12 May 2021

Vertu Motors plc ("Vertu", "Group")
Final results for the year ended 28 February 2021

"Leadership in online retailing contributes to above expectation results for FY21 and a strong start to FY22"

Vertu Motors plc, the automotive retailer with a network of 149 sales and aftersales outlets across the UK, announces its final results for the year ended 28 February 2021 ("Year").

Commenting on the results, Robert Forrester, Chief Executive Officer, said:

"These results, which are ahead of expectations, are outstanding in the Covid interrupted circumstances. I am proud of the entire Vertu team for their adaptability and effort to deliver these remarkable results.

The Group has significantly evolved during the year, with accelerated delivery of its strategy in achieving enhanced online sales capability via its inhouse developed Click2Drive technology platform, reduced cost base due to productivity gains and significantly grown the number of sales outlets.

We have started the new financial year very strongly, have generated record levels of cash and have a very strong balance sheet. We have now re-instated guidance. Brexit uncertainty is now behind us, and we are exceedingly well placed to benefit from the changes and opportunities which are ahead of us."

OPERATIONAL HIGHLIGHTS

- Adjusted[1] profit before tax of £24.6m ahead of Analysts' forecasts (2020: £23.0m)
- 18 sales outlets added to the Group since 1 March 2020, including the addition of 3 new franchise partners to the Group's portfolio - BMW, MINI and BMW Motorrad
- Strong, stable management, supported by scalable, sector-leading in-house developed technology and systems, provides assurance of tight control of operations and swift execution of strategies
- Substantial growth in online retailing using the Group's Click2Drive sales technology platform
- Increased efficiency of transaction processing including use of robotic process automation
- 38,446 new and used vehicles delivered from 1 January to 31 March 2021, despite lockdown restrictions keeping showrooms closed
- Increased awareness of the Group's core brands delivered through strong, effective marketing campaigns including significant TV advertising campaigns
- Excellent customer experiences delivered in the new environment: Used Car Net Promoter Score in H2 of 84%

OUTLOOK HIGHLIGHTS

- Strong start to new financial year with trading profits at a record level in the two months to April 2021. Adjusted profit before tax in the two months of £19.2m compared to £14.8m in the same months in 2019
- The Board expect the Group will deliver an adjusted profit before tax for the year ending 28 February 2022 in the range of £24.0m to £28.0m
- The Board is confident that, dependent on the financial performance of the Group, dividends can recommence in January 2022

FINANCIAL HIGHLIGHTS

- Group revenues of £2.5bn (2020: £3.1bn) (like-for-like decline of 21.6%) impacted by Government imposed lockdowns
- Gross margin increased to 11.8% (2020: 10.9%)
- Cost reductions[2] exhibited delivering a £16.0m (7.2%) reduction in like-for-like operating expenses in the nine months from 1 June to 28 February
- Growth in Adjusted[1] operating profit to £33.8m (2020: £32.2m)
- Profit before tax of £22.4m (2020: £7.3m)
- Underlying earnings per share increased to 5.27p (2020: 4.99p)
- No final dividend recommended in light of the Government support received during the Year
- Net tangible assets per share of 50.2p (2020: 46.0p) reflecting very strong asset base
- Record Free Cash Flow[3] of £48.4m delivered
- Adjusted[4] net cash of £1.4m at 28 February 2021 (2020: net debt £2.8m)

[1] Excludes non-underlying items.
[2] Excludes grant receipts in respect of the furlough scheme.
[3] Net cash flow from operating activities less net capital expenditure incurred and lease cash flows.
[4] Excludes amounts drawn on used vehicle stocking loans and IFRS 16 lease liabilities.

Webcast details
Vertu Management has recorded a webcast for analysts and investors. A recording of the webcast will be made available on Vertu's website this morning: investors.vertumotors.com

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("MAR"), and is disclosed in accordance with the Company's obligations under Article 17 of MAR.

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CHAIRMAN'S STATEMENT

I am pleased to report that the Group has delivered a resilient, profitable result, in excess of Analysts' forecasts in this unprecedented year. This result reflects positively on all management and colleagues within the Group, who have adapted to new ways of working and executed exceptionally well in the most challenging of circumstances. I would like to personally express my appreciation and thanks to the whole Vertu team. The Board is also extremely grateful for the significant Government support received both in respect of furloughed colleagues and business rates relief, and the assistance provided by its Manufacturer partners. The latter demonstrates the partnership approach and a key strength of the franchised dealer model.

