LOOKERS plc

Annual Results for the year ended 31 December 2018

Resilient performance in a challenging market and increased dividend

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 2018.

Key financials:

	2018	2017	Change
Turnover	£4,880m	£4,696m	4%
Profit before tax	£53.1m	£58.4m	(9%)
*Adjusted profit before tax	£67.3m	£68.4m	(2%)
*Adjusted profit before tax excluding property sales	£59.6m	£65.9m	(9.5%)
*Adjusted earnings per share	14.68p	14.57p	0.8%
*Adjusted earnings per share excluding property sales	12.72p	13.94p	(8.7%)
Earnings per share	11.07p	12.06p	(8%)
Final dividend per share	2.60p	2.48p	5%
Total dividend per share	4.08p	3.89p	5%

*Adjusted profit before tax is profit before amortisation of intangible assets, debt issue costs, defined benefit scheme pension costs, fair value of derivatives and share based payments. Adjusted earnings per share is earnings per share before amortisation of intangible assets, debt issue costs, defined benefit scheme pension costs, fair value of derivatives and share based payments.

Operational highlights:

- Total new car turnover down 3.3% and 3.0% on a like-for-like basis, with gross profit per unit increasing
- Total used car turnover up 14% and the same on a like-for-like basis as we continue to grow our presence in this market
- Aftersales turnover up 6% on an absolute basis and 7% on a like-for-like basis, with increased profitability
- Cost inflation in property, salaries and IT
- Continued investment to improve dealerships and develop our multi-channel customer experience
- Acquisition of Jennings Group in September, expanding our partnership with Ford in the North East

Outlook:

- Good start to 2019 with order book for the delivery of new cars in March continuing to build in line with our expectations
- Used car volumes continue to show growth and further opportunities in aftersales

Andy Bruce, Chief Executive of Lookers, said:

"We have produced a resilient set of results against a backdrop of more challenging conditions in the motor sector, increasing sales and maintaining profitability. In particular, growth in our used car and aftersales divisions has helped to offset the impact of a more muted new car market, demonstrating the resilience of our business model.

"We remain focused on our strategy of having the right brands in the right locations, underpinned by ensuring operational excellence across our portfolio of dealerships. This focus, combined with the quality of our people, is our formula for success and is helping us to increase market share. At the same time, we continue to explore opportunities to grow the Lookers estate and in September we expanded our presence in the North East with the acquisition of the Jennings Group.

"The order book for new cars in the important month of March is in line with our expectations and we expect to make further progress in used cars and aftersales. We remain mindful of a prolonged period of political and economic uncertainty, but we believe we are well positioned to strengthen our position to deliver growth and enhance shareholder value over the medium to long term."

There will be an analyst presentation today at 10.30am taking place at Numis Securities, The London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT. 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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FINANCIAL INFORMATION

The following table sets out the financial information that is referred to in this report and reconciles this to statutory financial metrics.

	2018	2017
Operating profit	£73.6m	£77.4m
Amortisation of intangible assets	£5.6m	£5.6m
Share based payments	£1.7m	£1.7m
Defined benefit pension costs	£4.7m	-
Adjusted operating profit	£85.6m	£84.7m
Profit on sale of properties	(£7.7m)	(£2.5m)
Adjusted operating profit excluding property sales	£77.9m	£82.2m
Profit before tax	£53.1m	£58.4m
Amortisation of intangible assets	£5.6m	£5.6m
Share based payments	£1.7m	£1.7m
Net interest on pension scheme obligations	£1.7m	£4.2m
Defined benefit pension costs	£4.7m	-
Fair value on derivative instrument	-	(£1.9m)
Debt issue costs	£0.5m	£0.4m
Adjusted profit before tax	£67.3m	£68.4m
Profit on sale of properties	(£7.7m)	(£2.5m)
Adjusted profit before tax excluding property sales	£59.6m	£65.9m

Defined benefit pension costs include a one off charge of £3.4 million in 2018 following a High Court ruling against Lloyds Bank in November 2018 to equalise guaranteed minimum pensions between male and female participants, a decision that is likely to affect most defined benefit pension schemes in the UK. The defined benefit pension cost has been separated in 2018 between net interest on pension scheme obligations of £1.7 million and other defined benefit costs of £4.7 million. Should the prior year numbers be recognised with the same split, this would have led to £2.4 million recognised in net interest on pension scheme obligations and £1.8 million in other defined benefits costs, however due to the immaterial nature, the balances have not been restated.

Alternative performance measures (APMs)

Lookers use several APMs, in addition to those reported under IFRS, as management believe these measures enable users of the financial statements to assess the underlying trading performance of the business. The APMs used include adjusted operating profit, adjusted profit before tax excluding property sale, adjusted earnings per share and net debt to EBITDA. These measures reflect the underlying trading performance of the business as they exclude certain non-operational items and amortisation of acquired intangible assets. The measures described above are also used in the targeting process for executive and management annual bonuses (adjusted profit before tax) and share schemes (adjusted profit before tax and net debt to EBITDA).

