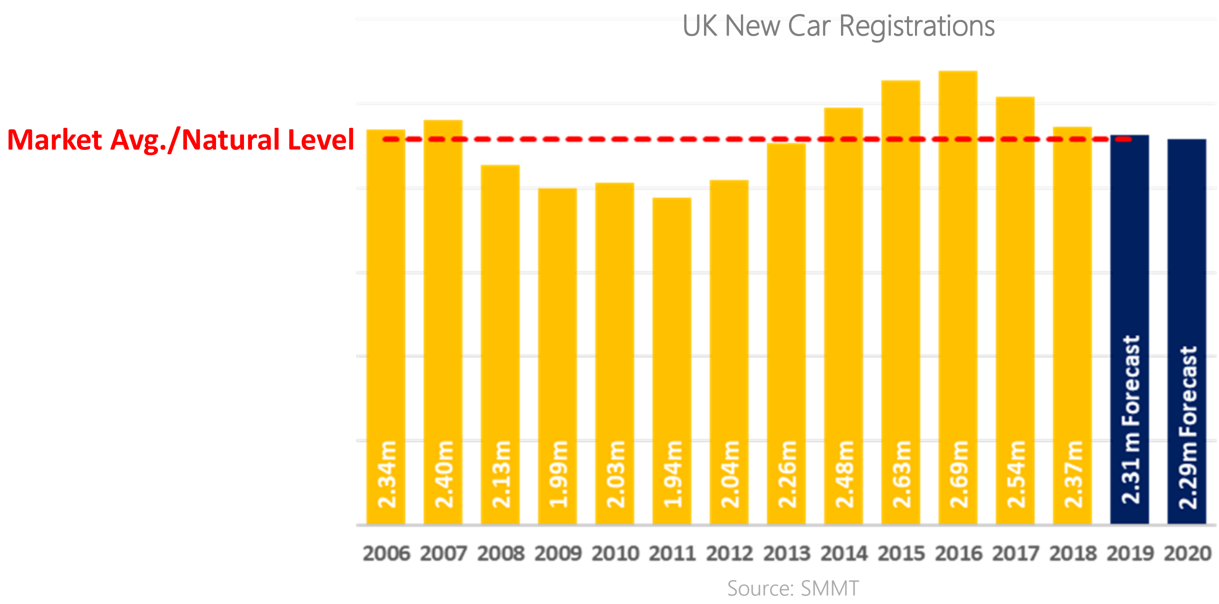


Source: Callcredit (2015 to 2018) and Pendragon (2019 to 2020)

Aftersales (£m)				
	H1 2019	**H1 2018**	**% Change**	**% Change LFL**
Revenue	168.0	168.4	**-0.2%**	**+4.4%**
Gross Profit	**83.7**	**94.3**	**-11.2%**	**-7.6%**
Gross Margin %	49.8%	56.0%	**-6.2%**	**-6.4%**

- Franchised UK Motor LFL aftersales revenue up 4.4% and gross profit down 7.6% like for like
- Like for like service retail labour sales grew by 4.5% with growth across premium and volume brands
- Margin impacted by a combination of increased cost of service technicians and a higher mix into lower margin warranty work
- 4.7% reduction in 0-3 year car parc in HY19 vs HY18
- 7.3% growth in 4-6 year car parc in HY19 vs HY18

Franchised UK Motor – New



New (£m)				
	H1 2019	H1 2018	% Change	% Change LFL
Revenue	871.8	895.2	-2.6%	+1.0%
Gross Profit	51.5	64.5	-20.2%	-16.9%
Gross Margin %	5.9%	7.2%	-1.3%	-1.3%

- Franchised UK Motor LFL new revenue up 1.0% and gross profit down 16.9% like for like
- The new retail market was down by 3.2% in HY19 and the new fleet market was down 3.6%
- Challenging market conditions driven by higher levels of consumer uncertainty
- Retail market represented 45% of the UK new market in HY19
- Small decline in the UK new market is forecast for FY20