On 1 June 2020, the business emerged from the first lockdown stronger in many ways for the experience. Trading conditions throughout the summer months that followed were bolstered by pent-up consumer demand. The period also saw the additional benefit of cost reductions, achieved through the roll out of technology developed during the lockdown, which enhanced efficiency across a number of different areas of the business.

When the UK faced further restrictions from November onwards, the Group's showrooms were again closed to customers. The Group's strengthened customer and online offering, together with its strong brands and local presence, meant that vehicle sales continued on a click and collect/home delivery basis, despite the restrictions, at much higher levels than were seen in the first lockdown. The Group's customers could choose to buy their used car fully online or complete part of their buying journey online and part in direct remote contact with either our local dealership or central teams. Central sales and aftersales enquiries were handled efficiently by the Group's customer contact centre which was able to switch seamlessly between home and office working using the Group's digital telephony technology. To illustrate the progress made, 38,446 vehicles were delivered during the latest restrictions when showrooms were closed from 1 January to 31 March, demonstrating the strength of the Group's online offering, customer propositions, strong brands, national footprint and reputation for strong customer service.

The Board is mindful that the immediate future of the Group will be affected by the continued uncertainty around COVID-19 and the Government's reaction to it. The Group is, however, strong and resilient. It has one of the strongest balance sheets in the sector, and this was further enhanced in the year through the generation of a record level of Free Cash Flow of £48.4m. Costs were well controlled throughout and, whilst it was regrettable that many of the Group's colleagues have been furloughed at times during the year, capacity levels were carefully matched to demand as the Group moved between lockdowns.

The Board is optimistic that the Group's proven track record of execution and strong balance sheet will allow the continued expansion of the Group, to deliver a business of greater scale and efficiency. The forthcoming post COVID-19 period will again evidence some consolidation in the Retail sector. Vertu is in a strong position to take advantage of this environment as appealing opportunities arise. Our strong financial position, healthy appetite for growth, considerable digital expertise and first-class leadership means that we can look forward with optimism.

The business is fifteen years old in November 2021 and has achieved much in that timeframe. From floating as a cash shell in December 2006, the business is now one of the largest and strongest operations in the UK automotive retail sector. Whilst justifiably proud of these achievements, the Board remains focused on the future and building on the very successful platform put in place. We guard against complacency.

Andy Goss, Chairman

CHIEF EXECUTIVE'S REVIEW

Update on Strategy Execution and Associated Risks

The Group is now in its fifteenth year and has executed a consistent strategy to build a scaled UK automotive retailer with a strong culture, a reputation for execution and excellent relations within its Manufacturer Partners. The Group now has normalised annual revenues of £3.7bn and has built a substantial base of tangible net assets.

The Group's key long-term strategic objectives remain:

- To grow as a major scaled franchised dealership group and to develop our portfolio of Manufacturer partners, whilst being mindful of industry development trends, to maximise long-run returns.
- To be at the forefront of online retailing and digitalisation in the sector, delivering a cohesive 'bricks and clicks' strategy.
- To reduce the cost base of the Group through scale economies and digitalisation of processes.
- To develop and motivate the Group's colleagues to ensure consistency of operational delivery across the business.
- To develop ancillary businesses to add revenue and returns which complement the core business.

Growth

Portfolio Development and Changes

As part of the strategy for scale, the Group historically has sought to add additional Manufacturer partners, not represented in the portfolio, to facilitate additional growth opportunities. A noticeable gap in the Group's portfolio of Manufacturer partners was closed in December 2020, with the addition of the much sought-after BMW, MINI and BMW Motorrad franchises. Both BMW and MINI are extremely well positioned to take advantage of the electrification of the UK automotive market over the next decade and the addition of these franchises had long been a strategic objective of the Group. The Group now operates 32 car, van and motorcycle franchises which is more than any other UK player.