STRATEGIC REVIEW

I am pleased to report a resilient set of results for the Company against a backdrop of challenging trading conditions for the motor sector, particularly in the second half of the year. We saw a 4% increase in turnover compared to the prior year with only a slightly lower level of adjusted profit before tax* of £67.3 million (2017: £68.4 million). This includes the profit of £7.7 million (2017: £2.5 million) from the sale of a property, which is separately included in other operating income. During the year we had several changes to our dealership portfolio where a number of businesses were closed and we therefore incurred certain closure and reorganisation costs as a result of these changes.

Profit before tax was £53.1 million (2017: £58.4 million). This result has been achieved during a period in which volumes in the UK new car market fell by 6.8% to 2.37 million cars, the second successive year of reduced volumes, albeit the market remains relatively high compared to historical levels. The new car market was affected by a continuation of the anti-diesel theme and a shortage of supply of new vehicles in the last four months of the year which had to be tested to the more stringent Worldwide Harmonised Light Vehicle Testing Procedure ("WLTP") emission regulations. We had anticipated that these supply issues would have cleared during the last three months of the year but unfortunately, they remained an issue for the rest of the year. The continuing political uncertainty resulting from the Brexit situation and the negative impact this has had on both consumer and business confidence, has also adversely affected the demand for new cars.

The new car market has now reduced by 320,000 cars since the peak of 2.69m in 2016, a decrease of 12%. With our share of just over 6.2% of the total new car market, this represents a reduction of 12,800 new cars to Lookers, which is equivalent to a loss in gross profit in excess of £20m. We therefore believe that to have substantially maintained our profitability despite the loss of this significant level of profit on new cars, demonstrates the effectiveness of our strategy and resilience of our business model.

The key elements of our performance were:

- Turnover and volumes of new cars reduced and gross profit per unit was increased;
- Further growth in used car turnover and gross profit;
- Improvement in both aftersales turnover and margin; and
- Further inflationary costs in salaries, property and IT.

Whilst the new car market remains challenging, we believe there are opportunities to grow the business in 2019 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.

OPERATING REVIEW

SUMMARY OF KEY FINANCIAL AND NON-FINANCIAL KPIs:

Financial	**2018**	**2017**
Turnover	£4,880m	£4,696m
Gross profit	£515.5m	£504.1m
Gross margin	10.6%	10.7%
*Adjusted operating profit	£85.5m	£84.7m
Profit on sale of property	(£7.7m)	(£2.5m)
*Adjusted operating profit excluding property sales	£77.8m	£82.2m
*Adjusted profit before tax	£67.3m	£68.4m
*Adjusted profit before tax excluding property sales	£59.6m	£65.9m
* Adjusted earnings per share	14.68p	14.57p
*Adjusted earnings per share excluding property sales	12.72p	13.94p
Profit before tax	£53.1m	£58.4m
Earnings per share	11.07p	12.06p
Net debt	£86.9m	£97.8m
Net debt to Adjusted EBITDA	0.88	0.95
Non-financial		
UK new car market	2.37m	2.54m
Group new car sales	97,641	104,331
Share of UK new car retail	6.2%	6.0%
Group used car sales	97,709	92,105
Average number of employees	8,323	8,175

*Adjusted operating profit is operating profit before amortisation of intangible assets, defined benefit scheme pension costs and share based payments. Adjusted profit before tax is profit before amortisation of intangible assets, debt issue costs, defined benefit scheme pension costs, fair value of derivatives and share based payments. Adjusted earnings per share is earnings per share before amortisation of intangible assets, debt issue costs, defined benefit scheme pension costs, fair value of derivatives and share based payments. Net debt is loans and overdrafts less cash and cash equivalents. Adjusted EBITDA is adjusted operating profit adding back depreciation

Where like-for-like figures are included in this report, they are calculated on the basis that acquired businesses have been part of the Group from 1 January 2017 and closed or sold businesses have been excluded from the Group from 1 January 2017.

Acquisitions and portfolio management

Our motor retail business has been through a period of significant transformation in recent years and further developments continued in 2018 to ensure that our dealerships are aligned with our strategy of having a meaningful representation of the major automotive brands in the main centres of population in the UK. As part of this process we closed two Vauxhall dealerships at Warrington and Yardley, near Birmingham in March. 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 Ford dealership which complements our larger representation of Ford in Essex and in October we closed our Hyundai and Nissan business in Motherwell. As referred to earlier in this report we therefore incurred certain closure and reorganisation costs as a result of these changes.

In September the Group acquired the Jennings Group for a gross payment of £10.1m. Jennings is a long-established motor retail group in the North East of England with Ford being the key brand partner, particularly in the Teesside area. The acquisition complements and strengthens Lookers' position in the region and we are delighted to expand our key partnership with Ford. Given the timing of the acquisition, it has been earnings neutral this year but has now been successfully integrated and we expect a modest contribution to earnings in 2019.