Software – Summary

Software (£m)				
	H1 2019	**H1 2018**	**% Change**	**% Change LFL**
Revenue	8.9	8.4	+6.0%	+6.0%
Gross Profit	**7.9**	**7.4**	**+6.8%**	**+6.8%**
Operating Costs	(1.4)	(1.8)	**-22.2%**	**-22.2%**
Operating Profit	**6.5**	**5.6**	**+16.1%**	**+16.1%**
Gross Margin %	88.8%	88.1%	**+0.7%**	**+0.7%**
Operating Margin %	73.0%	66.7%	+6.3%	+6.3%

- 6.8% gross profit growth and 16.1% operating profit growth achieved in the period
- Pinewood in 13 countries across Europe & Asia
- Orders secured for the Pinewood DMS from dealers in both Sweden & Norway
- Core UK business continues to grow

Leasing – Summary

Leasing (£m)				
	H1 2019	H1 2018	% Change	% Change LFL
Revenue	42.8	40.8	**+4.9%**	**+4.9%**
Gross Profit	**8.4**	**8.2**	**+2.4%**	**2.4%**
Operating Costs	(2.1)	(2.1)	**+0.0%**	**+0.0%**
Operating Profit	**6.3**	**6.1**	**+3.3%**	**+3.3%**
Gross Margin %	19.6%	20.1%	**-0.5%**	**-0.5%**
Operating Margin %	14.7%	15.0%	**-0.3%**	**-0.3%**

- PVM fleet growth of 5.8% against a 6.0% year on year market decline
- Revenue growth of 4.9%, generating a 2.4% increase in gross profit
- Operating profit increased by 3.3% to £6.3m (HY18: £6.1m).

US Motor – Summary

US Motor (£m)				
	H1 2019	H1 2018	% Change	% Change LFL
Revenue	233.9	232.0	**+0.8%**	**+3.6%**
Gross Profit	**31.4**	**30.1**	**+4.3%**	**+6.1%**
Operating Costs	(28.1)	(24.5)	**+14.7%**	**+18.6%**
Operating Profit	**3.3**	**5.6**	**-41.1%**	**-44.1%**
Gross Margin %	13.4%	13.0%	**+0.4%**	**+0.3%**
Operating Margin %	1.4%	2.4%	**-1.0%**	**-1.2%**

- LFL Revenue up 3.6%,
- Operating profit down 44% on a like-for-like basis driven by increased operating costs
- The disposal of the US Motor Group is ongoing with total proceeds expected to be c.£100m before tax
- Agreement to sell both to Mission Viejo and Newport Beach were announced during H1, with expected proceeds of c.£60m in H2
- The sale of the Jaguar Land Rover dealership at Mission Viejo, subsequently completed on 1 July 2019 with proceeds received of £28.2m
- Agreement to dispose of Chevrolet Puente Hills for c.£17m announced during August with proceeds expected in H2
- Discussions continue on the disposal of two remaining locations

Financial Summary

Financial Summary – Profit and Loss

Underlying Results (£m)				
	H1 2019	**H1 2018**	**% Change**	**H1 2019 Pre IFRS 16**
Revenue	2,455.6	2,476.2	**-0.8%**	2,455.6
Gross Profit	235.2	283.1	**-16.9%**	235.2
Gross Margin %	***9.6%***	***11.4%***	***-1.8%***	***9.6%***
Operating Costs (SG&A)	**(245.9)**	**(240.4)**	**+2.3%**	**(252.4)**
Operating (Loss) / Profit	**(10.7)**	**42.7**		**(17.2)**
Operating Margin %	***(0.4%)***	***1.7%***	***-2.1%***	***(0.7%)***
Interest	**(21.5)**	**(14.3)**	**+50.3%**	**(15.2)**
Underlying (Loss) / Profit Before Tax	**(32.2)**	**28.4**		**(32.4)**
Non-underlying Items	**(102.4)**	**(1.1)**		
(Loss) / Profit Before Tax	**(134.6)**	**27.3**		
Underlying Earnings Per Share	**(1.9p)**	**1.6p**		
Dividend Per Share	**-**	**0.80p**	**-100.0%**	

