LOOKERS plc

Annual Results for the year ended 31 December 2017

Solid underlying growth in a challenging market, with increased dividend and share buyback plan announced

Lookers plc, ("Lookers", "the company" or "the group"), one of the leading UK motor retail and aftersales service groups, announces its annual results for the year ended 31 December 2017.

Key financials:

Continuing Operations	**2017**	**2016**	**Change**
Turnover	£4,696m	£4,088m	15%
*Adjusted operating profit	£84.7m	£82.5m	3%
*Adjusted profit before tax	£68.4m	£64.9m	5%
**Profit before tax	£58.4m	£79.6m	(27%)
* Adjusted earnings per share	14.57p	14.38p	1.3%
**Earnings per share	12.06p	18.06p	(33%)
Final dividend per share	2.48p	2.36p	5%
Total dividend per share	3.89p	3.64p	7%

*Adjusted operating profit is operating profit before amortisation and impairment of intangibles, exceptional items and share based payments. Adjusted profit before tax is profit before amortisation and impairment of intangible assets, debt issue costs, pension costs, exceptional items and share based payments.
**The reduction was largely as a result of an exceptional profit of £28 million on the sale of the parts division in 2016.

- Strong balance sheet maintained with net debt to EBITDA below 1.0x
- Share buyback programme announced (see separate announcement)

Operational highlights:

- Total new car turnover up 12% and 3% on a like-for-like basis despite a reduction in overall market volumes
- Total used car turnover up 19% and 13% on a like-for-like basis against strong comparatives
- Growth in new car market in recent years underpins continued demand for aftersales, as the number of cars under three years old continues to rise
- Continued investment in our multi-channel customer experience, especially the website, driving significant increases in visitor and enquiry levels
- Strengthened portfolio of franchise representation

Outlook:

- Order book for the delivery of new cars in March in line with our expectations
- Used car volumes continue to show growth alongside momentum in aftersales
- First quarter result expected to be in line with management's expectations

Andy Bruce, Chief Executive of Lookers, said:

"We have delivered a robust set of results with good growth across all areas of the business, demonstrating the resilience and differentiation provided by the Lookers business model. Against a backdrop of a 5.6% dip in the new car market, we have seen strong momentum in used cars and aftersales.

We have made good progress with our strategy over the year and remain focused on having the right brands in the right locations, combined with excellent execution that gives our customers a personal, relevant and multi-channel retail experience. We have managed our portfolio of dealerships to reflect this goal and our franchise representation is well positioned for the future.

The order book for new cars in the important month of March is in line with our expectations and whilst the new car market for this year is forecast to reduce, it is still at a historically high level. We expect to make further progress over 2018 with good momentum in used cars and aftersales and a resilient performance in new cars."

There will be an analyst presentation today at 9.30am, taking place at MHP Communications, 6 Agar Street, London, WC2N 4HN. The presentation will also be accessible via a live conference call for registered participants. To register for the call please contact MHP Communications on +44 (0)20 3128 8742, or by email on lookers@MHPC.com.

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STRATEGIC AND OPERATIONAL REVIEW

I am pleased to report a respectable result for the company which saw a 15% increase in turnover from continuing operations on the prior year and produced an increase of 5% in adjusted profit before tax* of £68.4 million from continuing operations (2016: £64.9 million). This result represents a positive performance against a backdrop of difficult trading conditions across the motor sector, particularly in the second half of the year, and during a period in which volumes in the UK new car market reduced by 5.6%, albeit remaining at historically high levels.

This continued momentum has allowed us to demonstrate growth in the company's underlying operations, further demonstrating that our business model is both resilient and expansive. Adjusted profit before tax* of £68.4 million represents a reduction compared to last year's result of £77.1 million, although this largely relates to the trading result of the parts division which was sold in the last financial year to allow the group to focus on its strategy of expanding the motor retail business and continuing to add value through acquisitions.

The key elements of our performance were:

- Stable level of new car turnover and improvement in gross profit in continuing operations;
- Further growth in used car turnover and gross profit; and
- Improvement in both aftersales turnover and margin.

Whilst the new car market remains challenging, we believe there are opportunities to grow the business in 2018 and beyond, particularly in used cars and where Lookers, as a leading company in the industry, benefits from economies of scale, the skills of our people and our ability to invest in improved technology. Given the challenging trading conditions we carried out a significant cost saving exercise during the second half of the year which reduce costs in 2018.

This is the first annual reporting period following the successful integration of the significant acquisitions made during the second half of 2016 and the sale of our parts division in November 2016. The relative performance of continuing operations will be considered in this report and will provide a more appropriate assessment of the underlying performance of the business, as well as that of the company as a whole (where the comparatives and year on year changes include the parts division). Therefore, any references to continuing operations in this report exclude the parts division from the 2016 comparatives.

