

4 June 2020

Lookers plc

TRADING AND OPERATIONAL UPDATE

Lookers plc, ("Lookers" or "the Group"), one of the leading UK motor retail and aftersales service groups, provides the following update after the re-opening of its dealerships on Monday 1 June, in line with Government guidance:

Summary

- Trading resumed across the Group, although at lower than normal capacity levels
- Significant restructuring actions to position the Group for a sustainable future, including the closure of a further 12 sites and headcount reductions across the business, to deliver annual savings of approximately £50m
- Net debt of £57m at the end of May with a facility of £250m and property portfolio with an adjusted net book value of £325m at 31 December 2019
- Discussions are progressing with banks to agree amendments to covenants under its revolving credit facility
- The Grant Thornton investigation is nearing completion with Grant Thornton having prepared a draft report which is under review and verification by the Board ahead of receiving the final report
- The Group is continuing to invest in and will accelerate the development of more robust financial systems and controls and to further improve culture and behaviours
- The results for 2019 are expected to be published by the end of June subject to the conclusion of banking discussions and audit

Operations

We are pleased to have safely reopened our dealerships and resumed selling new and used cars and providing after sales service albeit at lower than normal capacity levels. We have taken the opportunity during the recent period of closure to enhance our digital capabilities to support the sale of vehicles through our dealership network and to focus on improving the customer experience.

On 23 March 2020, in light of the Covid-19 pandemic and Government guidelines, the Board took the decision to temporarily close all its trading locations. In April, following the introduction of new operating measures, the Group then partly reopened 41 locations to provide essential repairs, parts and maintenance to key workers' vehicles.

Having successfully implemented and tested new operations and processes, on 11 May 2020 the Group reopened all its aftersales facilities and has gradually built capacity to around half the normal level. Initial demand for aftersales from customers has been encouraging. As demand builds additional technicians will return from furlough to increase capacity.

On 18 May 2020 the Group implemented a new contactless vehicle handover and delivery process. Since then, we have fulfilled a total of nearly 4,000 new and used retail vehicle orders.

Following the introduction of new operating and social distancing measures to ensure the health and safety of customers and colleagues, the Group reopened most of its dealership sales facilities on 1 June 2020. With the benefit of enhanced online functionality which the business has been implementing, in the last two weeks, the Group has taken retail orders for 2,865 new and used vehicles which on a like-for-like basis represents approximately 51% of sales for the same period last year.

The Group had approximately 66% of its total current colleague base (c.8,100) remaining on furlough at the end of May. In June it is expected that this will reduce to approximately 55%.

Portfolio Review

In November 2019 the Board announced an ongoing portfolio review and identified 15 dealerships for closure. Working closely with its brand partners the Group has identified a further 12 dealerships (including 7 freehold sites) for either closure, consolidation or refranchising. It is estimated this will be completed in the second half of 2020. Following these closures the Group will operate from a portfolio of 136 dealerships.

The Group currently holds surplus freehold properties for disposal during the remainder of 2020 and 2021, with a net book value of £30m as at 31 December 2019.

Restructuring

The Board has considered the future structure of Lookers in light of potential demand, a smaller dealership estate and the structural changes taking place across the industry. As a result, the Group has taken the difficult decision to commence redundancy consultations across all areas of the Group which could, subject to consultation, result in approximately 1,500 redundancies. The Board has carefully considered all options and regrettably considers this action as being necessary in the current environment to sustain and protect the Lookers business over the long term. This restructuring could, subject to consultation, deliver annual payroll savings of approximately £50m. The one-off cash restructuring cost will be circa £9m.

Financial Position

The Board remains focused on cash and working capital management and the Group continues to use the measures implemented by the Government. We are also grateful for the considerable support received from our brand partners and other key stakeholders.

Net debt at the end of May was approximately £57m. The Group's £250m revolving credit facility with five banks expires in March 2022. The Group is progressing discussions with its banking partners with a view to agreeing certain amendments to the future covenants contained within the facilities agreement.

The Group continues to enjoy the benefits of a strong property portfolio with an adjusted net book value of £325m (as at 31 December 2019) (83.3p per share).

Fraud Investigation

On 10 March 2020 the Group announced a delay to the publication of its financial results for the year ended 31 December 2019 due to the identification of potentially fraudulent transactions in one of its operating divisions. The Board engaged Grant Thornton LLP to undertake an investigation, supported by an internal team. Initially, the review focused on the operating division concerned and subsequently this was extended across all operating divisions to ensure the completeness of the review.

The Grant Thornton investigation is now nearing completion. Grant Thornton have produced a draft report which is now under review and verification by the Board ahead of Grant Thornton preparing their final report. The draft report is also with the Auditors for review in the context of the 2019 audit opinion.

A further update will be provided once the final findings of the investigation are known.

The initial findings of the investigation have highlighted areas where financial controls require strengthening to prevent a repetition of such accounting irregularities in the future. In addition, the investigation has highlighted the need for Lookers to further strengthen some behavioural and cultural aspects relating to its control environment. Robust remediation activity is in progress.

Outlook

Given the ongoing uncertainties faced by the Group in the early days of reopening the business, the Board continues to believe that it is too early to make any reasonable estimate of the financial impact on the Group during 2020 and beyond.

Publication of 2019 results

The results for 2019 are expected to be published by the end of June subject to the conclusion of banking discussions and audit.

Mark Raban, Chief Executive Officer, said:

“We are pleased to have reopened our dealerships and have been careful to do this in a way that is safe for our customers and colleagues. At the same time, we are having to reflect on the outlook for the Group and how we must adapt to ensure a positive future in what is likely to remain an uncertain economic and industry environment.

Against this backdrop we have taken the decision to restructure the size of the Group’s dealership estate to position the business for a sustainable future, which regrettably means redundancy consultation with a number of our colleagues. This has been a very difficult decision and we will be supporting our people as much as possible throughout the process.

We have used the time as the business has been closed to adapt and evolve to meet changes in consumer behaviour, not just for a post Covid environment, but also to enhance our digital offering and the trend towards electrification. We will also ensure that our systems and processes are reliable and robust enough to position us as a leading UK motor retailer. There is still a lot more work to do, but we have the determination, platform and brand partnerships to take the business forward.”

This announcement contains inside information for the purposes of article 7 of the Market Abuse Regulation (EU) No 596/2014

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