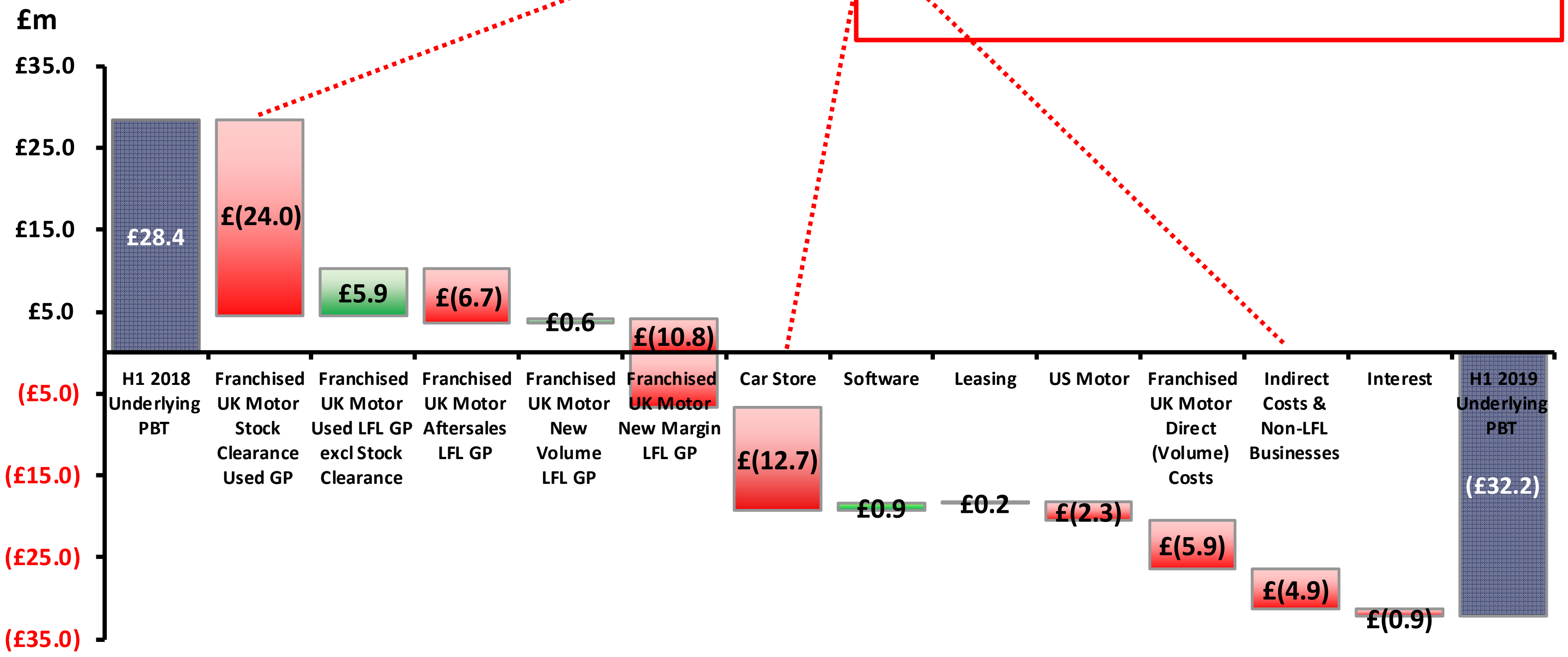
Summary

- Total revenue decline of 0.8%, driven by business disposals and closures. LFL revenue increase of 2.9%
- Gross profit reductions across used, aftersales and new. Used gross profit down due to impact of stock clearance.
- 2.3% increase in operating costs
- Operating costs and interest impacted by IFRS 16. Net effect on underlying PBT minimal
- Underlying loss before tax of £32.2m
- The Board is not proposing an interim dividend for FY19

Underlying PBT Bridge

Impact of Stock Clearance

	£m
Franchised UK Motor used margin	24.0
Car Store	6.1
Transport Costs	1.0
Total Impact of Stock Clearance	31.1



Note: the profit bridge excludes the impact of IFRS 16 for comparison purposes. The columns adjusted to achieve this are 'Indirect Costs & Non-LFL Businesses' and 'Interest'.