PERFORMANCE OVERVIEW
SUMMARY OF FINANCIAL AND NON-FINANCIAL KPIS:

Financial (continuing operations)	**2017**	**2016**
Turnover	£4,696m	£4,088m
Gross Profit	£504.1m	£449.5m
Gross margin	10.7%	11.0%
Operating profit	£84.7m	£82.5m
Operating margin	1.8%	2.0%
*Adjusted profit before tax	£68.4m	£64.9m
* Adjusted net margin	1.5%	1.6%
* Adjusted earnings per share	14.57p	14.38p
Profit before tax	£58.4m	£79.6m
Earnings per share	12.06p	20.51p
Net debt	£97.8m	£74.1m
Gearing	25%	22%
**Net debt to EBITDA	0.95	0.69
Return on capital employed	17.8%	19.0%
Non-financial		
UK new car market	2.54m	2.69m
Group new car sales	104,331	102,554
Share of UK new car retail	6.0%	5.5%
Group used car sales	92,105	84,502
Group employees	8,599	9,081

(*Adjusted profit is profit from continuing operations before amortisation and impairment of intangible assets, debt issue costs, pension costs, exceptional items and share based payments)
(**EBITDA is cash generated before working capital including fair value on derivatives)

BUSINESS MODEL AND STRATEGY

Business model

With group turnover of £4.7 billion in 2017, Lookers is one of the leading motor retail and aftersales groups in the UK. We sell over 221,000 new and used cars and light commercial vehicles. Our operations are across the UK and Ireland, with a presence in most of the major population centres.

Our motor retail business consists of 155 franchised dealerships representing 32 manufacturers from 100 locations. The business generates revenue from the sale of new and used cars, vans and aftersales activities.

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 just over 6%, up from 5.5% in the prior year.

After five consecutive years of growth since 2011, the UK new car market reduced by 5.6% in 2017 to 2.54 million cars from the 2.69 million cars in 2016, which was the highest ever level. Despite the reduction, the new car market in 2017 was still at historically high levels.

The new car market has two principal sectors, each of which represents approximately 50% of the market. The retail sector represents sales to individual customers and the fleet sector provides sales to corporate customers. Retail sales are generally at higher margins whilst fleet sales consume significantly higher levels of working capital.

The used car market in the UK has annual transactions of just under eight million vehicles, of which franchised dealers represent approximately 50%. There continues to be a major opportunity for Lookers to increase volumes in this part of the market.

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 that make up the UK car parc with 23% (7.8 million) under three years old. This is the predominant market for franchised motor dealers.

The internet continues to be the primary means for our customers to research and determine which new or used cars they are interested in buying. Our website and digital marketing channels are therefore a very important part of our business and customer service offering. We continue to invest in and develop these channels in order to meet the needs of our growing customer base.

Business strategy

Our strategy is focused on having the right brands and locations alongside excellent execution. Underpinning this strategy is our commitment to providing an outstanding retail experience for our customers.

We deliver on our strategy by operating a diverse business in the UK motor sector, supported by a variety of manufacturing partners across various geographies. This helps reduce our exposure to anomalies or fluctuations in demand, which may affect specific manufacturers or geographic locations.

We aim to grow the existing business through a combination of organic growth, seeking profitable opportunities to increase our revenue and presence, whilst actively pursuing an earnings-enhancing acquisitive strategy. Our track record of successful acquisitions makes this a significant differentiator for us, and we have generated an average ROI of over 15% on acquisitions made in recent years.

Another key differentiator is the service and retail experience we offer to our customers. We aim to provide the highest standards of customer experience in the sector by continually investing in and improving three key areas of our business:

- People: Attracting, nurturing and retaining the best people and empowering them to deliver a genuine and personalised experience;

- Technology: Striving in an omni-channel retail environment to provide a seamless customer experience, allowing customers to engage with us whenever and wherever they choose to;

- Brand: Developing our brand proposition to enhance our reputation with our customers, employees, suppliers and shareholders.

Despite the challenging trading conditions and reduction in the new car market we have continued to deliver a significant level of profit which highlights the strength of our strategy and unique proposition.

The group's business activities, financial condition, results of operations or the company's share price could be affected by certain principal risks or uncertainties which are included in the governance section of the 2017 annual report and accounts.

OPERATING REVIEW

I am pleased to report that the continuing operations of the business increased turnover by £608 million to £4.69 billion (2016: £4.09 billion), an increase of 15%. Adjusted profit before tax increased to £68.4 million (2016: £64.9 million), an increase of 5%. This result demonstrates a significant achievement and a strong performance against our objectives and KPIs. Profit before tax for continuing operations was £58.4 million (2016: £79.6 million) where the reduction largely relates to the sale of the parts division which was conducted in the last financial year.

Acquisitions and portfolio management

Our motor retail business has recently been through a period of significant transformation. In the second half of 2016, we successfully completed the strategic acquisitions of the Knights BMW and MINI dealerships as well as the Drayton Mercedes-Benz dealerships, both of which were major transactions for the company. These acquisitions have now been successfully integrated and are making a positive contribution to the company's profits.

We also carried out a strategic review of our brand representation during the previous year. As part of this review, we decided to relinquish some of our franchise representation of dealerships to ensure that all our dealerships were aligned with our strategy of having a meaningful representation of the major automotive brands in the larger areas of population in the UK and to generate meaningful profits. Whilst we completed most of this reorganisation last year, the balance of this has now been completed with the closure or sale of three of the remaining businesses. In the last 18 months we have sold or closed 15 businesses which, together with the two major acquisitions, has significantly improved and strengthened our portfolio of franchise representation.

New Cars

The sale of new cars represents 33% of gross profit for the group. After the record year of 2.69 million cars registered in 2016, the UK new car market had a strong start to the year in the first quarter of 2017, some of the increase being due to changes in Vehicle Excise Duty on 1 April. However, volumes declined from April to December and reduced by 5.6% compared to the prior year, to 2.54 million. This reduction included a decline in the retail new car market which reduced by 6.8% and the fleet new car market reduced by 4.7%. Despite a challenging market, we had a positive performance against this backdrop, our volumes were slightly ahead of the market with a reduction of 4.4% in retail and an increase of 1.4% in fleet. Total new car turnover increased by 12% year-on-year and increased by 3% on a like-for-like basis. This represents a positive performance compared to the wider market, as we continue to take share in a competitive environment.

