RNS Number : 3814U
S & U PLC
28 March 2023

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S&U plc
("S&U", "the Group" or "the Company")

PRELIMINARY UNAUDITED RESULTS FOR THE YEAR ENDED 31 JANUARY 2023

S&U plc (LSE: SUS), the motor finance and specialist lender, today announces its preliminary unaudited results for the year ended 31 January 2023.

Group Key Financials:

- Profit before tax ("PBT"): £41.4m (2022: £47.0m; 2021: £18.1m; 2020 pre-pandemic: £35.1m)
- Revenue increased by 17% to £102.7m (2022: £87.9m)
- Group net receivables at year-end increased by 30% to £420.7m (2022: £322.9m)
- Group impairment charge of £13.9m (2022: £4.1m; 2021 £36.7m; 2020 pre-pandemic: £17.2m)
- Group net finance costs at £7.5m (2022: £3.8m) higher borrowings and increased base rates this year
- Basic earnings per share: 277.5p (2022: 312.8p; 2021: 120.7p; 2020 pre-pandemic: 239.6p)
- Final dividend of 60p per ordinary share to be paid on 7 July 2023 (2022: 57p)
- Net Borrowings at £192.4m (2022: £113.6m) - gearing at 85.5% (2022: 54.9%)

Advantage Motor Finance Highlights:

- PBT: £37.2m (2022: £43.7m; 2021: £17.2m; 2020 pre-pandemic: £34.0m)
- Revenue increased by 14% to £89.8m (2022: £78.9m)
- Impairment charge: £12.9m (2022: £3.8m; 2021 £36.7m; 2020 pre-pandemic: £16.5m)
- Live monthly collections at 93.6% of due (2022: 93.2%) and continued lower bad debt attrition
- Annual net advances: £186.6m (2022: £140.9m)
- Net receivables at yearend at £306.8m (2022: £259.0m)

Aspen Bridging Highlights:

- PBT: £4.5m (2022: £3.4m; 2021: £0.8m; 2020 pre-pandemic £1.2m)
- Annual PBT performance underpinned by strong advances and good repayments
- Only one £80k impairment loss this year (2022: none)
- Tightened conservative valuations further and reduced LTVs in H2 2022 in anticipation of forecast 5% fall in house prices in 2023
- Amounts receivable from customers now £113.9m (2022: £63.9m)

Audit - our auditor Mazars LLP, have again this year regretfully informed us that due to their organisational constraints, they are finalising a small number of residual audit procedures which were due to have concluded ahead of this preliminary announcement. They have advised us that they anticipate formally issuing their Audit Opinion in the coming days.

Anthony Coombs, Chairman of S&U plc stated:
"In a world still full of uncertainty, change and cloying pessimism, clarity of purpose and vision is more crucial than ever. A former Chairman of Jaguar Motors put it succinctly: "the absolute fundamental aim is to make money out of satisfying customers". Current trading is good and I am confident that our focus, our expertise and our experienced team will enable us to take advantage of the emerging opportunities that this year will bring."

For further information, please contact:

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A conference call presentation for analysts will be held on 28th March 2023 at 9.30am

CHAIRMAN'S REVIEW

Introduction
I am very pleased to report that my optimism of last year and my then "quiet but determined confidence" in S&U's future has been vindicated by this year's excellent results. Despite the maelstrom of a European war, political upheaval in Britain and rising inflation, taxation and interest rates, S&U has produced profit before tax of £41.4m, fully 27% up on the average of the last two pandemic years, and the highest 'normalised' profit in its over eighty-year history.

Revenue for the year was £102.7m (2022: £87.9m) and group equity has grown by 9% to a record £224.9m. At 31 January 2023, group total assets reached £428m for the first time, up by just over £100m in the year and by nearly 40% on pre-pandemic levels. As I predicted a year ago, S&U is indeed "primed for a new era of profitable growth".

Although conscious of its wider societal obligations, S&U's primary obligations are to our shareholders, our staff and our customers. For shareholders, this is reflected this year in basic earnings per share this year of 277.5p, which is 22% up on the average of the past four years. Staff numbers continue to grow; we are proud to have Gold Investor in People status at Advantage Finance, have become a Real Living Wage employer and have taken steps to ameliorate current cost of living pressures on our staff. Service to our customers is reflected both in their number - a record 65,200 - and in the longstanding relationships we enjoy with them.

Financial Highlights**

Profit before tax ("PBT"):	£41.4m	(2022: £47.0m*)
Revenue:	£102.7m	(2022: £87.9m)
Earnings per share ("EPS")	277.5p	(2022: 312.8p*)
Group net assets:	£224.9m	(2022: £206.7m)
Group gearing:	85.5%	(2022: 54.9%)
Group total collections:	£311.9m	(2022: £294.3m)
Dividend proposed:	133p per ordinary share	(2022: 126p)

*The profit for 2021/2022 was enhanced by a lower than normal loan loss provision charge which reflected the lower use of impairment provisions made in the previous Covid-affected financial year. The average annual profit before tax in the two pandemic years to 31 January 2022 was £32.6m and earnings per share averaged 216.8p.

** key alternative performance measurement definitions are given in note 2.4 below.

The results we are reporting are all the more creditable given the UK's current economic performance and its still gloomy, although possibly brightening, economic outlook. UK GDP continues to teeter on recession. There was no growth in the fourth quarter of 2022 and, almost uniquely in Europe, the UK economy is still smaller than it was before the Covid pandemic. As has been evident over the past 12 years, productivity is feeble in the UK and is unlikely to increase substantially since the current government lacks a clear and robust growth strategy. Recent governments have vacillated between the fiscal incontinence of last year and the hair shirt philosophy of the current administration. None have espoused the regulatory, public sector and tax simplification reforms so essential for rebooting the economy.

