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Vertu Motors PLC
06 February 2025

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Vertu Motors plc

("Vertu" or the "Group")

Trading Update

Ongoing new & used car margin pressure due to ZEV Mandate

Cost reduction measures delivered to fully offset Autumn Budget cost pressures

£12m Capital Return via Share Buyback

Vertu Motors plc, the automotive retailer with 198 sales and aftersales outlets across the UK provides the following trading update. The Board anticipates that the Group's adjusted profit before tax for the year ending 28 February 2025 (FY25) will be significantly below current market expectations[1], primarily due to dislocation in the new car market:

- **NEW CARS**: The Group has delivered like-for-like retail volumes and BEV sales ahead of the market trends in the five-month period to 31 January 2025. UK volumes overall in the new retail channel were the lowest for 25 years including the pandemic period. Record proportion of fleet sales across the UK market has adversely impacted gross margin.
- **USED CARS**: Gross margin expansion was less than anticipated due to subdued consumer confidence and heavy discounting of new cars. Like-for-like gross profit generation from the sale of used vehicles, however, has exceeded prior year levels in the five-month period to 31 January 2025.
- **ZEV MANDATE:** The ramp up in the ZEV Mandate target to 28% for 2025 is likely to lead to further ongoing discounting activity in the new car market, continuing the margin pressure seen during the current year. Volumes are also likely to be under pressure.
- **AFTERSALES**: Trading remains resilient and continues to track ahead of the prior year.
- **AUTUMN BUDGET**: The Group's cost base will rise by £10m as a direct result of the Autumn Budget, most notably from rises in NIC and the National Minimum Wage. Actions have been delivered to fully offset this £10m cost which will incur an exceptional restructuring cost of up to £4.0m in FY25.
- **SHARE BUY BACK:** An additional £12m has been allocated to the £4.1m spent so far in FY25 to our ongoing buyback programme over the period to 28 February 2026. Our largest annual allocation to share buybacks ever, this compares to £7.5m spent on share buybacks in FY24, and would take cash returned to shareholders in dividends and share buybacks since January 2011 to well over £100m.

[1] Current Stifel estimate of PBT adjusted £34.5m (6 December 2024)

Robert Forrester, Chief Executive Officer, said:

"The Group's high margin aftersales business is performing strongly. However, the Government's ZEV Mandate is causing severe disruption to the UK new car market, and the consumer environment is subdued. Despite these headwinds, the Vertu team is delivering, as seen by our significant market share gains in BEV new cars in the final quarter of the year. We now have award winning BEV dealerships with Citroen, MINI and VW.

The Government and the industry need to get together to address the root cause of the issues to allow the automotive sector in the UK to return to its traditional role of stimulating economic growth, which is a catalyst for employment.

Vertu's strong balance sheet, underpinned by over £320m of freehold and long leasehold property, is a comfort to our colleagues, Manufacturer partners and shareholders in these times. We have returned over £94m to our shareholders since January 2011 in dividends and share buybacks and I am delighted that the Board has authorised our largest share buyback to date, with £12m allocated to a buyback programme over the period to 28 February 2026."

ZEV Mandate causing disruption in the new car market

2024 marked the first year of mandated targets for new Zero-Emission Vehicles ("ZEV Mandate") in the UK. In response, Manufacturers have taken significant commercial steps to meet these goals, offering discounts to stimulate battery electric vehicle (BEV) demand, estimated by the SMMT to exceed £4.5 billion in 2024. Consequently, a record number of zero-emission vehicles entered the UK market in 2024.

Despite these efforts and investment, BEV registrations accounted for 19.6% of total sales, an increase from 2023 but still short of the 22% target set by the Government's ZEV Mandate.

The overall growth in UK vehicle registrations for 2024 was driven entirely by fleet sales, which now represent nearly 60% of all new vehicle registrations. These sales represent lower margin channels for Manufacturers and Retailers. The higher margin UK private market channel declined by 8.7%, representing the worst retail performance for 25 years, even lower than in 2020.

when the pandemic shut down the sector for prolonged periods. This downturn reflects consumer hesitation toward BEVs, affordability issues and more limited availability of petrol and diesel vehicles as Manufacturers prioritised compliance with percentage targets of the ZEV mandate. The declining retail volume and discounting of BEV vehicles impacted the profitability of the Group's Manufacturer partners. Similarly, retailer profitability in the new car channel came under increasing pressure in Q4 as the end date for 2024 ZEV Mandate target measurement loomed.

Despite outperforming market trends in terms of BEV sales and like-for-like retail volumes, from October 2024 we experienced a significant deterioration in profitability from the new vehicle sales channel. Lower new retail volumes and pressure on Manufacturer earnings led to reduced support for the retailer network and reduced gross profit generation year-on-year. These trends were particularly apparent in December, a traditionally strong month for new vehicle profitability when quarterly and annual new car bonuses from Manufacturers are recognised.