The well-timed acquisition of a BMW/MINI market area of 12 sales outlets in five locations: York, Sunderland, Teesside, Durham and Malton, achieved immediate scale in a region where the Group is headquartered and already has strong representation. The outlets were acquired from The Cooper Group Limited, part of Inchcape plc, for total consideration of £19.6m. The assets acquired include £16m of freehold and long leasehold properties and a payment was made in respect of goodwill of £0.8m.

For the year ended 31 December 2019, these dealerships generated revenues of £305m and a loss before tax of £6.0m. The Group has developed a clear plan to drive performance improvements over a three-year period and the integration of these businesses into the Group has proceeded in line with this plan. The Group's systems and processes were implemented immediately on acquisition, in order to facilitate business improvements in the areas of customer experience and financial performance. Despite the COVID-19 related restrictions imposed immediately post acquisition, the acquired businesses have performed ahead of the business plan, which has not been adjusted for the impact of these restrictions. The Board is therefore optimistic of a progressive turnaround of these businesses and the generation of significant shareholder value, particularly given the minimal levels of goodwill paid for the businesses. The businesses have been branded Vertu, reflecting the continued growth of the Vertu brand in Premium franchises in the UK and supported by the increasingly successful website, vertumotors.com.

Following the Group's entry into the Kia franchise in January 2020, further growth with the Kia franchise was achieved when, on 1 October, the Group acquired the Nottingham Kia business from Sandicliffe for £1.9m, taking a short-term lease on the dealership premises. This business will be relocated this month into existing large Group leasehold dealership premises in Nottingham. This location currently represents one of two Group Volkswagen franchise outlets located in the city and, whilst new vehicle activity will be consolidated in the remaining flagship Nottingham Volkswagen dealership at West Bridgeford, Volkswagen authorised repair and approved used vehicle sales activity will continue in this location, alongside the relocated Kia franchise.

Subsequent to the financial year end, on 1 March 2021 the Group opened a Macklin Motornation used vehicle outlet in Glasgow, following the acquisition in late 2020 of a vacant freehold dealership from Lookers plc. Further on 12 March 2021, the Group acquired the trade and assets of a Honda car dealership in Huddersfield from Hepworth Motor Group. The purchase of this leasehold dealership complements the Group's existing Honda outlets in Yorkshire and the consideration, settled in cash, was £0.8m. The Group now has considerable scale in Yorkshire, operating 23 outlets in the county.

The Group continues to actively manage its dealership portfolio including the regular assessment of viability and returns achieved from each business and franchise and the potential for property gains and cash generation from the portfolio. Execution of multi-franchising, in order to maximise potential returns of each location, is seen as a key element of the Group's strategy in this regard. Increased flexibility of Manufacturer representation requirements and varying formats will aid this process, allowing investment levels to be reasonable and multi-franchising to be increased.

During the Year the Group added the Citroen brand to its existing Ford dealership operations in Worcester and Macclesfield. The Group also added the Peugeot franchise to the Group's Edinburgh dealership which already represented Kia, Suzuki and Mitsubishi. Further multi-franchising activity is planned to be delivered in the coming months, with several projects currently being progressed.

Further network changes and consolidation for franchised retailers are anticipated. Potential opportunities for growth for those established retail groups with a proven track record, strong financial position and positive relationship with Manufacturers remain strong.

Further to the regular review process outlined above, a number of disposals and closures have been implemented, in line with the Group's capital allocation disciplines, both during the year and post year end, to optimise the portfolio:

- The Group sold the trade and assets of its Citroen dealership in Leicester to Manufacturer-owned Robins and Day on 28 February 2021. The leasehold premises were retained and the dealership is currently being redeveloped and refranchised to reopen as a franchise outlet in the coming months.
- The Group disposed of its ancillary wheelchair accessible vehicle ("WAV") business, Bristol Street Versa, to Gowrings Mobility, a well-established WAV operator on 30 November 2020. The Group will continue to supply commercial vehicles for conversion to the enlarged entity. This disposal generated £1.7m of cash. In FY20 the business delivered a loss before tax of £68,000.