Analysis of turnover and gross profit

	2018 £m	2017 £m	% change
Turnover			
New cars	2,395	2,477	(3.3%)
Used cars	1,939	1,702	14%
Aftersales	433	409	6%
Leasing and other	112	108	4%
Total	4,880	4,696	4%

Gross profit			
New cars	161	165	(2%)
Used cars	135	133	2%
Aftersales	203	189	7%
Leasing and other	17	17	-
Total	516	504	2%

New cars

The sale of new cars represents 31% of gross profit for the Group and the new car market reduced by 6.8% in the year to 2.37 million. The retail new car market reduced by 6.4% to 1.05 million and the fleet new car market reduced by 7.2% to 1.32 million. There were significant fluctuations in the market during the year including a significant decrease in the first quarter, given the strong comparatives from 2017 resulting from increased demand in advance of the changes in Vehicle Excise Duty that became effective in April 2017. This was followed by some modest growth within certain months in the second quarter. The final four months of the year suffered from a shortage in the supply of new cars following the introduction of the more stringent WLTP emissions regulations from 1 September. The resulting impact on the timings of when vehicles could be tested meant that certain brands and models were not available for sale. The impact of this in the final quarter was greater than we had originally anticipated in September.

Despite this challenging backdrop, we delivered a positive performance and our retail volumes were slightly ahead of the market, with a reduction of 4.6%, or 4.7% on a like for like basis. Fleet volumes, including commercial vehicles, reduced by 8.2%, or 5% on a like for like basis, although a reasonable proportion of the decrease was a result of our decision to exit some high volume but very low margin fleet business. Total new car turnover reduced by 3.3% year-on-year and decreased by 3% on a like-for-like basis. This represents a strong performance compared to the wider market, as we continue to take share in a competitive environment. Total gross profit from new cars decreased by less than the reduction in volume or turnover at 2.3%, compared to the prior year and by 2.4% on a like for like basis. This reflected an increase in profit per unit during the year where we were able to successfully increase margins where vehicles were in short supply.

The new car market continues to be at historically high levels and we have an encouraging level of orders for the important month of March, albeit these are at a lower level than last year. The Society of Motor Manufacturers and Traders ("SMMT") current estimate is that new car volumes will be 2.3% lower for 2019 compared to 2018, at 2.31 million. This is still a relatively healthy outlook compared to historical levels of new car volumes and provides opportunities for us to continue to increase market share, particularly as the brands where we have significant representation tend to outperform the wider market. 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

Used cars now contribute 26% of our gross profit and the market continues to be buoyant with values remaining stable and predictable. Turnover of used cars increased by 14%, and 14% on a like-for-like basis, compared to 2017 and volumes increased by 6%. Gross profit increased by 1.5%, or 1.5% on a like-for-like basis. This is a pleasing performance given that our used car volumes have increased significantly over recent years. We continue to focus on stock management and sourcing good quality vehicles, both of which help to improve profitability.

In conjunction with recognising the importance of new cars to our business model, the used car market continues to represent a significant additional opportunity for the Group and we plan to accelerate our growth in this market with the target of increasing our ratio of used cars to new retail to 2:1. Digital channels will be a key tool to facilitate this growth and we continue to benefit from the increasing number of leads generated by our website. Further and extensive investment in technology continues to be carried out and will lead to further increases in volumes and profitability.

Aftersales

Our higher margin aftersales business, which represents 39% of gross profit, has performed well in the period. Turnover (excluding leasing) increased by 6% compared to 2017 and 7% on a like for like basis and gross profit increased by 7% and 7% on a like-for-like basis, with the margin being maintained. The increased profitability has benefitted from the growth in the vehicle parc of cars under three years old, a trend which has now begun to reduce given the decreasing volume of new cars sold. However, we have increased capacity when developing new dealership premises in recent years which has provided an increase in the base infrastructure to support these increased volumes.

The increased performance in aftersales is also due to the initiatives we have made to develop our services, with an increased emphasis on performance and improved customer retention through enhanced technology and systems.

Developing a multichannel retail environment

We have continued to make a significant investment in our multi-channel customer experience and our website plays 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 channels and the latest version of a new, much improved and fully responsive website, which continues to evolve and improve, has resulted in further increases in our visitor and enquiry levels.

We are implementing further significant developments to our website which will result in exciting improvements in functionality and interaction with our customers. We are currently migrating to the new and considerably improved website on a phased basis and expect this to be fully operational across all dealerships during this year. With over 70%

of visits to our website being via mobile or tablet we have ensured that functionality has concentrated on this area. Our aim is to produce an industry-leading website, which will improve the customer experience and ultimately increase sales and profitability. We also believe that this investment in technology will result in greater operational efficiencies which will give us a significant competitive advantage and improved profitability.

We have previously commented on our commitment to developing and improving the customer journey through a significant programme of capital investment in new and improved dealership premises. There is still further investment to make in this transformation of our property portfolio, but we believe this will start to reduce after 2021. The programme is taking us longer than originally anticipated due to delays in finding appropriate properties and planning issues. However, this has resulted in the benefit of capital expenditure being incurred over a longer period and at lower levels than originally anticipated. This programme will ensure that our entire dealership estate represents best in class modern motor retailing.