Financial Summary – Non-underlying Items

Non-underlying Items (£m)		
	H1 2019	H1 2018
Impairment of goodwill and leases	(102.5)	-
Settlement of Historic VAT Issues	3.5	-
Termination and severance costs	(1.4)	-
Losses on the Sale of Businesses & Property	(1.1)	(0.3)
Pension Costs	(0.9)	(0.8)
Loss Before Tax	(102.4)	(1.1)
Tax	(0.3)	(0.2)
Loss After Tax	(102.7)	(1.3)

- Goodwill impairment of £78.2m
- Impairments of £24.3m, principally in Car Store leases post IFRS 16
- Other Exceptional items net credit of £0.1m

Financial Summary – Cashflow

Summary Cashflow (£m)	H1 2019	H1 2018	*H1 2019*[1]
Underlying Operating (Loss) / Profit	**(10.7)**	**42.7**	***(17.2)***
Depreciation and Amortisation	22.6	13.3	*12.8*
Share Based Payments	0.4	0.6	*0.4*
Non-underlying Items	0.2	-	*0.2*
Working Capital and Contract Hire Movements	57.5	13.7	*57.1*
Operating Cashflow	**70.0**	**70.3**	***53.3***
Tax Received / (Paid)	3.2	(4.8)	*3.2*
Underlying Net Interest	(14.3)	(12.6)	*(14.3)*
Capital Expenditure – *Car Store*	*(5.2)*	*(4.2)*	*(5.2)*
Capital Expenditure – *Franchise*	*(8.4)*	*(5.5)*	*(8.4)*
Capital Expenditure – *Underlying Replacement*	*2.8*	*(12.1)*	*2.8*
Capital Expenditure – *Property*	*(2.3)*	*(2.9)*	*(2.3)*
Business and Property Disposals	*3.2*	*3.9*	*3.2*
Net Capital Expenditure, Acquisitions and Disposals	***(9.9)***	***(20.8)***	***(9.9)***
Dividends	(9.7)	(11.3)	*(9.7)*
Share Buybacks	(0.5)	(3.1)	*(0.5)*
Lease Payments & Receipts	(16.7)	-	-
Other	(0.3)	(0.2)	*(0.3)*
Decrease / (Increase) in Net Debt	**21.8**	**17.5**	***21.8***
Closing Net Debt	**104.3**	**105.1**	***104.3***

[1] Restated to exclude impact of IFRS 16 for comparison purposes

- £57.5m cash inflow from working capital and contract hire driven by used stock reduction and c.£25m VAT timing benefit
- £3.2m tax cash inflow due to tax repayments relating to prior years
- £2.8m cash inflow on underlying replacement capex was a result of a one off impact from increased net proceeds from employee vehicles
- Following adoption of IFRS 16 rental expense is accounted for as a depreciation charge and interest charge
- Net Debt to Underlying EBITDA ratio of 1.3 (HY18: 0.8) [1]

Financial Summary – Balance Sheet

Balance Sheet (£m)				
	Jun-19	**Dec-18**	**Jun-18**	***Jun-19[1]***
Property	225.2	227.9	228.2	*228.8*
Plant & Equipment	232.6	236.0	226.0	*232.6*
Goodwill & Intangibles	195.6	274.1	362.5	*195.6*
Right of Use Assets	164.8	-	-	-
Stock	785.3	959.6	969.0	*785.3*
Debtors	159.0	114.8	167.6	*144.2*
Net Assets Held For Resale	68.9	49.0	47.1	*68.9*
Creditors	(1,574.8)	(1,389.7)	(1,447.5)	*(1,327.8)*
Net Debt*	(104.3)	(126.1)	(105.1)	*(104.3)*
Shareholders Funds	**152.3**	**345.6**	**447.8**	***223.3***

[1] Restated to exclude impact of IFRS 16 for comparison purposes

*On adoption of IFRS 16 on 1 January 2019 the Group has decided to re-define its net debt metric to exclude finance lease liabilities. This has resulted in the net debt at 30 June 2018 and 31 December 2018 being adjusted by £1.5m, the finance lease liability at those dates. Net debt has been adjusted from £106.6m to £105.1m at 30 June 2018 and £127.6m to £126.1m respectively at 31 December 2018.