- On 26 April 2021, the Group closed a used car sales and Volkswagen service outlet at Whitchurch, Herefordshire. The vast majority of colleagues were transferred to the Volkswagen dealership in Hereford and it is anticipated that a large proportion of the dealership's activity will be retained in Hereford. The freehold property was sold on 7 May 2021 yielding cash proceeds of £430,000, slightly in excess of the book value. In addition to the property disposal, working capital of approx. £0.9m has been released to be re-invested in higher return assets.
- Following the acquisition of BMW Sunderland, the Group operated two accident repair centres in the city. On 1 April 2021, these operations were consolidated into one with a surplus freehold property now being marketed for sale.

Move to Agency Model

The Board notes that it is likely that the next few years will see an evolution of the business model with regards to the sale of new cars in certain franchises. The Group undertakes sales in a number of franchises on an agency basis in the fleet market and anticipate that a number of Manufacturers will move new retail sales to an agency model in the next few years. It is envisaged that such a move would reduce reported revenues, increase reported operating margins and reduce working capital investment. The Board will keep shareholders updated on developments in this area.

Increasing Importance of Scale and Brand

The Group's strategy is to continue to grow through the acquisition of both volume and premium franchised dealerships. Scale benefits include: a national online and offline co-ordinated marketing strategy based on a limited number of strong brands; maximising the benefits of the Group's national footprint; the Click2Drive platform; scaled highly efficient contact centres; dedicated franchise management; purchasing efficiencies; and, access to competitive consumer finance packages for the Group's customers.

Brand awareness is vital in an online environment, with increasingly more of the sales process, either in the research or buying phase, completed online. The Group currently operates four brands in the UK, Bristol Street Motors (England Volume), Macklin Motors (Scotland), Farnell (Jaguar Land Rover) and Vertu Motors (other premium franchises). Having more than one brand allows the Group the flexibility to differ its offers and approach between geographies or between volume or premium franchises. During the course of 2021, the Group's Jaguar Land Rover dealerships will be rebranded to Vertu, bringing all the Group's premium businesses under this one brand. When this is complete, the Vertu brand will have 58 outlets in the UK, Bristol Street Motors 77 and Macklin Motors 14.

Brand awareness is supported by the Group's marketing activity, including extensive TV advertising campaigns and sponsorship of Formula One coverage on Channel 4, secured for a second consecutive year for the Macklin Motors and Bristol Street Motors brands. In addition, sponsorship arrangements have commenced for the Vertu Motors brand with Yorkshire and Durham County Cricket Clubs to increase brand awareness in two of the Group's key regions of operation. The success of the Group's marketing activity is supported by a recent YouGov survey, which included responses from over 5,000 adults collected over the period from 1 October 2020 to 1 March 2021. Bristol Street Motors currently has the highest prompted awareness of the Group's brands, with over 42% awareness, the second highest of any automotive retail brand in the sector, including the so-called 'disruptors'.

The strength of our brands and marketing activity led to the Group's websites collectively receiving a monthly average of 1.4m unique visits over the Year (2020: 1.2m). The Group saw a

29% year on year increase in sales enquiries received from online sources in the period from 1 June to 28 February, however, as expected in the light of restrictions, walk in dealership visits were down year on year.

Of equal importance to brand awareness, is brand reputation. The Group's Mission, "to deliver an outstanding customer motoring experience through honesty and trust" recognises the importance of excellent customer service and high ethical standards. The Group's commitment to customer service is verified through customer satisfaction feedback, gathered either by our Manufacturer partners or from a third-party survey (Judge Service) in respect of used cars. The Group's dealerships regularly feature in the top quartile of our Manufacturer's customer service leagues and perform significantly above average for the sector overall. The Group consistently achieves a net promoter score ("NPS") in excess of 80% from Judge Service. In H2 the Group received feedback from over 10,400 Group used car customers via Judge Service averaging a NPS score of 84%.

Online and Omni-channel Retailing

There is a significant degree of confusion over the terms online and omni-channel retailing. Whilst online sales could be defined as pure ecommerce transactions with no human involvement, convention in the sector is that online sales relate to any sale where the enquiry originated from an online source. The current automotive retailing environment in the UK is certainly heavily digitised and omni-channel in nature – customers come in and out of the digital world, interacting by phone and video call extensively with dealerships as well as undertaking dealership visits and crucially, test drives. No one customer's journey is now the same, since the options and flexibility offered by platforms such as the Group's Click2Drive technology platform puts the customer in the driving seat as to how to buy a car. Given our goal is firmly to sell a car, the Group is agnostic as to which journey the customer chooses as long as a sale is achieved. Our experience is that pure ecommerce online transactions are a small percentage of retail sales and omni-channel retailing is probably a better term to describe the current position. Where the term online is used in this report, it is used in a much wider sense and is akin to omnichannel. In time, greater definition of terms in the sector is vital to increase understanding.