Nevertheless, despite all this, S&U has recently seen very strong demand for its products particularly at Advantage. Indeed, UK economic prospects may be brightening as, although from historically low levels, consumer confidence is improving. Some commentators have reduced their forecast for inflation from 18% in 2022 to just 2.8% by November. Public finances have recently seen a £30 billion improvement whilst the government surplus in January alone was £5 billion. More pragmatic voices on the Bank of England monetary policy committee are arguing that the declining energy price shock and the lag effects of recent interest rate rises might mean current monetary policy could be more effective in bringing down inflation than expected.

This optimism is evident in the sectors in which S&U operates. Despite low consumer confidence generally, and although still constrained by supply, the used car market remains robust. Whilst prices rose year on year by 11% to mid-2022, as supply increased this rise is now around 3% per annum. Indeed the average price of a used car has risen from £9,000 in 2011 to £17,600 in 2022. Whilst not overstating current consumer confidence, customers are reacting to cost of living pressures pragmatically and in ways which favour the products S&U offers.

Thus, whilst in 2012 just 23% of used car sales were on finance, this is now 45% (Autotrader). The number of people searching for online finance is up 28% on pre-pandemic levels. Although transactions in 2022 have not yet reached pre-Covid levels, the market remains buoyant. This is most graphically illustrated at Advantage where loan applications have reached over 2.5m for the first time this year.

These trends have enabled Advantage to attract high-quality customers and larger average loan sizes (£7,800 now against £6,400 three years ago). Moreover, as was seen in 2007-2009 in the "Great Financial Crisis", near prime customers are being rationed and restricted by "mainstream" finance providers, enabling Advantage to attract them at sensible rates of return.

The housing market upon which Aspen depends both for transaction volumes and loan security, continues to be stronger than anticipated, despite rising borrowing costs and the upheaval in the money markets of last autumn. Whilst house prices have fallen slightly over the past six months this appears now to be stabilising. Indeed ONS statistics for December show annual price growth still 10% against a peak of 12% earlier in the year. Even allowing for an average 5% price deflation predicted for 2023, this would imply a cumulative increase over two years of just under 5% which further underpins Aspen's conservatively written collateral. This conservatism gives S&U the confidence to continue to invest in Aspen's new receivables book.

In sum, the relative buoyancy of the markets which S&U serves, coupled with careful, experienced and watchful underwriting has allowed us to continue to build our customer base and receivables books. This has been done in a responsible and sustainable way, storing up future profits whilst guarding against any further economic downturn in an uncertain world.

Advantage Finance ("Advantage")

Advantage Finance, our motor finance business proudly based in Grimsby, has again produced near record results. Profit before tax is at £37.2m which is not only 22% above the last two years' Covid average, but is the highest 'normalised' profit ever. Advantage's future prospects are grounded in a record number of new transactions in the year at just under 24,000; net receivables have therefore now reached over £300m for the first time. Advantage now serves a record 65,200 customers.

Prudence and commercial logic both dictate that Advantage use the very significant demand for its products to focus on excellent customers who, buttressed by careful underwriting, good payment headroom and responsive customer relations, will ensure good repayments even in more uncertain times. Hence this year, particularly in the second half, has seen the introduction of slightly larger, longer term and competitively priced loans which have attracted near prime customers new to Advantage, which we anticipate will have benefits for Advantage's already enviable book quality.

Quality was also boosted by Advantage's habitually conservative Credit Committee and its underwriting. The business has sensibly adjusted its affordability buffers throughout the year in line with the rising cost of living, as well as its interest margins to account for rising operating and finance costs.

Nevertheless, attracting good customers in ever larger numbers is not simply a matter of price. It also depends on accurately targeted marketing. Here the Advantage team has been substantially strengthened by new advisors, by in-house recruitment and by a rebranding project which, directly and digitally, will improve every aspect of Advantage's communication with existing and new customers.

IT improvements are reinforcing this. Voice analytics, specialist vehicle valuations, a new direct customer repayment portal, an improved website and a smoother e-signature onboarding process, are just some of the initiatives the ever restless and perfectionist Advantage teams are working on.

Of course, the ultimate arbiter of well-designed products and responsible credit policies is the quality of collections and customer satisfaction. On these two metrics Advantage scores very highly. In collections Advantage had an excellent year producing live repayments at a record £161.8m (2022: £152.7m). Advantage's collections as a percentage of due reached 93.6% which beat both budget and last year.

Moreover, on record net receivables of nearly £307m, bad debts and voluntary terminations were actually significantly under budget.

On customer satisfaction, Advantage's ratings on Trust Pilot reached a record 4.7 out of 5.

Both these achievements are testament to responsible underwriting, and more particularly to Advantage's understanding and fair treatment of its customers and its embracing of its duty of care to its customers, well before it is mandated to do so later this year by the Financial Conduct Authority.

Whilst enjoying close links with our Regulators, both directly and through the Finance and Leasing Association where Advantage's CEO, Graham Wheeler, plays a prominent role, Advantage does operate in a highly - and increasingly - regulated industry. The formal Consumer Duty introduced later this year for all financial services companies focuses on actual, rather than anticipated, customer outcomes, particularly for borrowers in financial difficulty. Advantage is proud of its near 25-year history of customer service and has responded by certifying a development plan and by embarking upon a 41 point action list, which will also be monitored by S&U's internal auditors and by its Audit Committee.

Although some may argue that the new Consumer Duty attempts to lay on lenders' responsibilities for future events inevitably beyond their control, and which, to an extent, replicates existing statutory duties of care to customers, S&U endorses the Duty for ethical and competitive reasons. Undoubtedly, those financial firms which best communicate their methods and products to their customers will gain their trust, their loyalty and their commitment - all values intrinsic to S&U's Mission Statement. As I have consistently pointed out, ultimately good business is always good business.

As a consequence, Advantage has always maintained regular and cordial relations with the FCA. This year this is particularly focused on making sure that assessments of both credit worthiness and affordability are robust in an inflationary climate. Advantage anticipated these trends by regular reviews of its underwriting throughout the year. Indeed, it is this monitoring and maintaining of the subtle balance between prudent underwriting and competitively pricing products which has been the bedrock of Advantage's success over the past 25 years.