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 helping us to deliver our strategy and providing a first-class customer experience. We continue to invest in our people with further improvements and new initiatives to our training and development programme and a formal management development programme. We believe Lookers offer the most attractive employment prospects in our sector and we aim to be the best place to work in our industry. This should result in us being able to attract and retain the best people, including those from outside the sector, to achieve enhanced levels of customer satisfaction and help us continue to be a leading company in the UK motor retail sector. It was therefore a great achievement for our progress in this important area to be recognised again as the only motor retailer to be awarded the exclusive Top Employers United Kingdom certification, which we have now achieved for a third successive year. We have also, for the first time, achieved the recognition for outstanding staff engagement by achieving a prominent position in the Sunday Times list of top companies to work for. This success demonstrates 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

Turnover increased by 3.9% to £4,880 million compared to the previous year (2017: £4,696 million), with growth from used cars and aftersales. Gross profit increased by 2.4% to £516 million (2017: £504 million). The gross margin of 10.6% was a similar level to last year, despite higher levels of used car turnover which tends to dilute the margin.

Adjusted profit before tax of £67.3 million reduced by 1.6% (2017: £68.4 million). As referred to above, this includes the profit of £7.7 million (2017: £2.5 million) from the sale of a property, which is separately included in other operating income. Whilst gross profit increased by £12.0 million, costs also increased in the year by £20.4 million due to inflationary pressures from payroll costs (cost of living, workplace pensions and living wage) as well as higher property costs in relation to rent, rates, depreciation and energy as well as an increase in IT costs. Considering the challenging trading conditions, further cost saving initiatives were carried out in the year to stabilise the cost base although we will continue to experience the impact of inflation on payroll costs.

Net interest costs increased by 13%, to £18.3 million (2017: £16.3 million), due to higher levels of working capital and increases in the bank base rate in November 2017 and August 2018. Interest on group borrowings is based on floating interest rates together with an historical interest rate hedge from 10 years ago. This covered £20 million of debt at the relatively high rate of interest of 4.99% and expired during the year.

Key financial highlights are summarised below:

- *Adjusted profit before tax for the year, including the profit on the sale of a property of £7.7 million, was maintained at a similar level to the prior year at £67.3 million (2017: £68.4 million);
- Profit before tax was £53.1 million compared to a profit before tax in the previous year of £58.4 million. This also includes the cost of £3.4 million which relates to a back dated pension adjustment for GMP equalisation and is explained in further detail in the section on pensions;
- Profit after tax was £43.5 million, a reduction of 9% (2017: £47.9 million); and
- Earnings per share reduced to 11.07p compared to 12.06p in the prior year and *Adjusted earnings per share was stable at 14.68p (2017:14.57p)

*Adjusted profit before tax is profit before amortisation of intangible assets, debt issue costs, defined benefit scheme pension costs, fair value of derivatives and share based payments. Adjusted earnings per share is earnings per share before amortisation of intangible assets, debt issue costs, defined benefit scheme pension costs, fair value of derivatives and share based payments.

We have continued to consider that adjusted profit before tax is before amortisation of intangible assets as this is consistent with our previous financial reporting. However, we have reviewed this and decided that in the future, it is more appropriate to report adjusted profit before tax to include the amortisation of intangible assets. This practice will be adopted in our interim financial report for the six months ending 30 June 2019.

TAXATION

The tax charge for the year of £9.6 million (2017: £10.5 million) reflects a charge of 18% 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.

CASH FLOW

Cash generated from operations for the year continued to be strong at £79.4 million and represented a small reduction over the prior year (2017: £79.7 million). Net working capital increased by £10.1 million, an improvement of £7.7 million (2017: increase of £17.8 million). Stock decreased by £1.4 million, debtors reduced by £48.9 million and creditors reduced by £60.4 million, these movements representing the movement in net working capital.

Capital expenditure was £25.7 million, a significant reduction compared to last year (2017: £46.1 million), with proceeds from the sale of properties and dealership businesses of £35.1 million (2017: £8.0 million), resulting in a net capital receipt of £9.4 million (2017: net expenditure of £38.1 million). The majority of capital expenditure was on new or improved premises for dealerships and reflects our ongoing commitment to improve our retail environment, so they reflect modern and state of the art facilities, as we have previously reported. The capital receipt of £35.1 million reflects the sale of group properties that we had previously developed which were sold as sale and leaseback transactions and produced a profit of £7.7 million.

Cash flow in the year included loan repayments of £14.6 million compared to £12.5 million last year.

Net debt reduced by £10.9 million due to positive cash flow in the year which resulted in net debt of £86.9 million at 31 December 2018 compared to £97.8 million at the start of the year. Net debt is calculated as gross bank borrowings of £131.3 million less cash balances of £44.4 million.

BANK FUNDING

Our bank facilities at the start of the year had a term until March 2020 and consisted of a term loan of £75 million and a revolving credit facility of £150 million. Whilst the facilities had 15 months to run as at 31 December 2018, we considered it prudent, given the uncertainty surrounding Brexit, to renew our facilities at an earlier stage and a new facility was arranged in December 2018. This consists of a revolving credit facility of £250 million arranged with five banks, (Bank of Ireland, Barclays, HSBC, Lloyds and NatWest), with a term to March 2022 and an option to extend to March 2023. There is also the potential to increase the facility up to an additional £50 million to fund future acquisitions.