The Group continues to be at the forefront of developments to provide customers with innovative ways to purchase and interact online. The Group's online functionality is a fully integrated end to end process termed Click2Drive, allowing customers the flexibility of a purely online purchase, or one which includes interaction with our sales teams through telephone or video appointments, should they require assistance with their vehicle search or purchase. If the Group's customers choose to transact fully online, they are able to value their part exchange, choose a suitable finance option, make payment and arrange home delivery of their vehicle, including the collection of any part exchange. Every one of the Group's used vehicles is prepared to a high standard, in accordance with a strict vehicle preparation policy. All used vehicle customers also benefit from a 14-day money back guarantee and a 90-day warranty as standard. This is superior to the current offering of disrupters.

The strength of this proposition, together with the Group's established brands, national dealership network and reputation for excellent customer service, meant that the Group delivered 38,446 new and used (retail and fleet) vehicles from 1 January to 31 March 2021, despite customers being unable to visit showrooms or test drive their chosen vehicles. 257 (0.7%) of these vehicles were purchased completely online by the Group's customers. The majority of customers therefore elected to interact with the Group's dealerships within the sales process. 4,700 customers have chosen to reserve their vehicle online, through the payment of a £99 deposit, since this new feature was introduced in May 2020. Use of this reservation facility has been increasing over time, with over 1,100 deposits paid in January and February 2021. Customers reserving vehicles in this way exhibit a very high conversion to ultimate sale.

Disrupters who have recently entered the used car market have very little, if anything, to add to the sector in terms of customer proposition or experience, and they do not sell new cars or in some cases, support customers thereafter with their servicing needs. The best in class in the sector, and Vertu in particular, have a fully established "bricks and clicks" platform and sell far more used vehicles than these new entrants. The Group also builds relationships with customers over many years facilitating the supply of new and used cars and customer servicing activities.

The Group's national franchise dealer network, with a strong customer service reputation, gives customers the confidence to transact purely online, however, many still choose to interact with the Group in their buying journeys and we expect that this will continue. A local presence not only aids the building of brand awareness but remains essential to the delivery of customer service, with the majority of customers preferring to undertake a test drive prior to purchasing the big-ticket item of a car. Local aftersales support is also an important factor in many vehicle buying decisions. The Group retains a high proportion of its vehicle sales customers into the higher-margin service channel and this also aids overall long-term sales retention. A "bricks and clicks" model is therefore crucial in this sector, with the Group's network of physical dealerships across the UK at the centre of its customer offering and vital for the delivery of service and repair work to our customers. The fact disruptors to the sector such as Cazoo and Tesla have been developing physical networks is illustrative of their recognition of the need to have a physical presence in addition to their purely online capabilities.

Cost Reduction

Enhanced scale of operations allows the Group to maximise on purchasing benefits, to provide process efficiencies with common systems and technology, and to gain marketing synergies from promoting a larger network for each of the Group's brands.

A key feature of the Group's digitalisation strategy has been to use system integration and robotic process automation to enhance productivity and reduce the cost base of the Group. Enhanced integration of the Group's sales showroom and financial systems in FY21 facilitated significant efficiency improvements in processing vehicle sale transactions. By way of example, robotic processes have now automated the taxation of each used vehicle the Group sells with the DVLA. Similar technology has also automated the invoicing of all vehicles traded at auction. Such in-house developed system automations have enabled the Group to reduce costs, with the delivery of a programme completed in July 2020 yielding anticipated annualised savings of £10m. The Group continues to develop technology to maximise efficiency and aid decision making.

Motivated, Professional Colleagues

The Group seeks one consistent culture across all its operations. Delivery of the Group's Mission Statement ("To deliver an outstanding customer motoring experience through honesty and trust") through application of the Group's Values ("Professionalism, Passion, Recognition, Integrity, Respect, Opportunity and Commitment") is at the core of how the business operates. The Group has high standards, with colleagues expected to execute the basics of the business and delight customers, acting with energy and urgency.