This is also why Advantage sees the Consumer Duty giving a significant competitive advantage to businesses which maintain the very high standards of which they have been so rightly proud over the past 25 years.

In sum, a winning combination of a healthy market, intelligent underwriting, efficient processes and empathetic customer relations have been rewarded at Advantage by very good financial results. They are outlined in the business review within my strategic report below.

Finally, the credit for this outstanding performance must go to all those who work so hard and conscientiously at Advantage. Whilst adapting to hybrid working, many have inevitably faced personal and financial challenges and I pay tribute to them all. Particular mention must go to a dynamic and enthusiastic board of directors, brilliantly led by Graham Wheeler whose talents are recognised both at Advantage and throughout the motor finance industry. It is in the commitment and energy of them all, that I place my confidence in Advantage's exciting and enduring future.

Aspen Bridging
Aspen, our property bridging finance business based now in expanded office space in Solihull, has produced a sparkling set of results. Profit before tax is up no less than 31% to £4.46m, a record, and net receivables have increased by £50m to £113.9m. Whilst transaction numbers rose by a more modest 10% this was the result of a deliberate move towards larger, higher quality loans with experienced borrowers. Thus, the average loan size rose by 11% and average blended yields were above budget.

The housing market against which 95% of Aspen's collateral is secured, is undoubtedly slowing both due to Base Rate increases from 0.25% to 4% in the year, and also to wider cost of living pressures. Whilst the recent Bank of England Mortgage and Lending Report reveals more households than ever in Britain having significant equity in their properties, house prices are expected to fall an average 5% this year, whilst transaction numbers may reduce further. However, Aspen has repositioned towards higher quality, less mortgage-dependent borrowers and towards higher value properties. This is expected to insulate the business against wider market fluctuations. Over the past year Aspen has prudently increased its interest rates, tightened further already conservative valuations and reduced LTVs. In mid-year the average gross LTV for new business was 74%; it is now 66%.

This conservative approach is also reflected in Aspen's loan loss provisioning charges which increased to £1.0m this year (2022: £0.3m), although the business only incurred one actual loss during the year of £80,000. Each loan underwritten in Aspen involves secondary independent assessment and a rigorous valuation exercise including a physical inspection of the property by Aspen staff - something which is rare in the industry.

A strong loan book also depends upon providing products which are tailored to individual customers. Aspen is able to provide a bespoke service to borrowers as well as being fleet of foot in the service it offers. Quarterly reviews of staff productivity are held and new products considered. For instance, this year saw Aspen's Bridge to Let product win new product of the year at the Bridging and Commercial awards. It went on to comprise £22.8m of Aspen's £134m advances this year.

Aspen runs a tight ship but a growing business requires more and properly trained staff. Remuneration costs therefore rose this year by 26% compared to a 44% rise in revenue. Staff numbers are now 21 against 18 a year ago. All new staff members are expected to undertake CPD training and several have now obtained RICS and legal qualifications. Fortunately, the local universities, particularly Aston University, Birmingham, provide a regular supply of highly talented and motivated individuals from a diverse local community.

Aspen's small team is characterised by hard work, growing experience and imagination and these qualities together with a strong track record provide the background for S&U's investment of a further £50m in the business this year. I am confident that this will be reflected in continually improving returns for the Group.

Dividends
Whilst acknowledging our responsibilities to wider stakeholders, S&U has always felt a primary responsibility to its shareholders. We fulfil this by regular engagement, and by distributing the rewards of the company success with them; this implies our normal practice of a 50% distribution of post-tax profits in dividends. This year the vacillations of our government over future corporation tax rates have clouded these decisions. Therefore, in the light of an EPS of 277.5p per share the board proposes to recommend, subject to the approval of our shareholders at our AGM on the 25 May 2023, a final dividend of 60p (2022: 57p) per Ordinary Share. This final dividend will be paid on 7 July 2023 to shareholders on the register on 16 June 2023. This will mean that total dividends this year will be 133p per share (2022: 126p).

Funding and Treasury
A successful and growing business requires significant investment. Over the past year excellent lending opportunities amongst good quality customers have augmented Advantage's and Aspen's natural growth: S&U has therefore invested just under £79m in net borrowings to finance a receivables book which has grown by £98m. Net group borrowings therefore now stand at £192m. Group medium-term facilities were increased in the autumn from £180m to £210m and, as previously usual, more will be arranged as the business develops. A rapidly increased Bank Rate has been budgeted for, not only in our usual budgets but in our longer-term projections. Current signs hint that such a view might happily prove conservative.

Nevertheless S&U plans to maintain a prudent Treasury policy. Gearing still stands at 86% (2022:55%), well within covenanted levels. The experience and expertise of Chris Redford, our Group Finance Director, and the finance teams at Advantage and Aspen will ensure that this remains so.

Governance and Regulation
I will not repeat my concerns of a year ago on the importance of financial regulation being proportionate, clear and not inhibiting a vigorous and competitive free enterprise system. By harnessing the basic instincts of communities and individuals to improve themselves and their families, it is this free enterprise system - not one based on state control and intervention - which has transformed living standards over the entire period of S&U's existence.

But today too often this is taken for granted. New regulations, Codes of Practice and "guidance" are never ceasing. Moreover, the government spends at least half of the country's resources. Taxation is at its highest level since 1946. Such is the suspicion of the profit motive that detailed regulation of every customer transaction is deemed essential both ab initio and throughout the customer relationship.

Tragically, the gyrations and misfortunes of the current government have done nothing to reverse these trends. There are three serious consequences. First it destroys incentives - not just for the wealthy but for the aspirational and much maligned middle-class who find themselves paying higher rates of tax on the same real income.

Second, regulation can inhibit innovation. The financial services industry, Advantage included, needs to be careful that this year's mandated focus on the new Consumer Duty regime does not lead to postponement of new products and innovation which would have also benefited customers.