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- Goodwill impairment of £78.2m in the period
- Reduced stock levels following excess used stock held at Dec-18
- Debtors increased by £14.8m as a result of adoption of IFRS 16
- Creditors increased by £247m as a result of adoption of IFRS 16,
- Cash and undrawn bank facilities of £196m at period end and undrawn used stocking facility of £175m

Outlook

- Economic, political and market conditions are very challenging
- Adverse impact on consumer confidence
- FY19 underlying loss before tax expected to be at the bottom end of the Board's expectations
- Focus on improving underlying performance in both Car Store and Franchised UK Motor, with recovery in profitability from self-help actions
- Assumes current conditions do not deteriorate further
- Closely monitoring market and customer behaviour, particularly during the important trading month of September

Guidance

- Loss before tax expected to be at bottom end of Board's expectations
  - Pinewood and Leasing in line with previous expectations
  - FY19 Car Store losses now expected to be between £25m and £30m
  - US Motor expected to be broadly in line with H1, with FY20 contribution to fall to negligible levels
  - UK motor expected to return to profit in H2
  - H2 Interest expected to be broadly consistent with H1

- Half 2 - Non Underlying cost items
  - Redundancy costs from right-sizing exercise c.£2.0 - £2.5m
  - Redundancy costs from Car Store closures c.£1.5m
  - Other Car Store closure costs c£0.75m

- H2 19 Capital expenditure : c.£30m
- Reversal of VAT timing benefit of c.£25m
- FY19 closing net debt expected to be c.£80m, assuming announced US disposals completed and post tax proceeds received

APPENDIX – Pendragon 2019 Half Year Results

Appendix – Franchised UK Motor

Franchised UK Motor (£m)	H1 19	H1 18	% Change	% Change LFL
Used	959.4	984.7	**-2.6%**	**+3.9%**
Aftersales	168.0	168.4	**-0.2%**	**+4.4%**
New	871.8	895.2	**-2.6%**	**+1.0%**
Revenue	**1,999.2**	**2048.3**	**-2.4%**	**2.6%**
Used	47.0	68.3	**-31.2%**	**-27.5%**
Aftersales	83.7	94.3	**-11.2%**	**-7.6%**
New	51.5	64.5	**-20.2%**	**-16.9%**
Gross Profit	**182.2**	**227.1**	**-19.8%**	**-16.3%**
Operating Costs	-189.9	-195.3	**-2.8%**	**+1.9%**
Operating Profit	**-7.7**	**31.8**	**-124.2%**	**-115.6%**
Gross Margin %	9.1%	11.1%	**-2.0%**	**-2.1%**
Operating Margin %	-0.4%	1.6%	**-2.0%**	**-2.1%**

Summary

- Used LFL gross profit reductions of 27.5%
- LFL aftersales gross profit down 7.6%
- LFL new gross profit was down 16.9%
- Operating costs have increased by 1.9% on an LFL basis

Summary Underlying Operating Profit by segment

Underlying Operating Profit (£m)					
	H1 2019	**H1 2018**	**Change**	**Change LFL**	***H1 2019[1]***
UK Motor	(7.7)	31.8	**-39.5**	**-38.5**	*(13.6)*
Car Store	(19.1)	(6.4)	**-12.7**	**-11.3**	*(19.7)*
Software	6.5	5.6	**+0.9**	**+0.9**	*6.5*
Leasing	6.3	6.1	**+0.2**	**+0.2**	*6.3*
US Motor	3.3	5.6	**-2.3**	**-2.6**	*3.3*
TOTAL	**(10.7)**	**42.7**	**-53.4**	**-51.3**	***(17.2)***

[1] Restated to exclude impact of IFRS 16 for comparison purposes

Impact of IFRS 16 – Profit and Loss

Underlying Results (£m)			
	H1 2019 Following IFRS 16 Adoption	H1 2019 Without IFRS 16 Adoption	Variance
Revenue	2,455.6	2,455.6	-
Gross Profit	235.2	235.2	-
Gross Margin %	***9.6%***	***9.6%***	-
Operating Costs (SG&A)	**(245.9)**	**(252.4)**	**+6.5**
Operating (Loss) / Profit	**(10.7)**	**(17.2)**	**+6.5**
Operating Margin %	***(0.4%)***	***(0.7%)***	***+0.3%***
Interest	**(21.5)**	**(15.2)**	**-6.3**
Underlying (Loss) Before Tax	**(32.2)**	**(32.4)**	**+0.2**
EBITDA	***32.2***	***15.9***	***+16.3***