We have continued to put more focus and investment into the fleet sector and our fleet turnover, including commercial vehicles, outperformed the market with an increase of 17.6% or 5.6% on a like-for-like basis. The fleet sector is a significant part of the market and represents a major profit opportunity for the group, providing scope for organic growth given our lower market share compared to our retail business. Despite this increase in volumes, we have continued to target quality fleet sales and avoid very low margin business.

Gross profit from new cars increased by 2.2% year-on-year and by 2.6% on a like-for-like basis. We expect new car volumes to continue to fall in the first quarter of 2018 compared to the strong comparatives in 2017, where new car registrations were increased due to changes in Vehicle Excise Duty which became effective in April. The Society of Motor Manufacturers and Traders ("SMMT") expect the market to stabilise after the first quarter and their current estimate is that new car volumes will be 5.6% lower for the full year compared to 2017.

The new car market continues to be at historically high levels and our order take for the important month of March is continuing to build in line with our expectations, albeit these are at a lower level than last year, due to the very strong performance in March 2017. However, the outlook for new cars is still relatively healthy and there are opportunities for us to continue to increase market share, particularly as the brands where we have significant representation tend to outperform the wider market.

Used Cars

Used cars contribute 26% of our gross profit and the used car market continues to be stable. Turnover of used cars increased by 19%, or 13% on a like-for-like basis, compared to 2016. Gross profit increased by 27%, or 15% on a like-for-like basis. This is a positive performance given our used car volumes have increased significantly over the last five years. We continue to focus on stock management and sourcing good quality used cars, both of which help to improve profitability.

The used car market still represents a significant opportunity for the group and we will benefit from the increasing number of leads generated by our website, which have increased by 34% compared to last year. A new and much improved website was launched two years ago and whilst this has resulted in significant increases in our visitor and enquiry levels, further and extensive development continues to be carried out.

Aftersales

Our higher margin aftersales business, which represents 41% of gross profit, has performed well in the period. As well as improving margin, turnover increased by 16% compared to 2016 and 4% on a like for like basis. Gross profit increased by 14%, or 3% on a like-for-like basis, with the margin also at a similar 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. This will continue to increase, albeit at a lower rate of growth. The increase in volumes and margin are also due to the initiatives we have made to develop the aftersales business, with an increased emphasis on performance and specific targets being introduced to improve profitability. We continue to have success in higher numbers of customers choosing to enter into service contracts, to fix the price of servicing as well as paying for this on a monthly basis which helps improve customer loyalty and retention.

We have also developed further initiatives to improve the aftersales business, particularly in relation to technology and systems. In this area, we continue to be focussed on improving the customer experience to increase retention levels.

Developing our retail environment

We have previously announced that the group is committed to developing the customer journey through a significant programme of further capital investment planned for the next three years.

This programme will ensure that our entire dealership estate represents best in class in modern motor retailing. We also announced that we were making a significant investment in our multi-channel customer experience.

The internet and our website play a critical and important role in the customer journey, influencing how our customers research vehicles before they enter the showroom. Our in-house digital marketing team now operate across all online channels and the latest version of a new, much improved and fully responsive website, which was launched during the previous year, has resulted in a significant increase in our visitor and enquiry levels. To continue with this momentum we are making further major developments to our website. This will result in exciting improvements in functionality and interaction with our customers. Our aim is to produce an industry-leading website, which will improve the customer experience, and ultimately increase sales and profitability.

Good progress has been made during the year and we are introducing new systems which will improve the customer experience further. This will also result in greater operational efficiencies. We believe this will enable us to provide an industry leading customer experience and give us a significant competitive advantage and improved profitability.

Customer experience

Our goal is to be recognised as providing the best customer experience and engagement in the UK motor retail sector. We do this through personal, relevant, meaningful and memorable expert advice that helps our customers understand the product and make the right choice. We conduct extensive customer research to monitor feedback as we appreciate that customers have high expectations and increasingly more access to detailed product information themselves.

Our people

Our people are the key to help us to deliver our strategy and provide a first-class customer experience. We continue to invest in our people with a new training and development programme, including greatly improved induction training for all new recruits as well as further improvements to our structured and formal management development programme. We have also made significant enhancements to the holidays and benefits for our people so that we can now offer the most attractive employment prospects in our sector. Our aim is to be the best place to work in our industry so that we can attract and retain the best people to achieve enhanced levels of customer satisfaction and help us become the best in the UK motor retail sector. It was therefore a great achievement for our progress in this important area to be recognised when we were the only motor retailer to be awarded the exclusive Top Employers United Kingdom certification in both 2017 and 2018. This is a symbol of our commitment to building a positive employee experience and of our commitment to optimise, develop and work with all our people to build a meaningfully and noticeably different experience for them and our customers.

FINANCIAL REVIEW

GROUP RESULTS

This review of financial performance covers continuing operations unless there is a specific reference to the contrary. Turnover increased by 15% to £4.7 billion compared to the previous year (2016: £4.1 billion), with growth across all areas of the business, particularly used cars. Gross profit increased by 12% to £504 million (2016: £449 million). The gross margin of 10.7% was slightly lower compared to the prior year of 11.0%, which is due to a greater proportion of gross profit coming from the increased volume of car sales, which have a lower percentage margin than parts and aftersales.