Third, intervention and regulation enfeeble the economy and restricts economic growth. Last year a further £74bn was "invested" in the ever-growing public sector where productivity is both significantly less than in the private sector, and may even in some areas be negative. Public sector output is still 7.4% below pre-pandemic levels. This is a significant cause of Britain's decades-long decline in productivity.

On a day to day level however, S&U and Advantage in particular continue to enjoy positive relations with their regulators. Advantage's preparations for the Consumer Duty are well advanced, as is its Development Plan. Meanwhile, Advantage's industry body, the Finance and Leasing Association upon which two of our executives sit, continues to lobby for a more consistent and coordinated legislative and regulatory regime.

More broadly, S&U continues to engage closely with the Environmental, Social and Governance (ESG) agenda which arguably encapsulates much of the suspicion of free enterprise to which I referred earlier. However, S&U is formally adopting policies which both common sense and our company values require of any good citizen. These, as the relevant sections of our strategy report show, will concentrate in particular on targets to minimise or mitigate our CO2 emissions.

Of course, good citizenship involves more than just 'green issues'. S&U has a vibrant community and charity programme through the KC Trust which over its 10-year history has contributed nearly am pounds to smaller charities, which are reliant on their own voluntary fundraising and mainly work with children and young adults with both physical and learning disabilities. Above all, we give where it will really make a difference.

Finally, it gives me great pleasure to welcome Ed Ahrens, managing director of Aspen Bridging, to the S&U board. Ed has a wealth of experience in the banking and credit card sectors, joined us in 2015 and has since been instrumental in creating and leading the team which is making Aspen Bridging such a success. His appointment is just reward for his wise and energetic contribution to the Group.

Current Trading and Outlook
"In a world still full of uncertainty, change and cloying pessimism, clarity of purpose and vision is more crucial than ever. A former Chairman of Jaguar Motors put it succinctly: "the absolute fundamental aim is to make money out of satisfying customers". Current trading is good and I am confident that our focus, our expertise and our experienced team will enable us to take advantage of the emerging opportunities that this year will bring."

Anthony Coombs

Chairman

27 March 2023

CONSOLIDATED INCOME STATEMENT
Year ended 31 January 2023

	Note	**2023 £'000**	2022 £'000
Revenue	3	**102,714**	87,889
Cost of Sales	4	**(23,676)**	(18,771)
Impairment charge	5	**(13,877)**	(4,120)
Gross Profit		**65,161**	64,998
Administrative expenses		**(16,256)**	(14,208)
Operating profit		**48,905**	50,790
Finance costs (net)	6	**(7,495)**	(3,772)
Profit before taxation		**41,410**	47,018
Taxation		**(7,692)**	(9,036)
Profit for the year attributable to equity holders		**33,718**	37,982
Earnings per share basic	8	**277.5p**	312.8p

Earnings per share diluted	8	**277.5p**	312.7p

Dividends per share		
- Proposed Final Dividend	**60.0p**	57.0p
- Interim dividends in respect of the year	**73.0p**	69.0p
- Total dividend in respect of the year	**133.0p**	126.0p
- Paid in the year	**128.0p**	101.0p

All activities derive from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2023 £'000	2022 £'000
Profit for the year attributable to equity holders	**33,718**	37,982
Actuarial loss on defined benefit pension scheme	**(13)**	(6)
Total Comprehensive Income for the year	**33,705**	37,976

CONSOLIDATED BALANCE SHEET

31 January 2023

	Note	2023 £'000	2022 £'000
ASSETS			
Non current assets			
Property, plant and equipment including right of use assets		**2,616**	2,455
Amounts receivable from customers	7	**219,305**	181,614
Deferred tax assets		**110**	120
		222,031	184,189
Current Assets			
Amounts receivable from customers	7	**201,405**	141,301
Trade and other receivables		**1,601**	1,739
Cash and cash equivalents		**3,137**	0
		206,143	143,040
Total Assets		**428,174**	327,229
LIABILITIES			
Current liabilities			
Bank overdrafts and loans		**-**	(2,568)
Trade and other payables		**(4,602)**	(4,347)
Tax Liabilities		**(888)**	(926)
Lease Liabilities		**(166)**	(174)
Accruals and deferred income		**(1,262)**	(774)
		(6,918)	(8,789)
Non current liabilities			
Borrowings		**(195,500)**	(111,000)
Lease Liabilities		**(421)**	(243)
Financial Liabilities		**(450)**	(450)
		(196,371)	(111,693)
Total liabilities		**(203,289)**	(120,482)
NET ASSETS		**224,885**	206,747
Equity			
Called up share capital		**1,719**	1,718
Share premium account		**2,301**	2,301
Profit and loss account		**220,865**	202,728

Total equity	**224,885**	206,747

STATEMENT OF CHANGES IN EQUITY
Year ended 31 January 2023

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity £'000
At 1 February 2021	1,717	2,301	177,011	181,029
Profit for year	-	-	37,982	37,982
Other comprehensive income for year	-	-	(6)	(6)
Total comprehensive income for year	-	-	37,976	37,976
Issue of new shares in year	1	-	-	1
Cost of future share based payments	-	-	39	39
Tax credit on equity items	-	-	(35)	(35)
Dividends	-	-	(12,263)	(12,263)
At 31 January 2022	1,718	2,301	202,728	206,747
Profit for year	-	-	33,718	33,718
Other comprehensive income for year	-	-	(13)	(13)
Total comprehensive income for year	-	-	33,705	33,705
Issue of new shares in year	1	-	-	1
Cost of future share based payments	-	-	6	6
Tax charge on equity items	-	-	(28)	(28)
Dividends	-	-	(15,546)	(15,546)
At 31 January 2023	1,719	2,301	220,865	224,885