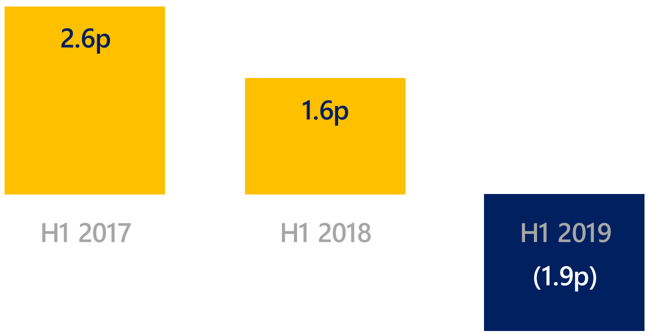
- Net impact on underlying PBT of IFRS 16 adoption is a £0.2m credit
- Reduced operating costs largely offset by interest increase
- £16.3m of rent has been replaced by £9.8m of depreciation and £6.3m of interest
- The adoption of IFRS 16 has resulted in a £16.3m increase in EBITDA

Financial Summary – 3 Year Summary

Underlying Profit Before Tax

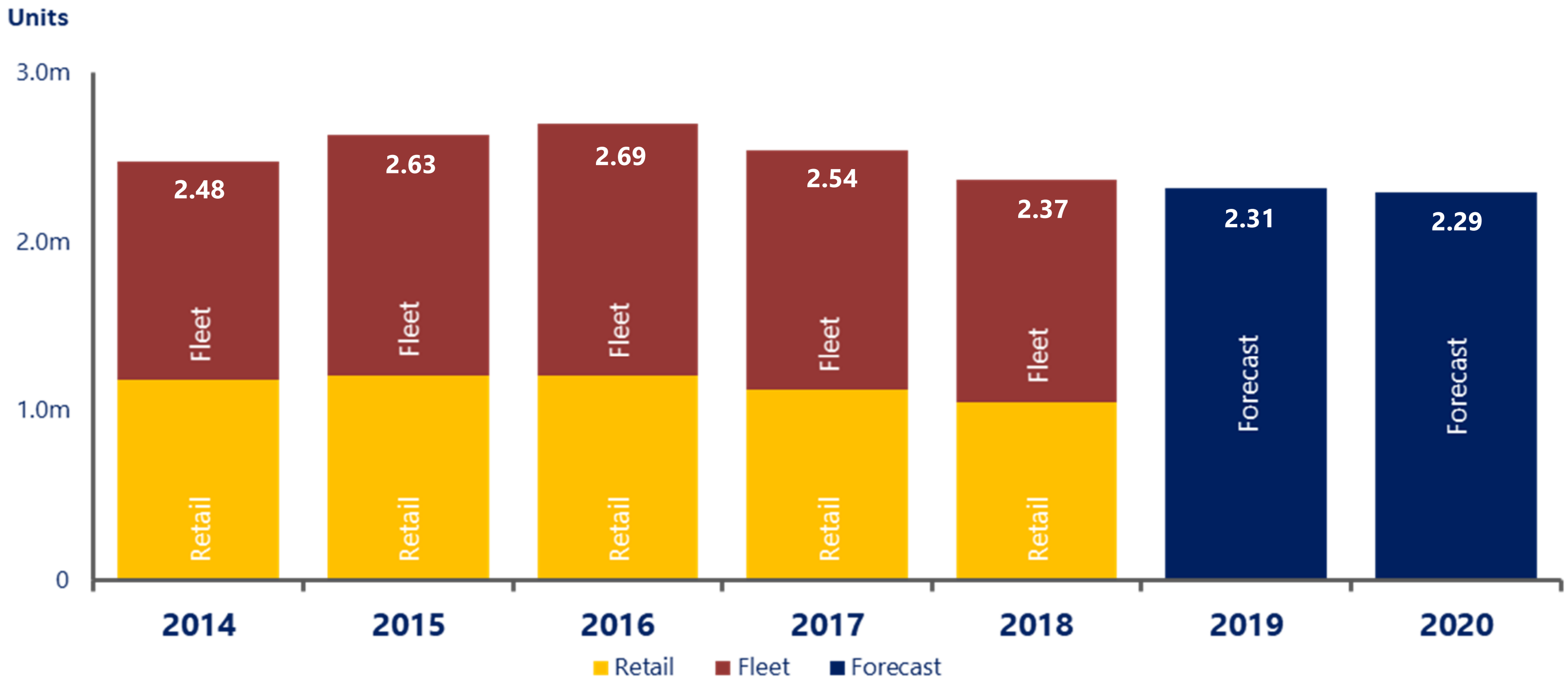
Underlying Operating Profit

Underlying Earnings Per Share



Net Debt and Underlying EBITDA Ratio

Appendix – UK New Market



Source: SMMT

Summary

- The UK new car market was down 3.4% in H1 2019
- The retail market fell by 3.2% and the fleet market fell by 3.6% in H1 2019
- Forecast of 2.2% fall in new car market in 2019

Appendix - US Motor

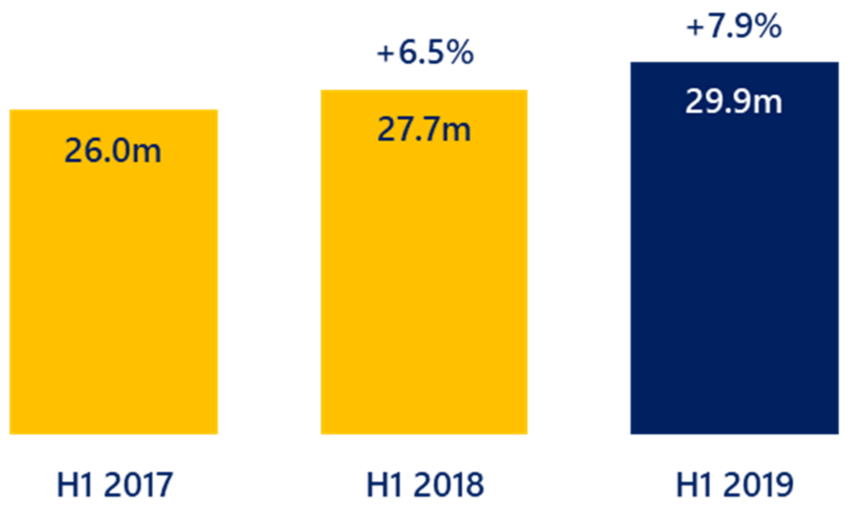
US Motor (£m)				
	H1 2019	H1 2018	% Change	% Change LFL
Used	43.1	47.3	**-8.9%**	**-5.3%**
Aftersales	22.5	21.6	**+4.2%**	**+6.6%**
New	168.3	163.1	**+3.2%**	**+5.8%**
