Lookers plc

2018 Interim Report & Accounts

2018 at a glance

154
franchise dealerships

Sold approx
120,000
new & used cars and light commercial vehicles in six months to June 2018

32
manufacturer brands

Revenue up 5% to
£2.58 billion

Dividend increased 5% to
1.48p per share
(2017: 1.41p)

Profit before tax up 2% to
£45.7m

Earnings per Share up 7% to
9.71p (2017: 9.07p)

Interim Report

Introduction

I am very pleased to report a good trading performance for the first half of the year with an *adjusted profit before tax of £43.1 million, compared to £50.2 million last year, as we continue to outperform the market despite a difficult trading background. The year on year pre-tax profit reduction was expected, given that the comparative period was particularly buoyant with new car sales at record levels, benefitting from the increased demand for new cars that preceded the changes in Vehicle Excise Duty ("VED") in April 2017. The adjusted profit before tax excludes a profit of £7.6 million on the sale of a property in the period.

This strong performance in the first half of last year was followed by a sharp reduction in demand in the second half, mainly as a result of the decline in sentiment and demand for diesel vehicles. These factors resulted in an abnormal balance of profit where 73% of our full year profit in 2017 was generated in the first half of the year. We expect the balance of profits to return to a more normal distribution in the current year, where the first half should represent between 60% and 65% of full year profits, as had been the trend for several years before 2017.

Financial Review

Turnover increased by 5% to £2.58 billion (2017: £2.46 billion) in the first half, with turnover being maintained for new cars but growth from used cars as well as aftersales. Gross profit increased by 3% to £271 million (2017: £264 million), although this increase was eroded by cost increases particularly salary costs due to cost of living increases, increases in the minimum wage, auto enrolment pension costs as well as higher rent, rates and utility costs across our property estate.

EBITDA was £70.7 million for the period compared to £68.1 million in the prior year. *Adjusted profit from operations decreased by 9% to £52.8 million (2017: £58.1 million). Interest costs increased in the period to £9.7 million (2017: £7.9 million), due to higher levels of stock, particularly consignment stock, as well as the increase in the base rate last November.

*Adjusted profit before tax was 14% below that of the prior year at £43.1 million (2017: £50.2 million), for the reasons explained earlier in this statement. Profit before tax of £45.7 million, which includes the profit of £7.6 million on the sale of a property, increased by 2% (2017: £44.6 million). Earnings per share were 9.71p compared to 9.07p, with adjusted earnings per share of 9.07p (2017: 10.49p). Profit after tax increased by 7% to £38.5 million (2017: £36.0 million) after a tax charge of £7.2 million, representing an effective tax rate of 19% on the trading profit before tax.

The group produced strong operational cash flow in the period with cash generated from operations of £65.5 million (2017: £66.5 million). We have invested £14.0 million of capital expenditure during the period in improving dealership facilities as part of our ongoing investment programme. We also received £29.7 million for the sale of two dealership properties, one of which produced a profit of £7.6 million. These were both properties that we had previously developed which were sold as sale and leaseback transactions in both cases. Net cash inflow for the period was £37.3 million compared to £6.8 million last year. Net debt reduced to £54.5 million compared to £97.8 million at the start of the year and £61.9 million at 30 June 2017.

With the reduction in net debt in the period, the group continues to benefit from a strong balance sheet that supports further investment in new and improved facilities, operational capabilities and acquisition opportunities. The ratio of net debt to EBITDA has reduced from 0.95 at the start of the year to the current level of 0.51 and gearing has also reduced to 13% compared to 25% at the start of the year. The value of freehold and long leasehold properties of £308 million (2017: £295 million) at the end of the period remains a key strength of the business.

Our group bank facilities consist of a term loan of £70 million and a revolving credit facility of £150 million, giving total facilities of £220 million, which were renewed at the time of the Benfield acquisition in 2015. There is also the potential to increase the term loan by an additional £30 million to fund future acquisitions. As net debt at 30 June was £54.5 million, the group has a significant level of unutilised bank facilities of £165 million. The extent and term of the facilities, which are renewable in March 2020, continue to provide significant financial security for the group.

*Adjusted profit is profit before amortisation of intangible assets, debt issue costs, pension costs, share based payments and property profit.