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 January 2023

	Note	2023 £'000	2022 £'000
Net cash used in operating activities	9	**(62,760)**	(2,094)
Cash flows used in investing activities			
Proceeds on disposal of property, plant and equipment		**166**	93
Purchases of property, plant and equipment		**(826)**	(377)
Net cash used in investing activities		**(660)**	(284)
Cash flows from financing activities			
Dividends paid		**(15,546)**	(12,263)
Issue of new shares		**1**	1
Receipt of new borrowings		**84,500**	25,000
Repayment of borrowings		**-**	(11,500)
Increase/(decrease) in lease liabilities		**170**	(134)
Net increase/(decrease) in overdraft		**(2,568)**	1,273

Net cash generated from financing activities	**66,557**	2,377
Net increase/(decrease) in cash and cash equivalents	**3,137**	(1)
Cash and cash equivalents at the beginning of year	**-**	1
Cash and cash equivalents at the end of year	**3,137**	-
Cash and cash equivalents comprise		
Cash and cash in bank	**3,137**	-

There are no cash and cash equivalent balances which are not available for use by the Group (2022: £nil).

1. SHAREHOLDER INFORMATION

1.1 Preliminary Announcement

This unaudited preliminary announcement does not constitute the full financial statements prepared in accordance with UK-adopted international accounting standards. The unaudited preliminary announcement was approved by the Board of directors on 27 March 2023. The Company's Annual Report will be finalised subsequent to this preliminary unaudited results announcement. The figures shown for the year ended 31 January 2022 are not statutory accounts. A copy of the statutory accounts has been delivered to the Registrar of Companies, contained an unqualified audit report and did not contain an adverse statement under section 498(2) or 498(3) of the Companies Act 2006. This announcement has been agreed with the Company's auditors for release. A copy of this preliminary announcement will be published on the website www.suplc.co.uk. The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differ from legislation in other jurisdictions.

1.2 Annual General Meeting

The Annual General Meeting will be held on 25 May 2023 and further details of arrangements will be published in the AGM notice.

1.3 Dividend

If approved at the Annual General Meeting a final dividend of 60p per Ordinary Share is proposed, payable on 7 July 2023 with a record date of 16 June 2023.

1.4 Annual Report

The 2023 Annual Report and Financial Statements and AGM notice will be displayed in full on our website www.suplc.co.uk in due course and also posted to those Shareholders who have still opted to receive a hardcopy. Copies of this announcement are available from the Company Secretary, S & U plc, 2 Stratford Court, Cranmore Boulevard, Solihull B90 4QT.

2. KEY ACCOUNTING POLICIES

The 2023 financial statements have been prepared in accordance with applicable accounting standards and accounting policies - these key accounting policies are a subset of the full accounting policies.

2.1 Basis of preparation

As a listed Group we are required to prepare our consolidated financial statements in accordance with UK-adopted international accounting standards. These financial statements have been prepared under the historical cost convention. The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries for the year ended 31 January 2023. As discussed in the strategic report, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

There are no new standards which have been adopted by the group this year which have a material impact on the financial statements of the Group.

At the date of authorisation of this preliminary announcement the directors anticipate that the adoption in future periods of any other Standards and interpretations which are in issue but not yet effective, will have no material impact on the financial statements of the Group.

2.2 Revenue recognition

Interest income is recognised in the income statement for all loans and receivables measured at amortised cost using the

Interest income is recognised in the income statement for all loans and receivables measured at amortised cost using the constant periodic rate of return on the net investment in the loans, which is akin to an effective interest rate (EIR) method. The EIR is the rate that exactly discounts estimated future cash flows of the loan back to the present value of the advance and hire purchase interest income is then recognised using the EIR. Acceptance fees charged to customers and any direct transaction costs are included in the calculation of the EIR. For hire purchase agreements in Advantage Finance which are classified as credit impaired (i.e. stage 3 assets under IFRS 9), the group recognises revenue 'net' of the impairment provision to align the accounting treatment under IFRS 16 with the requirements of IFRS 9 and also with the treatment adopted for similar assets in Aspen. Revenue starts to be recognised from the date of completion of the loan - after completion hire purchase customers have a 14 day cooling off period during which they can cancel their loan.

2.3 Impairment and measurement of amounts receivable from customers

All customer receivables are initially recognised as the amount loaned to the customer plus direct transaction costs. After initial recognition the amounts receivable from customers are subsequently measured at amortised cost.

Amortised cost includes a deduction for loan loss impairment provisions for expected credit losses ("ECL") assessed by the directors in accordance with the requirements of IFRS9.

There are 3 classification stages under IFRS9 for the impairment of amounts receivable from customers:

Stage 1: Not credit impaired and no significant increase in credit risk since initial recognition

Stage 2: Not credit impaired and a significant increase in credit risk since initial recognition

Stage 3: Credit impaired

The directors assess whether there is objective evidence that a loan asset or group of loan assets is credit impaired and should be classified as stage 3. A loan asset or a group of loan assets is credit impaired only if there is objective evidence of credit impairment as a result of one or more events that occurred after the initial recognition of the loan. Objective evidence may include evidence that a borrower or group of borrowers is experiencing financial difficulty or delinquency in repayments. Impairment is then calculated by estimating the future cash flows for such impaired loans, discounting the flows to a present value using the original EIR and comparing this figure with the balance sheet carrying value. All such impairments are charged to the income statement. Under IFRS 9 for all stage 1 accounts which are not credit impaired, a further collective provision for expected credit losses in the next 12 months is calculated and charged to the income statement.

Key assumptions in ascertaining whether a loan asset or group of loan assets is credit impaired include information regarding the probability of any account going into default (PD) and information regarding the likely eventual loss including recoveries (LGD). These assumptions and assumptions for estimating future cash flows are based upon observed historical data and updated to reflect current and future conditions. As required under IFRS9, all assumptions are reviewed regularly to take account of differences between previously estimated cash flows on impaired debt and the eventual losses.