The operating margin was slightly lower than last year at 1.8% (2016: 2.0%) and adjusted profit from operations of £84.7 million increased by 2.7% (2016: £82.5 million). As a result of the difficult trading conditions, a significant cost saving exercise was carried out during the second half of the year which will reduce costs in 2018.

Net interest costs reduced by 7.4%, to £16.3 million (2016: £17.6 million) due to lower levels of net debt and lower interest rates for most of the year.

Interest on group borrowings is based on floating interest rates together with interest rate hedges, where we previously had £30 million of hedges which were established in 2007 at an average rate of 5.1%, when interest rates were significantly higher than current levels. These increase the total interest charge so that we do not get the full benefit of the low UK base rate which has now been applicable for ten years. One of the hedges with a value of £10 million expired during the year and the remaining hedge of £20 million expires this year.

Key financial highlights are summarised below:

- *Adjusted profit before tax for the year for continuing operations increased by 5% to £68.4 million (2016: £64.9 million;

- Profit before tax was £58.4 million compared to a profit before tax in the previous year of £79.6 million which includes net exceptional income of £23.3m which is explained in further detail below;

- Profit after tax was £47.9 million, a reduction of 33% (2016: £71.7 million), the majority of the reduction being the exceptional profit in 2017 from the sale of the parts division as well as the profit contributed last year by that business; and

- Earnings per share last year was much higher than usual as it included the exceptional profit on the sale of the parts division, so a reduction would be expected this year. Earnings per share reduced to 12.06p compared to 20.51p in the prior year. However, *Adjusted earnings per share on continuing operations increased by 1.3% to 14.57p (2016:14.38p)

(*Adjusted profit is profit before amortisation and impairment of intangible assets, debt issue costs, pension costs, exceptional items and share based payments)

TAXATION

The tax charge for the year of £10.5 million (2016: £10.5 million) reflects a charge of 18.0% of profit before tax, which is slightly lower than the standard rate of Corporation Tax for the year of 19%. This is due to an over provision for Corporation Tax in prior years as several tax issues relating to previous years were agreed with HMRC in the year.

EXCEPTIONAL INCOME IN THE PREVIOUS YEAR

There were no exceptional items in the current financial year and exceptional items relate to the previous year where there was a significant level of exceptional income included in profit before tax which predominantly relates to the sale of the parts division in 2016.

	2017	2016
	£million	£million
Profit on sale of the parts division	-	28.0
Net refund of VAT claim	-	4.8
Terminated businesses	-	(9.1)
Transaction costs	-	(0.4)
Total exceptional income	-	23.3
Tax charge on exceptional items	-	(3.7)
Total exceptional income after tax	-	19.6

The loss on terminated businesses related to the strategic review of our brand representation during the previous year, where we relinquished dealerships which did not fit our strategy.

CASH FLOW

Cash generated from operations for the year continued to be strong at £83.3 million, but this was a reduction compared to the prior year (2016: £140.9 million) as stock levels were higher due to buying stock in December to take advantage of lower market prices with a view to having an above average trading result for January. Net working capital increased by £17.8 million (2016: reduction of £33.3 million). Stock increased by £144.7 million and debtors increased by £16.1 million which was offset to some extent by an increase in creditors of £143.0 million.

Capital expenditure was £46.1 million (2016: £36.3 million) with proceeds from the sale of properties and dealership businesses of £8.0 million (2016: £28.9 million), where 2016 included £9.1 million for the sale of the parts division properties. Net capital expenditure was therefore £38.1 million (2016: £7.4 million). The majority of capital expenditure was on new or improved premises for dealerships and the increase compared to the previous year reflects our ongoing commitment to improve our retail premises so they reflect modern and state of the art facilities, as we have previously reported. Included within capital expenditure was £19 million in relation to the development of new dealerships in Glasgow and Dublin which we had planned to sell before the end of the year and then lease them from a third party landlord. Whilst terms for Glasgow were agreed before December and this completed shortly after the start of 2018, Dublin has not completed for contractual reasons. If this sale does not proceed this year, it is likely to be substituted with the sale of an alternative property. These two properties would have had proceeds of approximately £29 million which would clearly have had a significant and positive impact on group cash flow for the year and reduced net debt at 31 December.

The strong operational cash flow allowed us to make further reductions in bank loans where loan repayments of £12.5 million were made during the year compared to £10.2 million last year.

Net debt increased by £23.7 million due to the higher level of working capital and the sale of Glasgow and Dublin being delayed. Whilst this particular issue has a negative impact on cash flow in 2017 it will benefit 2018.

These increases therefore resulted in net debt of £97.8 million at 31 December 2017 compared to £74.1 million at the start of the year, net debt being calculated as gross bank borrowings less cash balances.

BANK FUNDING

Our bank facilities were renewed and increased on 2 September 2015, to fund the acquisition of Benfield. The facilities were also extended until March 2020 and were agreed with a group of six banks: Bank of Ireland, Barclays, HSBC, Lloyds, RBS and Yorkshire Bank. The facilities consisted initially of a term loan of £100 million, which has since reduced to £75.0 million and a revolving credit facility of £150 million.

There is also the potential to increase the term loan by up to an additional £30 million to fund future acquisitions. Interest is charged on both loans at a margin of between 1.2% and 2.15% above LIBOR, depending on the ratio of net bank debt to EBITDA. These facilities are subject to half yearly covenant tests on interest cover and net bank debt to EBITDA. The covenant tests are set at levels that provide sufficient headroom and flexibility for the group until maturity of the facilities in March 2020.