Dividend

I am pleased to announce that, given the encouraging results and strong financial position of the group, the Board is declaring an increase in the interim dividend of 5%. This follows the 7% increase in the total dividend last year and an increase in the dividend of over 116%, compared to the dividend paid for the 2010 financial year, when the company recommenced dividend payments. This continues our progressive policy of increasing the dividend provided that the level of profitability is satisfactory.

The Board maintains its view that the level of cover should reduce over the medium term to a level of between 3.5 and 4.0 times. However, the Board will continue to review the dividend policy in the light of the company's trading performance whilst retaining sufficient cash flow to fund future expansion in terms of both organic growth and acquisitions. The interim dividend of 1.48p per share (2017: 1.41p) will be payable to shareholders on 23 November 2018. The ex-dividend date will be 18 October 2018 and the record date will be 19 October 2018.

Share Buyback Programme

In March we announced and implemented a share buyback programme of £10 million which will continue for the rest of this year. We have since purchased approximately 3 million shares which have been cancelled. The Board continues to believe that the share buyback programme at this level will increase capital efficiency as well as providing an opportunity to return capital to shareholders, whilst ensuring that the company continues to have a strong balance sheet.

Board Changes

Last year we announced that Bill Holmes, who had been a non-executive director since June 2008, would retire from the Board upon completion of a successful handover of the position of chair of the audit & risk committee to Stuart Counsell who was appointed as a non-executive director in June 2017. A successful handover of this important position was achieved in the first quarter of this year and Bill Holmes therefore retired from his position as a non-executive director on 28th March 2018. Together with all my colleagues on the Board, I would like to thank Bill for his exceptional and substantial contribution to the company during the past ten years, serving as a non-executive director, chairman of the audit & risk committee and senior independent director in this period and we wish him well for the future.

Operating Review

The results for the first half represent a good performance against our objectives and KPIs, particularly given the strong performance in the previous year and the challenging new car market seen in the second half of last year. The key aspects of our performance were:

- New car turnover maintained at a similar level with a reduction in volumes less than the overall market;
- Continued growth in used car revenue and gross profit; and
- Further progress in aftersales with increased revenue and gross profit.

Our motor retail group consists of 154 franchised dealerships representing 32 manufacturers from 99 locations. The business generates revenue from the sale of new and used cars and aftersales activities. The high margin aftersales sector of the business represents the largest proportion of gross profit at 42%, with new cars and used cars contributing 31% and 27% respectively.

During the period, in March, we closed two Vauxhall dealerships at Warrington and Yardley, near Birmingham. These were both underperforming businesses and were closed with the agreement of Vauxhall as part of the rationalisation of their UK dealer network. In July we acquired a dealership which complements our larger representation of Ford in Essex.

The number of new cars sold per annum in the UK has varied between 2.26 million and 2.69 million during the past five years. Our share of the retail sector of this market is 6% up from 4% in 2011. After five consecutive years of growth since 2011, the UK new car market reduced by 5.6% in 2017 to 2.54 million cars. Whilst the new car market has seen further reductions in 2018, as expected given the strong market in the first half of 2017, the decrease appears to have stabilised and despite the reduction, remains at a historically high level.

We also continue to see significant opportunity to grow market share and increase sales volumes within the UK used car market, which currently has annual transactions of approximately 8 million vehicles, of which franchised dealers represent approximately 50%.

Aftersales represents the servicing, repair and sale of franchised parts to customers' vehicles. The aftersales market applies to the overall number of cars in use on UK roads, which is referred to as the UK car parc. There are approximately 37 million vehicles with 20% (7.5 million) under three years old, which is contributing to the continued growth of the aftersales market. This is the predominant market for franchised motor dealers and we are focused on developing the aftersales business and investing in our offering through initiatives to increase volumes and margins.

The internet remains the primary means for our customers to research and determine which new or used cars they are interested in buying. We are committed to ongoing investment in our digital marketing channels and developing the website, as part of our omni-channel customer experience strategy to meet the needs of our growing customer base.