For all loans in stages 2 and 3 a provision equal to the lifetime expected credit loss is taken. In addition and in accordance with the provisions of IFRS9 a collective provision for 12 months expected credit losses ("ECL") is recognised for the remainder of the loan book which is Stage 1. 12-month ECL is the portion of lifetime ECL that results from default events on a financial asset that are possible within 12 months after the reporting date.

In our Motor Finance business, all loans 1 month or more in contractual arrears are deemed credit impaired and are therefore included in IFRS9 stage 3. This results in more of our net receivables being in stage 3 and the associated stage 3 loan loss provisions being higher than if we adopted a more prime customer receivables approach of 3 months or more in arrears. Our approach of 1 month or more in contractual arrears is based on our historic observation of subsequent loan performance after our customers fall 1 month or more in contractual arrears within our non-prime motor finance customer receivables book. The expected credit loss ("ECL") is the probability weighted estimate of credit losses.

A PD/LGD model was developed by our Motor Finance business, Advantage Finance, to calculate the expected loss impairment provisions in accordance with IFRS9. Stage 1 expected losses are recognised on inception/initial recognition of a loan based on the probability of a customer defaulting in the next 12 months. This is determined with reference to historical data updated for current and future conditions. If a motor finance loan falls one month or more in contractual arrears, then this is deemed credit impaired and included in IFRS9 Stage 3. There are some motor finance loans which are up to date with payments but the customer is in some form of forbearance and we deem this to be a significant increase in credit risk and so these loans are included in Stage 2. As a result of the uncertainty over the performance of customers who were granted a payment holiday as part of the Government and FCA support measures as a result of the Covid pandemic and have also either requested a second payment holiday or have had a previous payment delinquency, we have assessed these customers to have a significant increase in credit risk and they were therefore included in Stage 2 until they re-established a successful post holiday payment records. There are no payment holiday included in Stage 2 until they re-established a successful post holiday payment records. There are no payment holiday customers left in stage 2 at 31 January 2023 as at that date all such customers are either correctly classified in another stage or their agreement has finished This is why the volume of customers in Stage 2 decreased at 31 January 2023.

As required under IFRS9 the expected impact of movements in the macroeconomy is also reflected in the expected loss model calculations. For motor finance, assessments are made to identify the correlation of the level of impairment provision with forward looking external data regarding forecast future levels of employment, inflation, interest rates and used car values which may affect the customers' future propensity to repay their loan. The macroeconomic overlay assessments for 31 January 2023 reflect that further to considering such external macroeconomic forecast data, management have judged that there is currently a more heightened risk of an adverse economic environment for our customers and the value of our motor finance security. To factor in such uncertainties, management has included an overlay for certain groups of assets to reflect this macroeconomic outlook, based on estimated unemployment, inflation and used vehicle price levels in future periods. Further sensitivity over this estimation uncertainty is provided in note 2.5.

Other than the changes to the approach mentioned above, there were no significant changes to estimation techniques applied to the calculations used at 31 January 2023 and those used at 31 January 2022.

PD/LGD calculations for expected loss impairment provisions were also developed for our Property Bridging business Aspen Bridging in accordance with IFRS9. Stage 1 expected losses are recognised on inception/initial recognition of a loan based on the probability of a customer becoming impaired in the next 12 months. The Bridging product has a single repayment scheduled for the end of the loan term and if a bridging loan is not granted an extension or repaid beyond the end of the loan term then this is deemed credit impaired and included in IFRS9 Stage 3. Due mainly to the high values of property security attached to bridging loans, the bridging sector typically has lower credit risk and lower impairment than other credit sectors.

Assets in both our secured loan businesses are written off once the asset has been repossessed and sold and there is no prospect of further legal or other debt recovery action. Where enforcement action is still taking place, loans are not written off. In motor finance where the asset is no longer present then another indicator used to determine whether the loan should be written off is the lack of any receipt for 12 months from that customer.

2.4 Performance Measurements

i) Risk adjusted yield as % of average monthly receivables is the gross yield for the period (revenue minus impairment) divided by the average amounts receivable from customers for the period.

ii) Rolling 12-month impairment to revenue % is the impairment charged in the income statement during the 12 months prior to the reporting date divided by the revenue for the same 12-month period. Historic comparisons using this measure were affected by the adoption of new accounting standards IFRS9 and IFRS16 and risk adjusted yield is considered a more historically comparable guide to receivables performance.

iii) Return on average capital employed before cost of funds is calculated as the Operating Profit divided by the average capital employed (total equity plus Bank Overdrafts plus Borrowings less cash and cash equivalents)

iv) Dividend cover is the basic earnings per ordinary share for the financial year divided by the dividend per ordinary share declared for the same financial year.

v) Group gearing is calculated as the sum of Bank Overdrafts plus Borrowings less cash and cash equivalents divided by total equity.

vi) Group collections are the total monthly collections, settlement proceeds and recovery collections in motor finance added to the total amount retained from advances, customer redemptions and recovery collections in property bridging.

2.5 Critical accounting judgements and key sources of estimation uncertainty

In preparing these financial statements, the Company has made judgements, estimates and assumptions which affect the reported amounts within the current and next financial year. Actual results may differ from these estimates.

Estimates and judgements are regularly reviewed based on past experience, expectations of future events and other factors.

Critical accounting judgements

The following are the critical accounting judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Significant increase in credit risk for classification in Stage 2

The Company's transfer criteria determine what constitutes a significant increase in credit risk, which results in a customer being moved from Stage 1 to Stage 2. Stage 2 currently includes customers who have a good payment record but have been identified as vulnerable by trained staff. Vulnerability can be driven by factors including health, life events, resilience or capability. All customer facing staff are trained to help recognise characteristics of vulnerability.

events, resilience of capability. All customer facing staff are trained to help recognise characteristics of vulnerability. Stage 2 previously included some pandemic payment holiday customers but these customers have all now had 12 months to re-establish their post holiday payment track record and are therefore now either correctly included in another stage or their agreement has finished.