Interest is charged on the facility at a margin of between 1.3% and 2.25% 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 should provide sufficient headroom and flexibility for the Group until maturity of the facilities.

At 31 December 2018, total facilities were £250 million (2017: £225 million) of which £86.9 million, net of cash balances, was being utilised, leaving unutilised facilities of £145.1 million. The bank facility, 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 2018, net debt to EBITDA was 0.88 compared to 0.95 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 2018 was £302.7 million compared to £308.7 million last year. Short leasehold properties had a value of £2.7 million (2017: £2.7 million).

From 1 January 2019 we will be retrospectively adopting the new accounting standard, IFRS 16: Leases, which introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will have a significant impact on the way our property leases are included in the accounts, where we will include an asset and a liability in the accounts in respect of each lease. The annual operating lease rental will then be represented as depreciation and interest in the income statement. Preliminary calculations indicate that for the leases held at the year end the Group expects an increase in gross assets of up to £100 million and an increase in gross liabilities of up to £120 million. EBITDA is expected to increase by up to £20 million and operating profit is expected to increase by up to £7.5 million. However, these changes are not expected to significantly impact on profit before tax.

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 5% to 1.48p per ordinary share and this was paid on 24 November 2018. We are now proposing a 5% increase in the final dividend to 2.60p per share (2017: 2.48p), giving a total dividend for the year ended 31 December 2018 of 4.08p per share (2017: 3.89p), representing an annual increase of 5%.

The dividend has now increased by over 127% 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 in recent years. 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 final dividend of 2.60p per share is subject to shareholder approval at the Annual General Meeting and will be payable on 5 June 2019. The ex-dividend date will be 25 April 2019 and the record date will be 26 April 2019. This will represent a cash outflow of £10.1 million, which gives a total dividend for the year of £15.9 million (2017: £15.4 million). Dividends paid in cash during the year were £15.6 million, an increase of 4% compared to the previous year.

PENSION SCHEMES

The Group has three defined benefit pension schemes, The Lookers Pension Plan, The Dutton Forshaw Pension Plan and The Benfield Motor Group Pension Plan. All three schemes are closed to entry for new members and closed to future accrual. The asset values of the three pension schemes decreased by £19.7 million during the year due to the adverse movements in global investments during the year and the valuation of the liabilities of the schemes reduced by £14.6 million. The pension schemes also suffered a one-off charge of £3.4 million following a High Court ruling against Lloyds Bank in November 2018 to equalise guaranteed minimum pensions between male and female participants, a decision that is likely to affect most defined benefit pension schemes in the UK.

As a result, the net deficit included in the balance sheet increased by £5.1 million in the year. 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. 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 increased in the year and the total deficit after deferred tax is now £57.1 million (2017: £52.9 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 March 2018 we announced a share buyback programme of up to £10 million of the Company's ordinary shares, given the sensible returns it would provide based on the share price at that time. This was based on the Board's consideration of 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. By 31 December 2018, the Company had purchased £9.3 million of the company's ordinary shares and this completed the share buyback programme, representing 2.3% of the Company's share capital at the start of the share buyback programme. The Board has considered whether to operate a similar programme this year and has decided that, given the uncertainty surrounding Brexit, it would be prudent to retain flexibility and review the situation as we progress through the year. A share buy back programme will not therefore be implemented at the moment but will be kept under review depending on trading conditions and economic circumstances.

SUMMARY AND OUTLOOK

Our strategy of having the right brands in the right locations combined with excellent operational execution leaves us well placed to continue to make good progress against our goals. The Group has produced a resilient performance in difficult market conditions with underlying growth across the majority of the business, which demonstrates the resilience of the Lookers business model.

Our new car business has performed well in a challenging market and whilst volumes are expected to continue to reduce, the market is forecast to remain at near historic high levels 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 and our high margin aftersales business also continues to provide opportunities to increase both turnover and profit.

We continue to make significant investments to upgrade our facilities and enhance our multichannel customer experience. This, together with the broad base of our franchise representation and our strong relationship with our manufacturer partners, strengthens our position as a leading UK automotive retail and aftersales service group. This will 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 remain conscious 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 and 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. We have recently renewed our bank facilities to provide higher levels of facility for an extended term as well as ensuring substantial headroom in these 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. Our record of successfully integrating acquisitions and turning around performance is a significant differentiator for Lookers.

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 further opportunities in aftersales.

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 resilient set of results.