Analysis of Turnover and Gross Profit

	H1 2018 £m	H1 2017 £m	% Change
Turnover			
New Cars	1,311	1,312	-
Used Cars	996	887	12%
Aftersales	228	215	6%
Leasing and other	41	44	(7%)
Total	**2,576**	**2,458**	**5%**
Gross Profit			
New Cars	85	88	(3%)
Used Cars	72	69	4%
Aftersales	105	98	7%
Leasing and other	9	9	-
Total	**271**	**264**	**3%**

New Cars

The sale of new cars represents 31% of total gross profit. Despite a 5.6% reduction in the new car market in 2017 to 2.54 million, it has remained at historically high levels. The new car market reduced by 6.3% in the first half of the year to 1.31 million, with the retail new car market reducing by 4.9% to 0.59 million and the fleet market reducing by 7.3% to 0.72 million. Our total new car turnover was maintained at a similar level to 2017 compared to the market reduction in registrations of 6.3%. Retail turnover reduced by 2% compared to the market reduction in new car volumes of 4.9%.

Fleet turnover, including commercial vehicles, increased by 3%, compared to the market reduction of 6%. The fleet sector continues to represent a significant part of the market providing scope for further growth whilst taking a sensible attitude to maintaining margins. Total gross profit from new cars decreased by 3%, compared to the prior year, reflecting a slight reduction in gross margin although profit per unit was increased in the period.

Whilst the new car market reduced by 6.3% in the half year, the decrease was more pronounced in the first quarter given the strong comparatives from 2017 due to increased demand in advance of the changes in VED. From April we have seen modest growth in April, May and July and a small reduction in June. We therefore expect registrations for the rest of the year to look more favourable compared to last year.

From 1st September 2018 we will see the introduction of the new vehicle emission testing regulations, the Worldwide Harmonised Light Vehicle Testing Procedure ("WLTP"). There is the possibility that this could cause some disruption to the production and supply of certain vehicles, depending on the timetable and availability of when the vehicles are tested for the manufacturers. Whilst we do not currently believe that this will represent a material issue, it has the potential to result in some volatility to the supply of new vehicles.

The latest data from the Society of Motor Manufacturers and Traders ("SMMT") for July shows the new car market has stabilised and their current estimate is that new car volumes will be at 2.41m units for the full year. This represents a reduction of 5.1% for the full year compared to 2017 and implies a reduction in the second half of 3.5%. However, this still represents a historically high level of demand for the new car market. Notwithstanding these forecasts, we continue to target increases in new car volumes and our order take for the important month of September is continuing at encouraging levels.

Our relationship with our manufacturer partners remains a critical part of our success and we continue to work closely with them to achieve a mutually beneficial commercial relationship, underpinning the potential to develop further with them in the future.

Used Cars

The used car market continues to be buoyant and values of used cars have remained stable and predictable. Used cars contribute 27% of total gross profit and group turnover of used cars increased by 12%, compared to 2017. Gross profit increased by 4% with profit per unit maintained at the same level, although the average selling price increased. This is a positive performance given that our used car volumes have increased significantly in each of the last five years.

In conjunction with recognising the vital importance of new cars to our business model, the used car market still represents a significant additional opportunity for the group and we plan to accelerate our growth in used cars to take advantage of this.

Aftersales

Our higher margin aftersales business, which represents 42% of gross profit, has performed well in the period. Turnover increased by 6% compared to 2017 and gross profit increased by 7%, with the margin also at a slightly higher level compared to last year. The increased profitability has benefitted from the growth in the vehicle parc of cars under three years old, a trend which has continued in recent years due to increased sales of new cars. Whilst this will continue to increase in the short term, it will be at a lower rate. The increase in volumes and margin are also due to the initiatives we have made to develop the aftersales business, where we have concentrated on increasing capacity and customer retention.

Outlook

Our strategy of having the right brands in the right locations combined with excellent execution leaves us well placed to continue to make progress against our strategic goals. The group has produced a good performance for the first six months of the year. Whilst profit for the period was lower than last year, it has been against the background of the distortion in the market in the first quarter of last year due to the effect of changes in VED last April. We therefore expect a more balanced distribution of profits between the first and second half of this year and as such anticipate a positive profit performance in the second half of the year compared to the same period last year.

Our new car business has performed well in comparison to the market and whilst the new car market is expected to reduce this year, it is forecast to remain at historically high levels and we have an encouraging level of orders for the important month of September. We have also significantly increased our used car volumes and profit, growing our share of this market and our high margin aftersales business continues to have opportunities to increase turnover and profit.