Key sources of estimation uncertainty

The directors consider that the sources of estimation uncertainty which have the most significant effect on the amounts recognised in the financial statements are those inherent in the consumer credit markets in which we operate relating to impairment as outlined in 1.4 above. In particular, the Group's impairment provision is dependent on estimation uncertainty in forward-looking on areas such as employment rates, inflation rates and used car and property prices.

The Group implemented IFRS 9 from 1 February 2018 by developing models to calculate expected credit losses in a range of economic scenarios. These models involve setting modelling assumptions, weighting of economic scenarios, the criteria of determining significant deterioration in credit quality and the application of adjustments to model outputs. We have outlined assumptions in our expected credit loss model in the current year. Reasonable movement in these assumptions might have a material impact on the impairment provision value.

Macroeconomic overlay for our motor finance business

For this overlay, the Group considers four probability-weighted scenarios in relation to unemployment rate: base, upside, downside and severe scenarios as follows:

	Base	Upside (30% decrease)	Downside (30 % increase)	Severe (50% increase)	Weighted
Weighting	50%	5%	40%	5%	
Q1 2023	3.80%	2.66%	4.94%	5.70%	4.29%
Q1 2024	4.40%	3.08%	5.72%	6.60%	4.97%
Q1 2025	5.00%	3.50%	6.50%	7.50%	5.65%
Q1 2026	5.30%	3.71%	6.89%	7.95%	5.99%

Inflation rates were not previously factored into the macroeconomic overlay prior to 31 January 2022 when we included them due to the extraordinary increases forecast for the following 12 months period and the potential impact on our customers and their repayments - high inflation and forecast inflation were still present at 31 January 2023. The Group considers four probability-weighted scenarios in relation to inflation rate: base, upside, downside and severe scenarios as follows:

	Base	Upside (30% decrease)	Downside (30 % increase)	Severe (50% increase)	Weighted
Weighting	50%	5%	40%	5%	
Q1 2023	9.70%	6.79%	12.61%	14.55%	10.96%
Q1 2024	3.00%	2.10%	3.90%	4.50%	3.39%
Q1 2025	1.00%	0.70%	1.30%	1.50%	1.13%
Q1 2026	0.40%	0.28%	0.52%	0.60%	0.45%

An increase by 0.5% in the weighted average unemployment rate would result in an increase in loan loss provisions by £1,044,494. A decrease by 0.5% would result in a decrease in loan loss provisions by £1,044,494. An increase by 0.5% in the weighted average inflation rate would result in an increase in loan loss provisions by £474,770. A decrease by 0.5% would result in a decrease in loan loss provisions by £474,770.

Used vehicle price overlay and sensitivity for our motor finance business

Our used vehicle price overlay is based on used vehicle guide price information and the mileage and condition of each vehicle is estimated which is uncertain. It is also based on an uncertain assumption at 31.1.23 that used car prices which increased significantly in 2021 and 2022 will fall by 13.5%. This used vehicle price overlay has increased loan loss provisions at 31.1.23 by £6,656,000 (2022: increased provisions by £4,552,000). If used car prices were only assumed to fall by 8.5% instead, then this would result in a decrease in loan loss provisions of £2,815,718. If used car prices were assumed to fall by 18.5% instead, then this would result in a further increase in loan loss provisions of £2,717,750.

Expected loss sensitivity for our property bridging business

The PD/LGD expected loss impairment provision model calculations developed for our Aspen bridging business have been based on extrapolating an inherently low volume sample of historic defaults and losses to reflect the current receivables and current market conditions. If the probability of default were assessed to be 10% higher than these calculations then this would result in an increase in loan loss provisions of £290,727. If the probability of default were assessed to be 10% lower than these calculations then this would result in a decrease in loan loss provisions of £290,727.

3. SEGMENTAL ANALYSIS

Analyses by class of business of revenue and profit before taxation from continuing operations are stated below:

	Revenue		Profit before taxation	
Class of business	**Year ended 31.1.23 £'000**	**Year ended 31.1.22 £'000**	**Year ended 31.1.23 £'000**	**Year ended 31.1.22 £'000**
Motor finance	89,801	78,898	37,171	43,682
Property Bridging finance	12,913	8,991	4,457	3,414
Central costs net of central finance income	-	-	(218)	(78)
	102,714	87,889	41,410	47,018

Analyses by class of business of assets and liabilities are stated below:

	Assets		Liabilities	
Class of business	**Year ended 31.1.23 £'000**	**Year ended 31.1.22 £'000**	**Year ended 31.1.23 £'000**	**Year ended 31.1.22 £'000**
Motor finance	311,168	262,458	(164,452)	(131,012)
Property Bridging finance	116,714	64,426	(109,485)	(59,606)
Central	292	345	70,648	70,136
	428,174	327,229	(203,289)	(120,482)

Depreciation of assets for motor finance was £425,000 (2022: £427,000), for property bridging finance was £15,000 (2022: £21,000) and for central was £85,000 (2022: £81,000). Fixed asset additions for motor finance were £394,000 (2022: £337,000), for property bridging finance were £13,000 (2022: £16,000) and for central were £419,000 (2022: £24,000).

The net finance credit for central costs was £2,507,000 (2022: £2,506,000), for motor finance was a cost of £6,619,000 (2022: £4,394,000) and for property bridging finance was a cost of £3,383,000 (2022: £1,884,000). The tax credit for central costs was £58,000 (2022: £24,000), for motor finance was a tax charge of £6,901,000 (2022: £8,408,000) and for property bridging finance was a tax charge of £848,000 (2022: £652,000).

The significant products in motor finance are car and other vehicle loans secured under hire purchase agreements.

The significant products in property bridging finance are bridging loans secured on property.

The assets and liabilities of the Parent Company are classified as Central.

No geographical analysis is presented because all operations are situated in the United Kingdom.