At 31 December 2017, total facilities were £225.0 million (2016: £235.0 million) of which £97.8 million, net of cash balances, was being utilised, leaving unutilised facilities of £127.2 million. These bank facilities, together with the group's strong operational cash flow, indicate that the group has sufficient facilities available to fund its operations and allow for future expansion. At 31 December 2017, gearing was 25% compared to 22% at 31 December 2016 and net debt to EBITDA was 0.95 compared to 0.69 last year. The group's underlying profitability and strong cash flow should result in further reductions in borrowing in the future and help ensure that the level of borrowing remains under control and is at a reasonable level in relation to net assets.

PROPERTY PORTFOLIO

The group has a policy of investing in freehold and long leasehold property as the preferred means of providing premises for our car dealerships, where possible. As a result, we have a significant and valuable portfolio of freehold and long leasehold properties which is an important strength of our business. The net book value at 31 December 2017 was £308.7 million compared to £287.7 million last year. Short leasehold properties had a value of £2.7 million (2016: £4.6 million).

DIVIDENDS

In our interim report, we indicated that due to the encouraging results and strong financial position of the group, the interim dividend would be increased by 10% to 1.41p per ordinary share and this was paid on 24 November 2017. We are now proposing a 5% increase in the final dividend to 2.48p per share (2016: 2.36p), giving a total dividend for the year ended 31 December 2017 of 3.89p per share (2016: 3.64p), representing an annual increase of 7%.

The dividend has now increased by over 116% compared to the dividend payable for the year ended 31 December 2010, when the company re-commenced dividend payments, and continues our progressive policy of increasing the dividend provided there is satisfactory growth in profitability.

The increase in the total dividend this year recognises that the dividend cover has risen significantly due to the continued increase in profits of recent years. The board has taken the decision 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 whist retaining sufficient cash flow to fund future expansion in terms of both organic growth and acquisitions.

The final dividend of 2.48p per share is subject to shareholder approval at the Annual General Meeting and will be payable on 31 May 2018. The ex-dividend date will be 3 May 2018 and the record date will be 4 May 2018. This will represent a cash outflow of £9.8 million, which gives a total dividend for the year of £15.4 million (2016: £14.4 million). Dividends paid in cash during the year were £15.0 million, an increase of 13.6% compared to the previous year.

PENSION SCHEMES

The group has operated two defined benefit pension schemes for a number of years, The Lookers Pension Plan and The Dutton Forshaw Pension Plan. We also acquired a further defined benefit pension scheme with the acquisition of Benfield in 2015. However, the Benfield scheme is reasonably well funded and there is a relatively small deficit of £0.4 million in the 2017 accounts. All three schemes are closed to entry for new members and also closed to future accrual. The asset values of the three pension schemes increased by £15.4 million during the year and the valuation of the liabilities of the schemes increased by £0.8 million.

As a result, the net deficit included in the balance sheet reduced by £14.6 million in the year which was a positive movement compared to the increases in the deficit we have seen in recent years. However, it is important to appreciate that the assessment of valuation of the pension schemes is based on several key assumptions prescribed by accounting standards and over which the directors have no control. As a result, the calculation which estimates the potential liabilities of the schemes can increase or decrease the liabilities due to factors that have no relation or relevance to the trading results of the group.

The impact of these factors is that the combined value of the deficits of the three schemes reduced in the year and the total deficit after deferred tax is now £52.9 million (2016: £65.1 million). Relatively small changes in the bases of valuation can have a significant effect on the calculated deficit hence the movement in the calculated deficit can be subject to high levels of volatility. The Board continues to look at its options to reduce both the annual cost of operating both schemes and what actions can be taken to reduce the deficit on the schemes, thereby reducing exposure to movements in these liabilities and reducing the deficit over the medium and longer term.

SHARE BUY BACK PROGRAMME

In our trading update on 9 November 2017, we announced that we were considering a share buyback programme, given the sensible returns it would provide at the current share price. We commented that the buyback will be subject to certain pricing, liquidity and quantum parameters, one of which will be that shares will only be bought back below a pre-determined share price level. We have announced today that we will commence an initial £10 million share buyback programme of the company's ordinary shares. In arriving at this decision to return cash to shareholders, the Board has considered the group's capital structure and capital allocation priorities in relation to the previously stated target range of net debt to EBITDA of between 0.5 and 1.5. Having considered that this ratio has been towards the lower end or middle of this range for over two years and given the strong operational cash flow of the company, the Board has concluded that there is scope to return surplus cash to shareholders. The Board therefore believes that a £10 million share buyback programme will increase capital efficiency whilst ensuring the balance sheet remains strong, enabling the company to pursue its acquisition and investment strategy as well as a progressive dividend policy.

Any purchases pursuant to the share buyback programme will be carried out within certain pre-determined parameters and in accordance with the Listing Rules, other applicable law and the limitations of buyback authority approved at the previous Annual General Meeting of shareholders. All shares purchased under the programme will be cancelled.

BOARD CHANGES IN THE YEAR

I am pleased to report that Stuart Counsell joined the board as a non-executive director on 29 June 2017. Stuart had a long and successful career with Deloitte where he spent over 30 years, during which time he held a variety of senior management positions including Managing Partner of the 17 UK regional offices and Deputy to the Chief Executive. Stuart has significant financial expertise in one of the leading accounting and professional services businesses in the UK. His knowledge and experience is proving to be of great benefit to Lookers, particularly in his role as chairman of the audit and risk committee and I believe he will make a valuable contribution to the continued development of the company.