We continue to make significant investments to upgrade our facilities and enhance our omni-channel customer experience. This, together with the broad base of our franchise representation strengthens our position as a leading UK automotive retail and aftersales service group to enable us to achieve future growth over the medium to long term.

The current political environment, Brexit and weaker exchange rates create a degree of uncertainty in the UK economy, which is unhelpful. We also have to remain aware of consumer confidence levels and the Pound-Euro exchange rate, both of which could have an impact on our business. We therefore look forward with a degree of caution.

However, we have a strong balance sheet which continues to be strengthened by operational cash flow with both net debt and net debt to EBITDA being at relatively low levels and we have substantial headroom in our bank facilities. This provides secure funding capacity and financial security to grow the business through further strategic acquisitions at a time when there continue to be significant consolidation opportunities within the sector.

The positive performance of the group in the first half of the year is encouraging and the Board therefore believes, based on the performance in the first half of the year, that the results for the year ending 31 December 2018 should be in line with current market expectations.

I would like to finish my review by thanking all my colleagues at Lookers for their hard work, commitment and dedication to the company and without whom we would not have been able to deliver another positive result for the period.

Phil White, Chairman

15 August 2018

Condensed Consolidated Statement of Financial Performance

Six months ended 30 June 2018

	Note	Unaudited six months ended 30 June 2018 £m	Unaudited six months ended 30 June 2017 £m	Audited year ended 31 Dec 2017 £m
Continuing operations				
Revenue	3	**2,576.5**	2,458.5	4,696.3
Cost of sales		(2,306.0)	(2,194.7)	(4,192.2)
Gross profit		**270.5**	**263.8**	**504.1**
Distribution costs		(140.9)	(146.1)	(292.5)
Administration expenses		(80.4)	(63.8)	(136.7)
Other operating income		7.6	0.5	2.5
Profit from operations		56.8	54.4	77.4
Profit from operations before amortisation, share based payments and property profit		52.8	58.1	84.7
Amortisation of intangible assets		(2.7)	(2.8)	(5.6)
Share based payments		(0.9)	(0.9)	(1.7)
Profit on sale of property		7.6	-	-
Profit from operations		**56.8**	**54.4**	**77.4**
Interest payable	5	(9.7)	(7.9)	(16.6)
Interest receivable	5	-	-	0.3
Net interest		**(9.7)**	**(7.9)**	**(16.3)**
Net interest and costs on pension scheme obligation		(1.2)	(1.7)	(4.2)
Fair value on derivative instruments		-	-	1.9
Debt issue costs		(0.2)	(0.2)	(0.4)
Profit on ordinary activities before taxation		**45.7**	**44.6**	**58.4**
Profit before tax, amortisation, debt issue costs, pension costs, share based payments and property profit		43.1	50.2	68.4
Amortisation of intangible assets		(2.7)	(2.8)	(5.6)
Share based payments		(0.9)	(0.9)	(1.7)
Fair value on derivative instruments		-	-	1.9
Profit on sale of property		7.6	-	-
Net interest on pension scheme obligation		(1.2)	(1.7)	(4.2)
Debt issue costs		(0.2)	(0.2)	(0.4)
Profit on ordinary activities before taxation		**45.7**	44.6	58.4
Tax charge	7	(7.2)	(8.6)	(10.5)
Profit for the period / year		38.5	36.0	47.9
Attributable to:				
Shareholders of the company		38.5	36.0	47.9
Earnings per share				
Basic earnings per share	6	**9.71p**	9.07p	12.06p
Diluted earnings per share	6	**9.35p**	8.73p	11.70p

Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 June 2018

	Unaudited six months ended 30 June 2018 £m	Unaudited six months ended 30 June 2017 £m	Audited year ended 31 Dec 2017 £m
Profit for the period / year	38.5	36.0	47.9
Items that will never be reclassified to profit and loss:			
Actuarial gains recognised in post retirement benefit schemes	4.0	1.1	10.6
Movement in deferred taxation on pension liability	-	(0.2)	(1.9)
Items that are or may be reclassified to profit and loss:			
Fair value gain on derivative instruments and share based payments	-	-	0.2
Movement in deferred taxation on derivative instruments	-	-	(1.0)
Other comprehensive income for the period/year	4.0	0.9	7.9
Total comprehensive income for the period/year	42.5	36.9	55.8
Attributable to:			
Shareholders of the company	42.5	36.9	55.8