4. COST OF SALES

	2023 £'000	2022 £'000
Cost of sales - motor finance	21,687	17,366

Cost of sales - motor finance	21,687	17,266
Cost of sales - property bridging finance	1,989	1,505
Total cost of sales	23,676	18,771

5. IMPAIRMENT CHARGE

	2023 £'000	2022 £'000
Loan loss provisioning charge		
Loan loss provisioning charge - motor finance	12,885	3,805
Loan loss provisioning charge - property bridging finance	992	315
Total impairment charge	13,877	4,120

6. FINANCE COSTS (NET)

	2023 £'000	2022 £'000
31.5% cumulative preference dividend	141	142
Lease liabilities interest	12	17
Bank loan and overdraft	7,342	3,613
Total finance costs (net)	7,495	3,772

7. AMOUNTS RECEIVABLE FROM CUSTOMERS

	2023 £'000	2022 £'000
Motor finance hire purchase	403,282	350,517
Less: Loan loss provision motor finance	(96,465)	(91,481)
Amounts receivable from customers motor finance	306,817	259,036
Property bridging finance loans	115,451	64,525
Less: Loan loss provision property bridging finance	(1,558)	(646)
Amounts receivable from customers property bridging finance	113,893	63,879
Amounts receivable from customers	420,710	322,915
Analysis of future due date due		
- Due within one year	201,405	141,301
- Due in more than one year	219,305	181,614
Amounts receivable from customers	420,710	322,915
Analysis of Security		
Loans secured on vehicles under hire purchase agreements	302,159	254,933

Loans secured on property	113,893	63,879
Other loans not secured - motor finance where security no longer present	4,658	4,103
Amounts receivable from customers	420,710	322,915

7. AMOUNTS RECEIVABLE FROM CUSTOMERS (CONTINUED)

Analysis of loan loss provision and amounts receivable from customers (capital)

As at 31 January 2023	Not credit Impaired Stage 1: Subject to 12 months ECL £'000	Not credit Impaired Stage 2: Subject to lifetime ECL £'000	Credit Impaired Stage 3: Subject to lifetime ECL £'000	Total £'000
Amounts receivable (capital)				
Motor finance	285,050	2,236	115,996	403,282
Property bridging finance	108,378	-	7,073	115,451
Total	393,428	2,236	123,069	518,733
Loan loss provisions				
Motor finance	(26,640)	(662)	(69,163)	(96,465)
Property bridging finance	(1,116)	-	(442)	(1,558)
Total	(27,756)	(662)	(69,605)	(98,023)
Amounts receivable (net)				
Motor finance	258,410	1,574	46,833	306,817
Property bridging finance	107,262	-	6,631	113,893
Total	365,672	1,574	53,464	420,710

As at 31 January 2022	Stage 1: Subject to 12 months ECL £'000	Stage 2: Subject to lifetime ECL £'000	Stage 3: Subject to lifetime ECL £'000	Total £'000
Amounts receivable (capital)				
Motor finance	240,588	7,503	102,426	350,517
Property bridging finance	63,145	-	1,380	64,525
Total	303,733	7,503	103,806	415,042
Loan loss provisions				
Motor finance	(22,129)	(2,769)	(66,583)	(91,481)
Property bridging finance	(446)	-	(200)	(646)
Total	(22,575)	(2,769)	(66,783)	(92,127)
Amounts receivable (net)				
Motor finance	218,459	4,734	35,843	259,036
Property bridging finance	62,699	-	1,180	63,879
Total	281,158	4,734	37,023	322,915

7. AMOUNTS RECEIVABLE FROM CUSTOMERS (CONTINUED)

Analysis of loan loss provision and amounts receivable from customers (capital)

Analysis of Loan loss provisions	Stage 1: Subject to 12 months ECL £'000	Stage 2: Subject to lifetime ECL £'000	Stage 3: Subject to lifetime ECL £'000	Total Provision £'000
At 1 February 2021	14,680	12,759	65,475	92,914

Net transfers and changes in

Net transfers and changes in credit risk	(3,144)	(7,462)	(2,775)	(13,381)
New loans originated	11,212	112	6,177	17,501
Total impairment charge to income statement	**8,068**	**(7,350)**	**3,402**	**4,120**
Amount netted off revenue for stage 3 assets	-	-	10,197	10,197
Utilised provision on write-offs	(173)	(2,640)	(12,291)	(15,104)
At 31 January 2022	22,575	2,769	66,783	92,127
Net transfers and changes in credit risk	(10,020)	(1,905)	(1,710)	(13,635)
New loans originated	15,599	148	11,765	27,512
Total impairment charge to income statement	**5,579**	**(1,757)**	**10,055**	**13,877**
Amount netted off revenue for stage 3 assets	-	-	8,893	8,893
Utilised provision on write-offs	(398)	(350)	(16,126)	(16,874)
At 31 January 2023	27,756	662	69,605	98,023

8. EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share ("eps") from continuing operations is based on profit after tax of £33,718,000 (2022: £37,982,000).

The number of shares used in the basic eps calculation is the weighted average number of shares in issue during the year of 12,149,205 (2022: 12,142,928). There are a total of nil dilutive share options in issue (2022: 5,500) and taking into account the appropriate proportion of these dilutive options the number of shares used in the diluted eps calculation is 12,149,205 (2022: 12,145,096).

9. RECONCILIATION OF OPERATING PROFIT TO NET CASH FROM OPERATING ACTIVITIES

	2023 **£'000**	2022 £'000
Operating Profit	48,905	50,790
Finance costs paid	(7,495)	(3,772)
Finance income received	-	-
Tax paid	(7,748)	(8,749)
Depreciation on plant, property and equipment	525	529
(Profit)/loss on disposal of plant, property and equipment	(26)	13
Increase in amounts receivable from customers	(97,795)	(42,005)
Decrease/increase in trade and other receivables	138	(633)
Increase in trade and other payables	255	1,584
Increase in accruals and deferred income	488	116
Increase in cost of future share based payments	6	39
Movement in retirement benefit asset/obligations	(13)	(6)
Net cash used in operating activities	(62,760)	(2,094)

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