OUTLOOK

Our strategy of having the right brands in the right locations combined with excellent execution leaves us ideally placed to continue to make progress against our strategic goals. The group has produced a robust performance in difficult market conditions with underlying growth across the business, which demonstrates the resilience of the business model. Our new car business has outperformed the market and whilst the new car market is expected to reduce, it is forecast to remain at a historically high level, and we are well positioned to continue to take market share. We have also significantly increased our used car volumes and profit, growing our share of this market, as well as improving margins. The vehicle parc of cars less than three years old will see further increases, albeit at a lower rate of increase, which will provide opportunities to continue to increase turnover in our high margin aftersales business.

We continue to make significant investments to upgrade our facilities and enhance our multi-channel customer experience. We believe this gives us a competitive advantage to strengthen our position as a leading UK automotive retail and aftersales service group which leaves us very well positioned for 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, so we continue to plan prudently for the business, mindful of these external factors.

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. The level of net debt to EBITDA continues to be at the mid point of our stated range. We also have substantial headroom in our bank facilities which provide 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. As in previous years, we continue to look to acquire high quality businesses which will complement our existing franchise representation. Our track record of successfully integrating acquisitions and turning around performance is a significant differentiator for Lookers and these factors, together with the broad base of our franchise representation, leave us very well positioned for the future. We are therefore confident of the group delivering further growth in 2018.

The group has made a good start to the current financial year and our order book for the delivery of new cars in the important month of March continues to build in line with our expectations. Our used car volumes continue to show growth and aftersales continues to perform well. We therefore expect the result for the first quarter to be in line with management's 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 yet again deliver another positive result.

Andy Bruce
Chief Executive
7 March 2018

Consolidated Income Statement
For the year ended 31 December 2017

	Note	**Total 2017 £m**	Continuing Operations £m	Discontinued Operations £m	Total 2016 £m
Revenue	1	**4,696.3**	**4,088.2**	**193.5**	**4,281.7**
Cost of sales		**(4,192.2)**	**(3,638.7)**	**(138.8)**	**(3,777.5)**
Gross profit		**504.1**	**449.5**	**54.7**	**504.2**
Distribution costs		**(292.5)**	**(254.5)**	**(27.8)**	**(282.3)**
Administration Expenses		**(136.7)**	**(94.2)**	**(14.7)**	**(108.9)**
Other operating income		**2.5**	**0.5**	**-**	**0.5**
Profit from operations		**77.4**	**101.3**	**12.2**	**113.5**
Profit from operations before amortisation, share based payments, impairment of goodwill and exceptional items		**84.7**	**82.5**	**12.2**	**94.7**
Amortisation of intangible assets		**(5.6)**	**(1.7)**	**-**	**(1.7)**
Impairment of goodwill		**-**	**(1.0)**	**-**	**(1.0)**
Share based payments		**(1.7)**	**(1.8)**	**-**	**(1.8)**
Exceptional items		**-**	**23.3**	**-**	**23.3**
Profit from operations		**77.4**	**101.3**	**12.2**	**113.5**
Interest payable	2	**(16.6)**	**(17.6)**	**-**	**(17.6)**
Interest receivable	2	**0.3**	**-**	**-**	**-**
Net interest		**(16.3)**	**(17.6)**	**-**	**(17.6)**
Net interest on pension scheme obligation		**(4.2)**	**(3.7)**	**-**	**(3.7)**
Fair value on derivative instrument		**1.9**	**-**	**-**	**-**
Debt issue costs		**(0.4)**	**(0.4)**	**-**	**(0.4)**
Profit on ordinary activities before taxation		**58.4**	**79.6**	**12.2**	**91.8**
Profit before taxation, amortisation, exceptional items, debt issue costs, pension costs, impairment of goodwill and share based payments		**68.4**	**64.9**	**12.2**	**77.1**
Amortisation of intangible items		**(5.6)**	**(1.7)**	**-**	**(1.7)**
Share based payments		**(1.7)**	**(1.8)**	**-**	**(1.8)**
Fair value on derivative instrument		**1.9**	**-**	**-**	**-**
Net interest and costs on pension scheme obligation		**(4.2)**	**(3.7)**	**-**	**(3.7)**
Exceptional items		**-**	**23.3**	**-**	**23.3**
Impairment of goodwill		**-**	**(1.0)**	**-**	**(1.0)**
Debt issue costs		**(0.4)**	**(0.4)**	**-**	**(0.4)**
Profit on ordinary activities before taxation		**58.4**	**79.6**	**12.2**	**91.8**
Tax charge		**(10.5)**	**(7.9)**	**(2.6)**	**(10.5)**
Profit for the year		**47.9**	**71.7**	**9.6**	**81.3**
Attributable to:					
Shareholders of the company		**47.9**	**71.7**	**9.6**	**81.3**
Earnings per share					
Basic earnings per share	3	**12.06p**			**20.51p**
Diluted earnings per share	**3**	**11.70p**			**20.10p**

Consolidated Statement of Comprehensive Income

	Note	2017 £m	2016 £m
Profit for the financial year		**47.9**	**81.3**
Items that will be reclassified to profit and loss:			
Actuarial (losses)/gains recognised in post-retirement benefit schemes		**10.6**	**(27.2)**
Movement in deferred taxation on pension liability		**(1.9)**	**4.1**
Tax rate adjustment		**-**	**(0.5)**
Items that are or may be reclassified to profit and loss:			
Fair value on derivative instruments and share based payments		**0.2**	**(2.0)**
Movement in deferred taxation on derivative instruments and share based payments		**(1.0)**	**(0.8)**
Other comprehensive income/(expense) for the year		**7.9**	**(26.4)**
Total comprehensive income for the year		**55.8**	**54.9**
Attributable to:			
Shareholders of the company		55.8	54.9