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Unaudited 30 June 2018 £m	Unaudited 30 June 2017 £m	Audited 31 Dec 2017 £m
Non current assets			
Goodwill	108.9	107.6	108.9
Intangible assets	114.0	113.6	112.3
Property, plant and equipment	341.1	328.0	342.0
	564.0	549.2	563.2
Current assets			
Inventories	864.6	857.1	984.1
Trade and other receivables	251.7	320.4	242.1
Rental fleet vehicles	66.7	67.5	60.9
Cash and cash equivalents	47.9	72.7	45.3
	1,230.9	1,317.7	1,332.4
Total assets	**1,794.9**	**1,866.9**	**1,895.6**
Current liabilities			
Bank loans and overdrafts	31.4	51.8	66.1
Trade and other payables	1,146.5	1,199.5	1,227.5
Current tax liabilities	5.7	14.4	-
Derivative financial instruments	-	3.0	0.6
	1,183.6	1,268.7	1,294.2
Net current assets	47.3	49.0	38.2
Non current liabilities			
Bank loans	71.0	82.8	77.0
Trade and other payables	25.1	35.0	36.8
Retirement benefit obligations	61.0	75.3	63.8
Deferred tax liabilities	38.8	34.3	38.8
	195.9	227.4	216.4
Total liabilities	**1,379.5**	**1,496.1**	**1,510.6**
Net assets	**415.4**	**370.8**	**385.0**
Shareholders' equity			
Ordinary share capital	19.7	19.9	19.9
Share premium	78.4	78.4	78.4
Capital redemption reserve	14.8	14.6	14.6
Retained earnings	302.5	257.9	272.1
Total equity	**415.4**	**370.8**	**385.0**

Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2018

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2018	19.9	78.4	14.6	272.1	385.0
Profit for the period	-	-	-	38.5	38.5
Actuarial gains recognised on defined benefit pension schemes	-	-	-	4.0	4.0
Share based payments	-	-	-	0.9	0.9
Share buyback	(0.2)	-	0.2	(3.2)	(3.2)
Dividend to shareholders	-	-	-	(9.8)	(9.8)
As at 30 June 2018 (unaudited)	19.7	78.4	14.8	302.5	415.4

Six months ended 30 June 2017

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2017	19.8	77.7	14.6	229.6	341.7
Profit for the period	-	-	-	36.0	36.0
Actuarial gains recognised on defined benefit pension schemes	-	-	-	1.1	1.1
Deferred taxation on pension liability	-	-	-	(0.2)	(0.2)
Share based payments	-	-	-	0.9	0.9
New shares issued	0.1	0.7	-	-	0.8
Dividend to shareholders	-	-	-	(9.5)	(9.5)
As at 30 June 2017 (unaudited)	19.9	78.4	14.6	257.9	370.8

Condensed Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2017

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2017	19.8	77.7	14.6	229.6	341.7
Profit for the year	-	-	-	47.9	47.9
New shares issued	0.1	0.7	-	-	0.8
Actuarial gains recognised on defined benefit pension schemes	-	-	-	10.6	10.6
Deferred taxation on pension liability	-	-	-	(1.9)	(1.9)
Share based payments	-	-	-	1.7	1.7
Current and deferred taxation on share based payments	-	-	-	(0.8)	(0.8)
Dividends to shareholders	-	-	-	(15.0)	(15.0)
As at 31 December 2017	19.9	78.4	14.6	272.1	385.0