Andy Bruce
Chief Executive
13 March 2019

Consolidated Income Statement

	Note	**Total 2018 £m**	Total 2017 £m
Revenue	1	4,879.5	4,696.3
Cost of sales		(4,364.0)	(4,192.2)
Gross profit		515.5	504.1
Distribution costs		(294.6)	(292.5)
Administration expenses		(153.3)	(135.0)
Share based payments		(1.7)	(1.7)
Other operating income		7.7	2.5
Operating profit		73.6	77.4
Net interest	2	(18.3)	(16.3)
Net interest on pension scheme obligation		(1.7)	(4.2)
Fair value on derivative instrument		-	1.9
Debt issue costs		(0.5)	(0.4)
Profit before taxation		53.1	58.4
Tax charge		(9.6)	(10.5)
Profit for the year		43.5	47.9
Actuarial (losses)/gains on pension scheme obligations		(7.2)	10.6
Deferred tax on pension scheme obligations		1.2	(1.9)
Total other comprehensive income for the year		(6.0)	8.7
Total comprehensive income for the year		37.5	56.6
Attributable to:			
Shareholders of the company		37.5	56.6
Earnings per share			
Basic earnings per share	3	11.07p	12.06p
Diluted earnings per share	3	10.59p	11.70p

Consolidated Statement of Financial Position

	Note	2018 £m	Restated 2017 £m
Non-current assets			
Goodwill	5	116.2	108.9
Intangible assets		114.6	112.3
Property, plant and equipment		350.9	342.0
		581.7	563.2
Current assets			
Inventories		1,027.7	984.1
Trade and other receivables		179.5	242.1
Rental fleet vehicles		54.2	60.9
Cash and cash equivalents		44.4	45.3
Assets held for sale		8.0	-
		1,313.8	1,332.4
Total assets		1,895.5	1,895.6
Current liabilities			
Bank loans and overdrafts		2.6	19.6
Trade and other payables		1,236.6	1,228.1
		1,239.2	1,247.7
Net current assets		74.6	84.7
Non-current liabilities			
Bank loans		128.7	123.5
Trade and other payables		19.4	36.8
Pension scheme obligations		68.9	63.8
Deferred tax liabilities		40.0	38.8
		257.0	262.9
Total liabilities		1,496.2	1,510.6
Net assets		399.3	385.0
Shareholders' equity			
Ordinary share capital		19.4	19.9
Share premium		78.4	78.4
Capital redemption reserve		15.1	14.6
Retained earnings		286.4	272.1
Total equity		399.3	385.0

Consolidated Cash Flow Statement

	Note	**2018 £m**	Restated 2017 £m
Cash flows from operating activities			
Profit for the year		43.5	47.9
Tax charge		9.6	10.5
Depreciation of property, plant and equipment		20.6	20.7
Fair value on derivative instruments		-	(2.4)
(Profit)/loss on disposal of plant and equipment		(8.2)	0.4
Amortisation of intangible assets		5.6	5.6
Share based compensation		1.7	1.7
Interest income		(0.3)	(0.3)
Interest payable		18.6	16.6
Debt issue costs		0.5	0.4
Difference between pension charge and cash contributions		(2.1)	(3.6)
Changes in inventories		1.4	(144.7)
Changes in receivables		48.9	(16.1)
Changes in payables		(60.4)	143.0
Cash generated from operations		79.4	79.7
Purchase of rental fleet vehicles		(89.4)	(87.1)
Proceeds from sale of rental fleet vehicles		90.3	87.0
Interest paid	2	(18.6)	(16.6)
Interest received	2	0.3	0.3
Tax paid		(7.1)	(25.5)
Net cash inflow from operating activities		54.9	37.8
Cash flows from investing activities			
Purchase of property, plant and equipment		(25.7)	(46.1)
Purchase of intangibles		(7.9)	(8.1)
Purchase of subsidiaries net of cash received		(13.7)	(1.3)
Proceeds from sale of property, plant and equipment		35.1	8.0
Net cash outflow from investing activities		(12.2)	(47.5)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		-	0.8
Redemption of ordinary shares		(9.3)	-
Repayment of loans		(14.6)	(12.5)
Drawdown on RCF		135.3	282.8
Repayment of RCF		(134.1)	(239.7)
Dividends paid	4	(15.6)	(15.0)
Net cash outflow from financing activities		(38.3)	16.4
Increase in cash and cash equivalents		4.4	6.7
Cash and cash equivalents at 1 January		38.9	32.2
Cash and cash equivalents at 31 December		43.3	38.9

Included within cash and cash equivalents is £44.4m (2017: £45.3m) recognised as cash and £1.1m (2017: £6.4m) of overdrafts recognised in short term liabilities on the balance sheet.

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
Other comprehensive income for the year	-	-	-	8.7	8.7
Total comprehensive income for the year				*56.6*	*56.6*
New shares issued	0.1	0.7	-	-	0.8
Share based compensation	-	-	-	1.7	1.7
Tax recognised in equity	-	-	-	(0.8)	(0.8)
Dividends paid	-	-	-	(15.0)	(15.0)
As at 31 December 2017	19.9	78.4	14.6	272.1	385.0
As at 1 January 2018	19.9	78.4	14.6	272.1	385.0
Profit for the year	-	-	-	43.5	43.5
Other comprehensive income for the year	-	-	-	(6.0)	(6.0)
Total comprehensive income for the year				*37.5*	*37.5*
New shares issued	0.0	0.0	-	-	0.0
Share based compensation	-	-	-	1.7	1.7
Share buy-back	(0.5)	-	0.5	(9.3)	(9.3)
Dividends paid	-	-	-	(15.6)	(15.6)
As at 31 December 2018	19.4	78.4	15.1	286.4	399.3

Retained earnings include £16.5m (2017: £16.8m) of non-distributable reserves relating to properties which had been revalued under UK GAAP, but treated as deemed cost under IFRS.