Consolidated Statement of Financial Position

As at 31 December 2017

	2017 £m	2016 £m
Non-current assets		
Goodwill	**108.9**	**107.6**
Intangible assets	**112.3**	**109.8**
Property, plant and equipment	**342.0**	**319.1**
	563.2	**536.5**
Current assets		
Inventories	**984.1**	**839.4**
Trade and other receivables	**242.1**	**225.0**
Rental fleet vehicles	**60.9**	**67.1**
Cash and cash equivalents	**45.3**	**39.8**
	1,332.4	**1,171.3**
Total assets	**1,895.6**	**1,707.8**
Current liabilities		
Bank loans and overdrafts	**66.1**	**25.1**
Trade and other payables	**1227.5**	**1,087.5**
Current tax liabilities	**-**	**14.7**
Derivative financial instruments	**0.6**	**3.0**
	1,294.2	**1,130.3**
Net current assets	**38.2**	**41.0**
Non-current liabilities		
Bank loans	**77.0**	**88.8**
Trade and other payables	**36.8**	**33.6**
Retirement benefit obligations	**63.8**	**78.4**
Deferred tax liabilities	**38.8**	**35.0**
	216.4	**235.8**
Total liabilities	**1,510.6**	**1,366.1**
Net assets	**385.0**	**341.7**
Shareholders' equity		
Ordinary share capital	**19.9**	**19.8**
Share premium	**78.4**	**77.7**
Capital redemption reserve	**14.6**	**14.6**
Retained earnings	**272.1**	**229.6**
Total equity	**385.0**	**341.7**

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Profit for the year		47.9	81.3
Adjustments for:			
Tax		10.5	10.5
Depreciation		20.7	21.5
Dividend received		-	-
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)
Profit on disposal of business		-	(28.0)
Amortisation of intangible assets		5.6	1.7
Share based payments		1.7	1.8
Interest income		(0.3)	-
Interest payable		16.6	17.6
Debt issue costs		0.4	0.4
Impairment of goodwill		-	1.0
Changes in working capital			
Increase in inventories		(144.7)	(23.4)
Decrease/(Increase) in receivables		(16.1)	27.6
Increase in payables		143.0	93.2
Impact of net working capital from discontinued business		-	(70.2)
Impact of net working capital of acquisitions		-	6.1
Cash generated from / (used by) operations		83.3	140.9
Difference between pension charge and cash contributions		(7.8)	(7.1)
Net interest and costs on pension scheme obligation		4.2	3.7
Purchase of rental fleet vehicles		(87.1)	(93.7)
Proceeds from sale of rental fleet vehicles		87.0	87.4
Interest paid	2	(16.6)	(17.6)
Interest received	2	0.3	-
Tax paid		(25.5)	(14.2)
Net cash inflow from operating activities		37.8	99.4
Cash flows from investing activities			
Acquisition of subsidiaries		-	(92.6)
Purchase of property, plant and equipment		(46.1)	(36.3)
Purchase of intangibles		(8.1)	(9.2)
Purchase of goodwill		(1.3)	-
Proceeds from sale of property, plant and equipment		8.0	28.9
Net proceeds from sale of business		-	111.5
Net cash (used)/generated by investing activities		(47.5)	2.3
Cash flows from financing activities			
Proceeds from issue of ordinary shares		0.8	-
Repayment of loans		(12.5)	(10.2)
New loans		-	14.0
Dividends paid to group shareholders	4	(15.0)	(13.2)
Net cash outflow from financing activities		(26.7)	(9.4)
(Decrease)/Increase in cash and cash equivalents		(36.4)	92.3
Cash and cash equivalents at 1 January		28.8	(63.5)
Cash and cash equivalents at 31 December		(7.6)	28.8

Consolidated Statement of Changes in Equity

	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 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
As at 1 January 2016	19.8	77.7	14.6	185.7	297.8
Profit for the year	-	-	-	81.3	81.3
Actuarial loss on defined benefit pension schemes	-	-	-	(27.2)	(27.2)
Deferred taxation on pension liability	-	-	-	3.6	3.6
Share based payments				1.8	1.8
Deferred taxation on derivatives	-	-	-	(0.8)	(0.8)
Current and deferred taxation on share based payments	-	-	-	(1.6)	(1.6)
Dividends to shareholders	-	-	-	(13.2)	(13.2)
As at 31 December 2016	**19.8**	**77.7**	**14.6**	**229.6**	**341.7**

Notes to the Consolidated Financial Statements

1. Segmental Reporting

At 31 December 2017 the group is organised into one business segment, motor distribution. The parts distribution segment was discontinued on the sale of FPS Distribution Limited on 4 November 2016. All revenue and profits originate in the United Kingdom and the Republic of Ireland.