Condensed Consolidated Cash Flow Statement

Six months ended 30 June 2018

	Unaudited Six months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2017 £m	Audited Year ended 31 Dec 2017 £m
Cash flows from operating activities			
Profit for the period/year	38.5	36.0	47.9
Adjustments for:			
Tax	7.2	8.6	10.5
Depreciation	10.3	10.0	20.7
Fair value on derivative instruments	-	-	(2.4)
Loss on disposal of plant and equipment	-	-	0.4
Profit on disposal of rental fleet vehicles	(0.2)	(0.2)	-
Amortisation of intangible assets	2.7	2.8	5.6
Share based payments	0.9	0.9	1.7
Interest income	-	-	(0.3)
Interest payable	9.7	7.9	16.6
Debt issue costs	0.2	0.2	0.4
Changes in working capital			
Decrease / (increase) in inventories	119.5	(17.7)	(144.7)
Increase in trade and other receivables	(24.8)	(95.4)	(16.1)
(Decrease) / increase in payables	(107.4)	113.4	143.0
Impact of funding of rental vehicles	8.9	-	-
Cash generated from operations	65.5	66.5	83.3
Difference between pension charge and cash contributions	(2.8)	(3.7)	(7.8)
Net interest and costs on pension scheme obligation	1.2	1.7	4.2
Purchase of rental fleet vehicles	(52.7)	(46.7)	(87.1)
Proceeds from sale of rental fleet vehicles	43.7	43.3	87.0
Interest paid	(9.7)	(7.9)	(16.6)
Interest received	-	-	0.3
Tax paid	(0.4)	(8.7)	(25.5)
Net cash inflow from operating activities	44.8	44.5	37.8
Cash flows from investing activities			
Purchase of property, plant and equipment	(14.0)	(19.7)	(46.1)
Purchase of intangibles	(4.4)	(7.1)	(8.1)
Purchase of goodwill	-	-	(1.3)
Proceeds from sale of property, plant and equipment	29.7	3.0	8.0
Net cash (used)/generated by investing activities	11.3	(23.8)	(47.5)
Cash flows used by financing activities			
Proceeds from issue of ordinary shares	-	0.8	0.8
Repayment of loans	(5.8)	(5.2)	(12.5)
Share buyback	(3.2)	-	-
Dividends paid to group shareholders	(9.8)	(9.5)	(15.0)
Net cash outflow from financing activities	(18.8)	(13.9)	(26.7)
Increase / (decrease) in cash and cash equivalents	37.3	6.8	(36.4)
Cash and cash equivalents at the beginning of period/year	(7.6)	28.8	28.8
Cash and cash equivalents at the end of period/year	29.7	35.6	(7.6)

Notes to the Set of Financial Information

Six months ended 30 June 2018

1. General Information

The financial information for the period ended 30 June 2018 and similarly the period ended 30 June 2017 has neither been audited nor reviewed by the auditor. The financial information for the year ended 31 December 2017 has been based on information in the audited financial statements for that year.

The information for the year ended 31 December 2017 and the Interim Financial Report for the period ended 30 June 2018 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

2. Accounting Policies

The annual financial statements of Lookers plc are prepared in accordance with IFRSs as adopted by the European Union. The set of condensed financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standards 34 'Interim Financial Reporting', as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in the half yearly financial report as applied in the group's latest annual audited financial statements.

For the year ended 31 December 2017, the group adopted a number of new standards and interpretations which are listed on page 79 to 80 of the 2017 Annual Report. The adoption of the new standards and amendments included in this report have had no significant impact on the financial statements of the group. Furthermore, at the date of authorisation of the half yearly financial report there are a number of standards and interpretations also listed on page 80 of the 2017 Annual Report which were in issue but not yet effective. As such these have not been applied with the exception that IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from contracts with customers' became effective and have been adopted with effect from 1 January 2018 but have not had a material impact on the financial statements included in this half yearly financial report.

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the group except that IFRS 16 may have an impact on the reported assets, liabilities, income statement and cash flows of the group and require extensive disclosures.

Basis of preparation: Going concern

This financial information has been prepared on a going concern basis which the directors believe to be appropriate. This conclusion is based on, amongst other matters, a review of the group's financial projections together with a review of the cash and committed borrowing facilities available to the group.

At 30 June 2018 the medium-term banking facilities included a revolving credit facility of up to £150.0 million and a term loan totalling £70.0 million, providing total facilities of £220.0 million. These facilities are due for renewal on 31 March 2020.

3. Segmental Reporting

At 30 June 2018 the group is organised into one business segment being motor distribution.