Notes to the Consolidated Financial Statements

Basis of preparation
The unaudited financial information for the year end 31 December 2018 has been based on the Company's financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU. Whilst the financial information contained in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with those standards. The Company expects to publish full financial statements that comply with IFRS in March 2019. The financial information presented herein has been prepared in accordance with the accounting policies expected to be used in preparing the Lookers Annual Report 2018, which are the same as those used in preparing the Lookers Annual Report 2017, with the exception of the implementation of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue with Contracts with Customers' from 1 January 2018.The adoption of both of these new standards has not had a material effect on the reported results for either current or prior period.

Going concern
In determining the basis of preparation for the Annual Report and the Group's viability statement, the directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. This includes an overview of the Group's financial position, cash flows, liquidity position and borrowing facilities for the three year period to 31 December 2021 as well as compliance with existing banking covenants. These forecasts and projections have been subject to sensitivity movements which involve modifying one or more of the main assumptions underpinning the base forecast. Based on the results of this exercise and the assessment of risks and associated controls, the directors have an expectation that the Group will be able to continue in operation, comply with facility covenants and meet its liabilities as they fall due. The Directors therefore continue to adopt the going concern basis in preparing the financial statements.

Prior period restatement
Following the refinancing that occurred during late 2018 the Directors have reviewed the terms and conditions prevalent within the previous revolving credit facility arrangement. As a result of this review the Directors have considered it more appropriate to reclassify the previous revolving credit facility balances that was disclosed within overdrafts in cash and cash equivalents to be shown as long-term financial liabilities.
This presentation is then consistent with the disclosure of the new long-term revolving credit facility. The effect of this restatement in the statement of financial position on the years ending 31 December 2017 and 31 December 2016 are as follows:

	2017 £m	2016 £m
As previously reported:		
Cash and cash equivalents at 1 January	45.3	39.8
Bank overdrafts	(52.9)	(11.0)
Cash and cash equivalents reported in the cash flow statement	**(7.6)**	**28.8**
Current liabilities		
Bank loans and overdrafts	66.1	25.1
Non-current liabilities		
Long term borrowings	77.0	88.8
Total liabilities	**143.1**	**113.9**
Net current assets/(liabilities)	**38.2**	**41.0**
As restated:		
Cash and cash equivalents at 1 January	45.3	39.8
Bank overdrafts	(6.4)	(7.6)
Cash and cash equivalents reported in the cash flow statement	**38.9**	**32.2**
Current liabilities		
Bank loans and overdrafts	19.6	21.7
Non-current liabilities		
Long term borrowings	123.5	92.2
Total liabilities	**143.1**	**113.9**
Net current assets	**84.7**	**44.4**

The effect of this on the consolidated cash flow statement is as follows:

	2017 £m
As previously reported:	
Net cash outflow from financing activities	-26.7
(Decrease) / increase in cash and cash equivalents	-36.4
As restated:	
Net cash inflow/(outflow) from financing activities	16.4
Increase /(decrease) in cash and cash equivalents	6.7

There is no effect on the reported profits for either financial year as a result of this presentational adjustment.

1. Segmental reporting

At 31 December 2018 and 31 December 2017, being the group is organised into one business segment, motor distribution. All revenue and profits originate in the United Kingdom and the Republic of Ireland.

Year ended **ended 31 December 2018**	Motor distribution £m	Unallocated £m	Group £m
New Cars	2,394.8	-	2,394.8
Used Cars	1,939.4	-	1,939.4
Aftersales	545.3	-	545.3
Revenue	4,879.5	-	4,879.5
Segmental operating profit / (loss)	87.2	(13.6)	73.6
Net interest	(15.5)	(2.8)	(18.3)
Net interest on pension scheme obligations	-	(1.7)	(1.7)
Debt issue costs	-	(0.5)	(0.5)
Profit / (loss) before taxation	71.7	(18.6)	53.1
Tax charge			(9.6)
Profit for the year			43.5
Total assets	1,895.5	-	1,895.5
Total liabilities	1,364.9	131.3	1,496.2

Year ended ended 31 December 2017	Motor Distribution £m	Unallocated £m	Group £m
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 operating profit / (loss)	84.7	(7.3)	77.4
Net interest	(13.4)	(2.9)	(16.3)
Net interest on pension scheme obligations	-	(4.2)	(4.2)
Fair value on derivative instrument	-	1.9	1.9
Debt issue costs	-	(0.4)	(0.4)
Profit / (loss) before taxation	71.3	(12.9)	58.4
Tax charge			(10.5)
Profit for the year			47.9
Total assets	1,895.6	-	1,895.6
Total liabilities	1,367.5	143.1	1,510.6

Notes to the Consolidated Financial Statements

2. Finance costs - net

	2018 £m	2017 £m
Interest expense		
Interest payable on bank borrowings	(5.6)	(4.9)
Interest on consignment vehicle liabilities & stocking loans	(13.0)	(11.7)
Interest and similar charges payable	(18.6)	(16.6)
Interest income		
Bank interest	0.3	0.3
Total interest receivable	0.3	0.3
Finance costs – net	(18.3)	(16.3)

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 £43.5m (2017: £47.9m) and a weighted average number of ordinary shares in issue during the year of 393,422,446 (2017: 397,305,738).

