1 November 2019

LOOKERS plc

Trading Update and Board Changes

Lookers plc, ("Lookers" or "the Group"), one of the leading UK motor retail and aftersales service groups, issues its trading update for the period ended 30 September 2019 ("Q3" or "the Period").

As reported in the Group's interim results statement trading during the six months ended 30 June 2019 ("H1" or "first half") was challenging. This was driven by ongoing weakness in consumer confidence in the light of political and economic uncertainty, pressure on used car margins and retail cost inflation. The Board expected these conditions to continue to impact the Group during the second half, but trading, particularly over recent weeks since mid-September, has been much more challenging than expected.

As a result and reflecting the Board's caution about the outlook for the remainder of the year, the Group now expects to report underlying profit before tax for the full year of approximately £20m.*

In light of the ongoing market challenges, the Board has accelerated its portfolio consolidation to drive the future financial performance of the Group.

New Car Market

Trading in new vehicles during the Period was below the Board's expectations. In Q3 the Group recorded a -3.2% (H1 -1.2%) decline in like-for-like unit sales of new cars. This compared to a market decline of -0.6% (H1 -3.4%). September is normally one of the most profitable trading months of the year. Despite the level of orders for new cars both before September and in the first half of the month being satisfactory, we lost momentum as the month progressed and had a much weaker than expected finish.

Like-for-like unit sales to retail customers declined by -11.5% in the Period, being particularly impacted by the Group's volume brands. The Group also experienced margin pressure leading to total gross profit from the sale of new vehicles during the Period to be c.£7m below last year.

Used Car Market

The used car market has remained relatively stable during the Period. Like-for-like unit sales of used cars increased by +2.6% (H1 +2.0%). In H1 used car gross margins were -60bps below last year and, although remaining below last year, gross margins showed some improvement in Q3.

Aftersales

The Group's higher margin aftersales business continued to perform broadly as anticipated. Like-for-like gross profit was +2.9% above last year during the Period.

Portfolio Consolidation

The Board accelerated its portfolio consolidation to drive the future financial performance of the Group. Working closely with its brand partners, the Group identified 15 dealerships for closure and, where possible, relocation or consolidation into existing dealerships in adjacent territories. The Board believes that as well as driving financial efficiencies, this will facilitate an enhanced customer experience in line with the Group's strategy of partnering with the right brands in the right locations. With the exception of two dealerships all will be closed by 31 December 2019.

One-off closure costs are expected to be approximately £8m including c.£2m of non-cash items. Financial efficiency benefits together with elimination of losses are expected to be in the region of £3m on a full year proforma basis.

Nine of the sites to be closed are owned on a freehold basis. These sites and an additional four surplus legacy freehold sites will be sold and are expected to realise total proceeds of c.£28m, which in aggregate is above book value.

Regulated Activities

As reported in the Group's interim results statement, following an independent review of the Group's regulated activities, the Board implemented a plan to improve the Group's internal control, risk assurance systems and internal audit. The plan requires a one-off investment of c.£10m (2019: c.£7m, 2020: c.£3m) as well as an ongoing c.£3m per annum to deliver best practice and an enhanced customer experience. The improvement plan is progressing as expected and will be implemented by the end of 2019.

As announced on 25 June 2019, the Group was informed by the FCA that it intends to carry out an investigation into legacy sales processes between the period 1 January 2016 to 13 June 2019. Following discussions with the FCA in October, that investigation has now commenced and is in its initial planning and fact-finding phase. The Group continues to fully support the FCA in its investigation but, at this stage, we are unable to predict what, if any, impact the outcome of the investigation may have.

Financial Position

The Group's balance sheet remains underpinned by a strong property portfolio. As at 30 June 2019 the Group held £312.1m of freehold and leasehold property equivalent to 80p per share.

The Groups bank facilities consist of a revolving credit facility of £250m with a term to March 2022. Net debt as at 30 June 2019 was £73.9m (31 December 2018: £86.9m) representing 0.9 times EBITDA. The Group remains focused on driving cash flow through improved working capital management, tighter control of discretionary costs, additional capital expenditure discipline and disposal of surplus property.

Presentational changes

In the year ending 31 December 2019, share-based payments, debt issue costs and net interest on pension scheme obligations will be presented as underlying items within the statement of total comprehensive income and comparatives restated accordingly.

Board Changes

The Group announces that Andy Bruce, Chief Executive Officer and Nigel McMinn, Chief Operating Officer have agreed that they will step down from the Board today. Until permanent successors have been appointed, Phil White, Chairman has agreed to become Executive Chairman and Richard Walker, currently a Non-Executive Director will assume a part time executive role, both to take effect from today.

Andy has held a number of roles in the Group since joining in 2000, appointed to the Board in 2002 and becoming CEO in 2014. Nigel joined the Group as a Director in 2013, becoming COO in 2017. Both Andy and Nigel will remain available to the Group until 31 December 2019 to ensure an effective transition.

Phil White, Chairman, commented:
"It is disappointing to report this downturn in trading, but we have taken action to drive the future financial performance of the Group. The Board is resolute in its determination to restore the Group's fortunes with market leading practices in the sector."

"I would like to thank both Andy and Nigel for their significant contributions to the Group since joining and wish them both well in the future."

Andy Bruce commented:
"After nearly two decades with Lookers, it is now time for me to move onto new ventures and allow new leadership to take the business into its next chapter.

"I am extremely proud of what we have achieved in building the Group into one of the leading car retailers in the sector and I am confident that the talented people in the business will continue to take the business forwards. I wish them all the best for the future."

Nigel McMinn commented:
"I have enjoyed helping to build the business at Lookers and working with a great team of people."

*PBT before the proposed reclassification of share-based payments, debt issue costs and net interest on pension scheme obligations to underlying earnings.

This announcement includes inside information as defined in Article 7 of the Market Abuse Regulation No. 596/2014.

ENDS

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