Unaudited Six months ended 30 June 2018	**Motor Distribution £m**	**Unallocated £m**	**Group £m**
Continuing operations			
New Cars	1,310.7	-	1,310.7
Used Cars	996.3	-	996.3
Aftersales and other	269.5	-	269.5
Revenue	2,576.5	-	2,576.5
Segmental result	52.8	-	52.8
Profit from sale of property	-	7.6	7.6
Amortisation of intangible assets	-	(2.7)	(2.7)
Interest expense	(8.1)	(1.6)	(9.7)
Share based payments	-	(0.9)	(0.9)
Net interest and costs on pension scheme obligation	-	(1.2)	(1.2)
Debt issue costs	-	(0.2)	(0.2)

Notes to the Set of Financial Information (continued)

Six months ended 30 June 2018

3. Segmental Reporting (continued)

Unaudited Six months ended 30 June 2018	Motor Distribution £m	Unallocated £m	Group £m
Profit before taxation	44.7	1.0	45.7
Taxation			(7.2)
Profit for the financial period from continuing operations attributable to shareholders			**38.5**
Segmental assets	1,794.8	-	1,794.8
Total assets	**1,794.8**	**-**	**1,794.8**
Segmental liabilities	1,277.0	-	1,277.0
Unallocated liabilities			
- Corporate borrowings	-	102.4	102.4
Total liabilities	**1,277.0**	**102.4**	**1,379.4**

Unaudited Six months ended 30 June 2017	Motor Distribution £m	Unallocated £m	Group £m
Continuing operations			
New Cars	1,311.7	-	1,311.7
Used Cars	886.7	-	886.7
Aftersales and other	260.1	-	260.1
Revenue	**2,458.5**	**-**	**2,458.5**
Segmental result	58.1	-	58.1
Amortisation of intangible assets	-	(2.8)	(2.8)
Interest expense	(6.3)	(1.6)	(7.9)
Share based payments	-	(0.9)	(0.9)
Net interest and costs on pension scheme obligation	-	(1.7)	(1.7)
Debt issue costs	-	(0.2)	(0.2)
Profit before taxation	51.8	(7.2)	44.6
Taxation			(8.6)
Profit for the financial period from continuing operations attributable to shareholders			**36.0**
Segmental assets	1,866.9	-	1,866.9
Total assets	**1,866.9**	**-**	**1,866.9**
Segmental liabilities	1,361.5	-	1,361.5
Unallocated liabilities			
- Corporate borrowings	-	134.6	134.6
Total liabilities	**1,361.5**	**134.6**	**1,496.1**

Audited Year ended 31 December 2017	Motor Distribution £m	Unallocated £m	Group £m
Continuing operations			
New Cars	2,476.8	-	2,476.8
Used Cars	1,702.7	-	1,702.7
Aftersales and other	516.8	-	516.8
Revenue	**4,696.3**	**-**	**4,696.3**

Notes to the Set of Financial Information (continued)

Six months ended 30 June 2018

3. Segmental Reporting (continued)

Audited Year ended 31 December 2017	Motor Distribution £m	Unallocated £m	Group £m
Segmental result	84.7	-	84.7
Amortisation of intangible assets	-	(5.6)	(5.6)
Interest expense	(13.7)	(2.9)	(16.6)
Interest income	0.3	-	0.3
Share based payments	-	(1.7)	(1.7)
Fair value on derivative instruments	-	1.9	1.9
Net interest and costs on pension scheme obligation	-	(4.2)	(4.2)
Debt issue costs	-	(0.4)	(0.4)
Profit before taxation	71.3	(12.9)	58.4
Taxation			(10.5)
Profit for the financial year attributable to shareholders			**47.9**
Segmental assets	1,895.6	-	1,895.6
Total assets	**1,895.6**	**-**	**1,895.6**
Segmental liabilities	1,367.5	-	1,367.5
Unallocated liabilities			
- Corporate borrowings	-	143.1	143.1
Total liabilities	**1,367.5**	**143.1**	**1,510.6**

4. Dividend declaration

An interim dividend of 1.48p per ordinary share is proposed (2017: 1.41p per share).