Primary reporting format – business segments

Year ended **ended 31 December 2017**	**Motor Division £m**	**Unallocated £m**	**Group £m**
Continuing operations			
New Cars	2,476.8	-	2,476.8
Used Cars	1,702.7	-	1,702.7
Aftersales	516.8	-	516.8
Revenue	**4,696.3**	**-**	**4,696.3**
Segmental result before amortisation of intangible assets	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 instrument	-	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			
Unallocated liabilities	1,367.5	-	1,367.5
- Corporate borrowings	-	143.1	143.1
Total liabilities	1,367.5	143.1	1,510.6
Other segmental items:			
Capital expenditure	46.4	0.4	46.8
Expenditure on Rental Fleet Vehicles	87.1	-	87.1
Depreciation	20.7	-	20.7
Amortisation of intangible assets	-	5.6	5.6

1. Segmental Reporting (continued)

Year ended 31 December 2016	Motor Division £m	Parts Distribution £m	Unallocated £m	Group £m
Continuing operations				
New Cars	2,206.1	-	-	2,206.1
Used Cars	1,437.2	-	-	1,437.2
Aftersales	444.9	193.5	-	638.4
Revenue	**4,088.2**	**193.5**	**-**	**4,281.7**
Segmental result before amortisation of intangible assets	82.6	12.1	-	94.7
Amortisation of intangible assets	-	-	(1.7)	(1.7)
Interest expense	(13.4)	-	(4.2)	(17.6)
Share based payments	-	-	(1.8)	(1.8)
Impairment of goodwill	-	-	(1.0)	(1.0)
Exceptional items	-	-	23.3	23.3
Net interest and costs on pension scheme obligation	-	-	(3.7)	(3.7)
Debt issue costs	-	-	(0.4)	(0.4)
Profit before taxation	**69.2**	**12.1**	**10.5**	**91.8**
Taxation				(10.5)
Profit for the financial year attributable to shareholders				81.3
Segmental assets	1,707.8	-	-	1,707.8
Total assets	**1,707.8**	**-**	**-**	**1,707.8**
Segmental liabilities				
Unallocated liabilities	1,252.2	-	-	1,252.2
- Corporate borrowings	-	-	113.9	113.9
Total liabilities	1,252.2	-	113.9	1,366.1
Other segmental items:				
Capital expenditure	32.2	4.1	-	36.3
Expenditure on Rental Fleet Vehicles	93.7	-	-	93.7
Depreciation	20.1	1.4	-	21.5
Amortisation of intangible assets	-	-	1.7	1.7

2. Finance Costs - Net

	2017 £m	2016 £m
Interest expense		
On amounts wholly repayable within 5 years:		
Interest payable on bank borrowings	(4.9)	(5.6)
Interest on consignment vehicle liabilities	(11.7)	(12.0)
Interest and similar charges payable	(16.6)	(17.6)
Interest income		
Bank interest	0.3	-
Total interest receivable	0.3	-
Finance costs – net	(16.3)	(17.6)

Notes to the Consolidated Financial Statements

3. Earnings per share

The calculation of earnings per ordinary share is based on the profit on ordinary activities after taxation attributable to shareholders amounting to £47.9m (2016: £81.3m) and a weighted average number of ordinary shares in issue curing the year of 397,305,738 (2016: 396,357,194).

The diluted earnings per share are based on the weighted average number of shares, after taking account of the dilutive impact of shares under option of 12,030,902 (2016: 9,510,213)

Adjusted earnings per share are stated before amortisation of intangible assets, pension costs, debt issue costs, impairment of goodwill, exceptional items, fair view of derivatives and share based payments and are calculated on profits of £57.9m (2016: £62.9m) for the year. These adjustments are net of tax.

Continuing operations	2017 Earnings £m	2017 Earnings per share p	2016 Earnings £m	2016 Earnings per share p
Basic EPS				
Earnings attributable to ordinary shareholders	47.9	12.06	81.3	20.51
Effect of dilutive securities	-	(0.36)	-	(0.41)
Diluted EPS	47.9	11.70	81.3	20.10
Adjusted EPS				
Earnings attributable to ordinary shareholders	47.9	12.06	81.3	20.51
Amortisation of intangible assets	5.6	1.40	1.7	0.43
Net interest and costs on pension scheme obligations 4.2	4.2	1.06	3.7	0.93
Share based payments	1.7	0.43	1.8	0.45
Exceptional items	-	-	(23.3)	(5.88)
Tax on exceptional items	-	-	(3.7)	(0.93)
Impairment of goodwill	-	-	1.0	0.25
Debt issue costs	0.4	0.1	0.4	0.10
Fair value of derivative instruments	(1.9)	(0.48)	-	-
Adjusted EPS	**57.9**	**14.57**	**62.9**	**15.87**

4. Dividends

	2017 £m	**2016 £m**
Interim dividend for the year ended 31 December 2017 1.41p (2016: 1.28p)	**5.6**	**5.0**
Final dividend for the year ended 31 December 2016 1.28p (2016: 2.05p)	**9.4**	**8.2**
	15.0	**13.2**

The Directors propose a final dividend of 2.48p per share in respect of the financial year ending 31 December 2017 (2016: 2.36p). The proposed final dividend is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The final dividend will be payable on 31 May 2018 and the ex-dividend date will be 3 May 2018 with the record date being 4 May 2018.

5. Principal Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the group's performance, business activities, financial condition, results of operations or the company's share price and could cause actual results to differ materially from expected and historical results. The Board maintains a policy of continuous identification and review of risks and uncertainty and the principal risks identified are the adverse impact of the global economy, manufacturers' financial stability, adverse movements in exchange rates, changes in the Block Exemption regulations which govern franchise agreements in the UK retail motor industry, liquidity and financing issues for the company, legislative changes in relation to vehicle taxation and transport policy, failure of group information systems and the relative strength and influence of the vehicle manufacturers on the UK market. The Board has recently reviewed the risk factors and confirms that they should remain valid for the rest of this year.