Revenue	**233.9**	**232.0**	+0.8%	+3.6%
Used	3.5	2.9	**+20.7%**	**+20.7%**
Aftersales	11.7	11.5	**+1.7%**	**+4.5%**
New	16.2	15.7	**+3.2%**	**+4.5%**
Gross Profit	**31.4**	**30.1**	+4.3%	+6.1%
Operating Costs	(28.1)	(24.5)	**+14.7%**	**18.6%**
Operating Profit	**3.3**	**5.6**	-41.1%	-44.1%
Gross Margin %	13.4%	13.0%	**0.4%**	**0.3%**
Operating Margin %	1.4%	2.4%	**-1.0%**	**-1.2%**

Summary

- Strong revenue growth in aftersales & new departments
- Used revenue fell by 8.9% however improved margin led to 20.7% fall in used gross profit
- New revenue up 3.2% and gross profit up 4.5% like for like
- Operating costs increased by £3.6m to £28.1m driven by an increase in rent costs of £1.8m and an increase in direct selling costs of £1.6m

Franchised UK Motor Business Review – Online

Online Visits - Rolling 12 months



Summary

- Online visits to Evanshalshaw.com and Stratstone.com increased by 7.9% in the period to 29.9m visits.
- New Carstore.com website launched in December separating it from Evanshalshaw.com