In 2025, the new car market is likely to face further pressure as the ZEV mandate BEV mix targets rise from 22% to 28%. In the absence of significant Government incentives to stimulate UK BEV sales, the increased target is likely to lead to continued pressure on new car volumes and margins as the market is increasingly distorted in favour of BEVs. In addition, there is significant uncertainty about the future economic outlook for the UK consumer. UK consumer confidence [source: NIQ GfK] fell in January 2025 to its lowest point since November 2023, reflecting increasing concerns about an economic slowdown.

Used car margin expansion less than anticipated

The used car market in Q4 2024 and January 2025 has seen continued resilience in wholesale used car prices, due to reduced supply. A more subdued consumer environment has led to a weaker demand environment. This has contributed to retail prices of used vehicles not rising in line with trade values, supressing anticipated margin expansion. This is particularly the case in used cars less than one year old which compete with new cars being discounted by Manufacturers or subject to reduced finance rate offers to drive new retail volume in a weaker market. Despite these trends, used car profitability has increased year-on-year in the second half of FY25 reflecting trade value stability.

Cost headwinds from Autumn Budget and inflation fully offset by cost actions

The changes to the minimum wage and National Insurance contributions announced in the Autumn Budget will add c.£10m to the Group's labour costs in FY26. We expect to see wage inflation passed through in other areas, notably valeting and cleaning costs. To fully mitigate these material cost increases, we have identified and actioned several measures including:

- Headcount reductions
- Productivity increases aided by technology
- Closure of most of the Group's retail operations on Sundays
- 3-to-1 brands: all Group dealerships will operate under the Vertu brand by April 2025

Exceptional costs of up to £4.0m are expected to be incurred in FY25 in relation to the above actions.

Capital Allocation - £12m capital return via share buyback

Capital allocation is central to the Board's strategic decision making. The Group maintains a strong balance sheet, underpinned by owned freehold and long-leasehold property with a net book value at 31 August 2024 of £324.3m which is held at depreciated historic cost. Our balance sheet supports the pursuit of our growth strategy as we look to deliver operational excellence, scale and efficiencies and generate sustainable cash returns to our shareholders in the form of dividends and / or share buybacks.

Since January 2011 the Board has returned over £94m to its shareholders in ordinary dividends payments (£58.9m) and on-market share purchases for cancellation (£35.2m). Alongside these hard cash returns, we have grown organically and by acquisition and today Vertu Motors is the UK's 4th largest motor retailer employing over 7,700 colleagues.

Stock market inefficiencies are a consideration for the Board when making long-term capital allocation decisions. If opportunity arises for the Board to take advantage of an asset mispricing, whether that be vehicles, property, dealerships or shares, then we will act if it benefits our stakeholders.

The Board determined that Vertu Motors plc shares are mispriced and trading at a material discount to our own assessment of intrinsic value. Accordingly, we are taking action, announcing an allocation of £12m to a new share buyback programme to run to 28 February 2026. This compares to £7.5m spent on share buybacks in FY24, and £4.1m so far in FY25. The Board will not hesitate to increase this allocation if it considers it appropriate to do so.

When purchases are made at prices below intrinsic value, share buybacks deliver significant long-term benefits to all remaining shareholders who increase their interest in our Group as our share count reduces. Since we began share buybacks in October 2018, our share count has reduced by 16.5%.

Our stated dividend policy is to maintain a dividend cover on adjusted diluted EPS of 3-4 times. As noted in the interim announcement, adjusted diluted EPS is now stated after deduction of share-based payment charges and amortisation (non-cash items). Consequently, the Group's dividend policy will be amended to 2.5-3.5 dividend cover to negate the impact of this accounting reclassification.

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("MAR"), and is disclosed in accordance with the Company's obligations under Article 17 of MAR.

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Vertu Motors is the fourth largest automotive retailer in the UK with a network of 198 sales outlets across the UK.

Vertu Motors was established in November 2006 with the strategy to consolidate the UK motor retail sector. It is intended that the Group will continue to acquire motor retail operations to grow a scaled dealership group. The Group's acquisition strategy is supplemented by a focused organic growth strategy to drive operational efficiencies through its national dealership network. The Group currently operates 195 franchised sales outlets and 3 non-franchised sales operations from 153 locations across the UK.

Vertu's Mission Statement is to "deliver an outstanding customer motoring experience through honesty and trust".

Vertu Motors Group websites - https://investors.vertumotors.com / www.vertucareers.com
Vertu brand websites - www.vertumotors.com / www.bristolstreet.co.uk / www.vertuhonda.com / www.vertutoyota.com / www.vertumotorcycles.com

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