

8 December 2022

Vertu Motors plc ("Vertu" or "Group")

Acquisition of Helston Garages Group Limited to deliver double digit EPS accretion, increase scale and deepen OEM relationships

New debt facilities agreed

Vertu Motors plc, a leading UK automotive retail Group, today announces it has agreed to acquire, subject to FCA regulatory approval, Helston Garages Group Limited ('Helston'), a predominantly premium manufacturer automotive retail group based in the South West of England (the 'Acquisition'). Vertu has acquired 28 franchised sales outlets, adding significant scale and geographic coverage to the Group's existing footprint of 160 franchised outlets. Total consideration of £117m, net of cash and cash equivalents of £65m, has been financed through a combination of re-negotiated and new debt facilities.

Transaction highlights

- Acquisition of Helston for an enterprise value of £120.1m, represents 6.8x the EBITDA¹ of the acquired dealerships
- Clear strategic logic with transformation of the Group's footprint in the South West of England with 28 additional franchised sales outlets
- Strengthening of premium OEM relationships, with Vertu welcoming Ferrari and Volvo to the Group
- Acquisition expected to be double digit EPS accretive for financial year to 28 February 2024; accretive to Free Cash Flow (FCF) from FY25; and is expected to deliver return on investment ahead of group WACC² and internal return hurdle rates
- Renegotiated and new debt facilities agreed bringing total available facilities to £302m with net debt³ as at 28 February 2023 expected to be £100-110m, less than 1.4x adjusted pro forma EBITDA
- Helston has a freehold rich and well invested property portfolio
- In the year ended 31 December 2021, the acquired dealerships generated revenues of £498.9m, an underlying EBITDA and underlying pre-tax profit of £20.6m and £17.9m respectively
- Completion of the transaction will be subject to applicable FCA regulatory approvals and is anticipated within the next five weeks.

¹ Average underlying EBITDA 2019-2022 of acquired assets

² Group Weighted Average Cost of Capital is currently calculated as 8.5%

³ Net debt includes used car stocking loans

Strategic rationale

The acquisition of Helston is a continuation of the long-term strategy of the Group to drive scale, expand into new and attractive regions and introduce new Manufacturer Partners. Helston radically enhances the Group's scale and reach into the South West of England. Following the acquisition, Vertu will have 32 sales outlets in the region, up from the current four.

The Group has an established track record of integrating new businesses and will leverage this expertise to ensure systems and operational processes are integrated by the end of March 2023.

The Integration Management Office will focus on systems, processes, training and procurement functions. The integration of these should drive synergies over time, with at least £3.2m annual benefit to be delivered by FY25 against 2019 base. The Group will introduce its innovative Click2Drive digital platform, including its award-winning websites, to the acquired dealerships and rebrand the acquired sites (except for Ferrari) using the Vertu Motors and Bristol Street Motors brands.

Vertu has strong relationships with its Manufacturer partners, and the addition of Helston into the Group will further strengthen relationships with key partners such as BMW, MINI, Stellantis and Jaguar Land Rover. Volvo and Ferrari will join the Manufacturers represented by the Group. The Group has received strong support from Manufacturer partners for the transaction.

Creating shareholder value, highly accretive to earnings, positive for FCF

The transaction is expected to have a limited impact on the Group's underlying profit before tax for financial year to 28 February 2023 (FY23) due to the timing of the transaction in relation to Vertu's financial year end. One-time deal related costs of £2.5m are anticipated and will be included in non-underlying costs for FY23.

The first full year of contribution from the acquisition will be FY24 (to 28 February 2024), with anticipated double digit EPS accretion.

The Group expects one-off capex of £7m in FY24 to redevelop two key locations within the Helston portfolio. Ongoing maintenance capex for the newly acquired dealerships is expected to be around £3m p.a. Post capex and incremental cost of debt, the acquisition is expected to deliver positive FCF from FY25. The acquisition is anticipated to deliver a return on investment ahead of Group WACC and IRR above Group hurdle rates.

Helston Group

Helston has been a family run business for over 60 years, building up a network of high-quality dealerships across Dorset, Somerset, Devon and Cornwall, operating under several brands including Westerly, Carrs and Truscotts. In the year ended 31 December 2021, the businesses Vertu has acquired generated revenues of £498.9m, an underlying⁴ trading pre-tax profit of £17.9m and underlying¹ EBITDA of £20.6m. For the year ended 31 December 2019, the acquired assets delivered revenues of £522.5m, underlying trading profits before tax of £9.0m and an underlying EBITDA of £13.5m. Of the 28 sales outlets acquired, the majority are with premium automotive Manufacturers: 4 Land Rover, 5 BMW, 1 BMW Motorrad, 5 MINI, 3 Jaguar, 5 Volvo, 1 Ferrari, and 4 Peugeot.