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 17,964,569 (2017: 12,030,902).

	2018 Earnings Per share p	2017 Earnings Per share p
Basic EPS	11.07	12.06
Effect of dilutive securities	(0.48)	(0.36)
Diluted EPS	10.59	11.70

Adjusted EPS	2018 £m	2018 EPSp	2017 £m	2017 EPSp
Earnings attributable to ordinary shareholders	43.5	11.07	47.9	12.06
Amortisation of intangible assets	5.6	1.42	5.6	1.40
Net interest and costs on pension scheme obligations	6.4	1.63	4.2	1.06
Share based payments	1.7	0.43	1.7	0.43
Debt issue costs	0.5	0.13	0.4	0.1
Fair value of derivative instrument	-	-	(1.9)	(0.48)
Adjusted EPS	**57.7**	**14.68**	**57.9**	**14.57**
Profit on sale of property	*(7.7)*	*(1.96)*	*(2.5)*	*(0.63)*
Adjusted EPS including property	*65.4*	*12.72*	*55.4*	*13.94*

4. Dividends

	2018 £m	2017 £m
Interim dividend for the year ended 31 December 2018 1.48p (2017: 1.41p)	5.8	5.6
Final dividend for the year ended 31 December 2017 2.48p (2016:2.36p)	9.8	9.4

The Directors propose a final dividend of 2.60p per share in respect of the financial year ending 31 December 2018 (2017: 2.48p). 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 5 June 2019 and the ex-dividend date will be 25 April 2019 with the record date being 26 April 2019.

5 Goodwill

	2018 £m	2017 £m
Cost		
As at 1 January	119.3	118.0
Additions	7.3	1.3
As at 31 December	**126.6**	**119.3**
Aggregate impairment		
As at 1 January	10.4	10.4
Impairment	-	-
As at 31 December	**10.4**	**10.4**
Carrying amount at 31 December	**116.2**	**108.9**

During the year the Group has changed its approach for the determination of cash generating units (CGU's). Previously this was done on a subsidiary by subsidiary basis however the Directors have elected to change this in the current year to better reflect the markets served by the CGU's and the appropriate level at which CGUs are monitored for impairment.

The following table summarises goodwill and intangibles with an indefinite useful economic life allocated by CGU.

	2018 Goodwill £'m	2018 Intangibles £'m	2017 Goodwill £'m	2017 Intangibles £'m
JLR	13.8	-	13.8	-
Audi	22.1	28.9	22.1	28.9
Charles Hurst	9.4	-	9.4	-
Renault Nissan	2.6	2.9	2.6	2.9
Mercedes	15.2	28.1	15.2	28.1
Volkswagen	7.5	15.9	7.5	15.9
Ford	26.7	2.9	19.4	2.9
BMW	9.6	22.3	9.6	22.3
Vauxhall	0.2	-	0.2	-
Fleet / Leasing	9.1	-	9.1	-
	116.2	101.1	108.9	101.1

Each CGU's recoverable amounts have been derived from value in use calculations using the most recent projections for each CGU. The group prepares cash flow forecasts derived from the most recent Board approved budgets for 2019 and uses growth assumptions to extrapolate the cash flows into perpetuity based on estimated growth rates.

There are a number of key assumptions within these forecasts and these have been based on management's past experience, knowledge of the market and given the significant uncertainty surrounding Brexit, an assumption has been made that the UK will leave the UK through an orderly exit. Set out below are the key assumptions that have been used in determining the impairment model.

Assumption	**2018**	**2017**
Two to five year revenue growth	1.4%	1.6%
Two to five year operating expenses growth	1.1%	1.0%
Post five year growth rates	0.0%	0.0%
Discount rate	8.7%	9.7%

The pre-tax adjusted discount rate used has been calculated and benchmarked against externally available data.

As a result of the impairment review, for all CGUs the value in use estimation exceeds the associated carrying value. However, acknowledging continued uncertainty in the UK economy, including the outcome of Brexit negotiations, we have prepared a sensitivity analysis, principally being a reduction in forecast revenue of 6%. This shows that, with the exception of the BMW, Volkswagen and Ford CGUs, no impairment arises in response to reasonable possible change scenarios. For the three CGUs that do show material impairment, the impairment that would arise is as follows:

CGU	**Impairment (£m)**
BMW	17.4

Volkswagen	7.3
Ford	5.5

Based on the review performed, the directors believe that the value of the CGUs remains strong and will continue to monitor performance during 2019. At 31 December 2018 we consider that the carrying values in use of all CGUs included in the financial statements are appropriate.

6. 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 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, , liquidity and financing issues for the company, legislative changes in relation to vehicle taxation and transport policy, failure of group information systems, investment in people and the relative strength and influence of the vehicle manufacturers on the UK market. The Board has recently reviewed the risk factors and confirm that they should remain valid for the rest of this year. These risks now include a risk for the adverse impact of Brexit.