	Unaudited Six months ended 30 June 2018 p	Unaudited Six months ended 30 June 2017 p	Audited Year ended 31 Dec 2017 p
Ordinary dividend per share - paid in period/year	2.48	2.36	3.77
- proposed	1.48	1.41	2.48

The interim dividend which will be paid gross of tax, will be paid on 23 November 2018. The ex-dividend date for the interim dividend will be 18 October 2018 and the record date will be 19 October 2018. A dividend reinvestment plan is available where the election date is 2 November 2018.

5. Finance Costs - Net

	Unaudited Six months ended 30 June 2018 £m	Unaudited Six months ended 30 June 2017 £m	Audited Year ended 31 Dec 2017 £m
Interest expense			
On amounts wholly repayable within 5 years:			
Interest payable on bank borrowings	(3.8)	(2.4)	(4.9)
Interest on consignment vehicle liabilities and stocking loans	(5.9)	(5.5)	(11.7)
Interest and similar charges payable	(9.7)	(7.9)	(16.6)
Interest income			
Bank interest	-	-	0.3
Total interest receivable	-	-	0.3
Net interest	(9.7)	(7.9)	(16.3)

6. Earnings per share

The calculation of earnings per ordinary share is based on profit on ordinary activities after taxation amounting to £38.5 million (2017: £36.0 million) and a weighted average of 396,427,270 ordinary shares in issue during the period (2017: 396,913,653).

The diluted earnings per share is based on the weighted average number of shares, after taking account of the dilutive impact of shares under option of 15,122,090 shares (2017: 15,298,787). The diluted earnings per share is 9.35p (2017: 8.73p).

Adjusted earnings per share is stated before amortisation of intangible assets, pension costs, debt issue costs, share based payments and the property profit and is calculated on profits of £35.9 million for the period (2017: £41.6 million).

Adjusted earnings per share	Unaudited Six months ended 30 June 2018 Earnings £m	Unaudited Six months ended 30 June 2018 Earnings per share p	Unaudited Six months ended 30 June 2017 Earnings £m	Unaudited Six months ended 30 June 2017 Earnings per share p	Audited Year ended 31 Dec 2017 Earnings £m	Audited Year ended 31 Dec 2017 Earnings per share p
Earnings attributable to ordinary shareholders	38.5	9.71	36.0	9.07	47.9	12.06
Amortisation of intangible assets	2.7	0.68	2.8	0.71	5.6	1.40
Net interest and costs on pension scheme obligation	1.2	0.30	1.7	0.43	4.2	1.06
Profit on sale of property	(7.6)	(1.92)	-	-	-	-
Share based payments	0.9	0.23	0.9	0.23	1.7	0.43
Debt issue costs	0.2	0.06	0.2	0.05	0.4	0.10
Fair value on derivative instruments	-	-	-	-	(1.9)	(0.48)
Adjusted	35.9	9.07	41.6	10.49	57.9	14.57

7. Taxation

The tax charge for the period has been provided at the effective rate of 19.0% excluding capital gains (2017: 19.3%) representing the best estimate of the average annual effective tax rate expected for the full year applied to the pre tax income for the six month period.

8. Pensions

The defined benefit obligation as at 30 June 2018 has been calculated in a manner consistent with that used in the group's latest annual audited financial statements. This is calculated as a valuation update as at 30 June 2018 by a qualified independent actuary to take account of the requirements of IAS 19 (Revised). Scheme liabilities have been calculated using a consistent projected unit valuation method and compared to the schemes' assets at their market value at 30 June 2018.

9. Risks And Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Board believes these risks and uncertainties to be consistent with those disclosed in pages 41 and 42 of our latest annual report, including any impact from Brexit, general economic factors such as oil prices, interest rates, manufacturers' influence and stability.

10. Interim Statement

The interim announcement was approved by the Board and will be posted to shareholders in September 2018. Copies are also available to the public at the registered office of the company at Lookers House, 3 Etchells Road, West Timperley, Altrincham, WA14 5XS

Responsibility Statement

We confirm that to the best of our knowledge

(a) The interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting';

(b) The interim financial statements include a fair review of the information required by DTR 4.2.7R (identification of important events during the first six months and their impact on the condensed set of financial statements and description of principal risks and uncertainties for the remaining six months of the year); and

(c) The interim financial statements include a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and charges therein).

By order of the Board

Andy Bruce	Robin Gregson
Chief Executive Officer	Chief Financial Officer
15 August 2018	15 August 2018

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