⁴ Adjusted to remove non-recurring items including asset revaluation movements and Covid business grant and rates reliefs.

Transaction structure

Total gross consideration for the transaction is £182m, including:

- net assets acquired by Vertu of £114.2m, calculated as at 31 August 2022;
- goodwill paid by Vertu of £28.6m, calculated as at 31 August 2022;
- assets and related goodwill relating to 12 franchise outlets sold prior to completion equating to £39.0m cash at completion.

The gross consideration includes a further anticipated cash and cash equivalent acquired of £26.2m.

Cash from profits from 1 September 2022 to the completion date accrue to Vertu reflecting in higher net assets and lower goodwill at completion.

Therefore, the adjusted post-completion enterprise value paid by Vertu is £117m, with an EV/EBITDA of 6.8x, based on average per annum EBITDA for the acquired assets between 2019 and 2022.

New debt facilities

The Helston transaction will be financed through recently renegotiated and new debt facilities. Vertu's existing lending banks remain highly supportive of the Group and have been joined by a third lending bank. This bank syndicate extended the existing Revolving Credit Facility ('RCF') to £93m from £62m (due to expire in February 2024). The refinanced RCF has been extended to November 2025 with an option for the Group to further extend to November 2027.

The acquisition is freehold rich, with a well invested property portfolio valued at £66.7m. Vertu Motors has leveraged this and certain properties within its own extensive freehold property portfolio, drawing a new 20 year mortgage of £74.8m provided by BMW Financial Services ('BMW FS'). This mortgage bears interest at 2.8% above BMW FS base rate and is a standard commercial mortgage with no periodic covenant tests applicable.

Of the Company's total extended debt facilities of £302m, approximately one third is mortgage debt and £70m relates to used vehicle stocking loans (increased from the previous facility of £35m). These two components of the enlarged Group debt facilities are backed by freehold and long-leasehold property assets of approximately £310m and used vehicle stock of approximately £174m.

Hedging arrangements are anticipated to be put in place in the coming weeks to reduce exposure to future interest rate fluctuations. It is anticipated that a two year cap on £50m of the mortgage debt at 4.5% will be entered into. Once the £22m current interest rate swap expires in January 2023, we will arrange a new fixed rate swap on £30m of the drawn RCF.

Post completion, the Group expects net debt at year-end 28 February 2023 to be £100-110m, with net debt/EBITDA⁵ below 1.4x. Due to the ongoing strong cash generative nature of the Group, net debt/EBITDA is expected to be around 1.0x by year-end 28 February 2025.

⁵ Adjusted EBITDA on the basis of owning the acquired businesses for 12 months to 28 February 2023 and excluding one-off deal costs of approximately £2.5m

Robert Forrester, Chief Executive Officer of Vertu Motors, said:

"We are delighted that Vertu Motors has agreed to acquire Helston and 28 dealerships, further evidence of the execution of our long-term strategy to build scale, geographic coverage and deepen our relationships with our key automotive Manufacturers. We are particularly pleased that we have received strong support for the acquisition from our Manufacturer Partners and our lending banks to support the deal. Volvo and Ferrari are introduced to our portfolio, which is a very proud moment for the Group.

Helston has a long track record of delivering strong profitability and we have admired the Group for a long time. The acquisition will be both financially and strategically accretive for Vertu Motors, delivering long term value creation for our shareholders. We now have 32 dealerships in the South West, which becomes a core region.

I am delighted to welcome so many new colleagues to the Group and look forward to integrating Helston and the team into Vertu Motors, particularly introducing our digital expertise.

While there is uncertainty in the UK economy today, we continue to invest for the long-term and remain excited about the future for Vertu Motors.”

ENDS

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Notes to Editors

Vertu Motors is the fourth largest automotive retailer in the UK with a network of 192 sales outlets across the UK. Its dealerships operate predominantly under the Bristol Street Motors, Vertu and Macklin Motors brand names.

Vertu Motors was established in November 2006 with the strategy to consolidate the UK motor retail sector. It is intended that the Group will continue to acquire motor retail operations to grow a scaled dealership group. The Group’s acquisition strategy is supplemented by a focused organic growth strategy to drive operational efficiencies through its national dealership network. The Group currently operates 188 franchised sales outlets and 4 non-franchised sales operations from 142 locations across the UK.

Vertu’s Mission Statement is to “deliver an outstanding customer motoring experience through honesty and trust”.

Vertu Motors Group websites – <https://investors.vertumotors.com/> / www.vertucareers.com

Vertu brand websites – www.vertumotors.com / www.bristolstreet.co.uk / www.vertuhonda.com / www.vertutoyota.com / www.macklinmotors.co.uk / www.vertumotorcycles.com