The Group's colleagues are therefore at the core of the delivery of the Group's vision and strategy and their passion and commitment has certainly been demonstrated over the Year. It was regrettable that so many of the Group's colleagues were put into the Government Furlough scheme as virus restrictions closed substantial parts of the business. The Group provided enhanced benefits, designed to ensure that no colleague suffered undue hardship whilst unable to work. The Group's Board and senior management teams also accepted reductions to their remuneration during the Year. Colleague communication was vital so frequent and open dialogue was maintained throughout the Year. To measure the success of the Group's colleague engagement, the Group carries out an annual colleague satisfaction survey as well as shorter quarterly surveys. Over 4,200 (84%) of Group colleagues participated in this year's survey in October 2020. Perhaps in recognition of the support given to colleagues during the pandemic, 87.0% of responding colleagues considered the Group a great place to work, up from 83.9% in the previous year. In addition, 98.2% of colleagues knew the Vertu Values and 93.3% believed that the Directors actively practiced these Values. These scores reflect the strength and consistency of the Group culture that has been built up over time.

I would like to personally thank every Vertu colleague for their hard work and commitment during the Year. I am proud to be the leader of such an exceptional team of people, who treat others the way they themselves would like to be treated.

Responding to Regulatory Change

Electrification and Alternative Powertrains

Potential future development of the wider automotive sector has in recent years been linked to the development of Connected, Autonomous, Shared and Electric (CASE) vehicles. The ongoing impact of COVID-19 will almost certainly affect the 'Shared' element of mobility, with the potential that consumers shy away from public and shared transport modes, at least in the short-term. It is also apparent that, whilst increased autonomy is certainly assisting drivers, full autonomous capability remains a long way off, with technological, regulatory and legal considerations weighing heavily.

The UK Government's stringent objective to achieve Net Zero in terms of Carbon emissions is driving significant change to the powertrains used by new vehicles. 2030 is now the date the UK proposes to phase out internal combustion engines in respect of new vehicle sales. A glide path is therefore needed in terms of technological advancement and Government support in terms of vehicle engineering, subsidies to promote uptake and a national infrastructure for recharging which is capable of coping with significant growth in electric vehicle sales. The SMMT estimates that a full, zero emission-capable UK new car market will require 1.7 million public charge points by the end of the decade and 2.8 million by 2035, costing some £16.7 billion. The UK has a long way to go in this regard.

The level of customer adoption of electric and alternatively fuelled vehicles is increasing in the UK reflecting higher supply, enhanced ranges and more interest from customers. The SMMT reported that 2020 was the best ever year for electric cars, with battery and plug-in hybrid vehicle market share increasing to 10.7%, albeit in an overall reduced market, and with regulation requirements being the key driver rather than customer preference. Group sales of electric and alternatively fuelled vehicles doubled over the Year to 2,356 vehicles, representing 9.3% of the Group's sales of new retail vehicles.

The move to electric has undeniably put Manufacturer businesses, cash levels and future returns under pressure, with this being exacerbated by the impact of COVID-19. A recent study by the Financial Times highlighted that the cost of production of electric cars is expected to continue to exceed that of the combustion engine vehicle until beyond 2030. This is even after taking into account the expected reduction in the cost of battery production. According to the SMMT, price is one of the main factors holding 52% of today's potential buyers back from purchasing an electric vehicle. This was perhaps recognised by the recent changes in the UK to the plug-in grant scheme, which is now targeted exclusively at lower priced cars.

Over 40% of the Group's gross profit has historically arisen from its aftersales operations, namely the provision of servicing and repairs and the retailing and wholesaling of parts. Pure electric vehicles require less mechanical service intervention than those with an internal combustion engine, however, they will not form a majority of the vehicle parc until well after 2030 (source: National Grid FES 2020 report). Thereafter, the potential diminution in servicing, as a result of the electrification of the parc, is expected to be mitigated by the need for increased specialist equipment, technology and knowledge to maintain these vehicles, connectivity and a growth in prepaid maintenance programmes, all retaining a greater share of maintenance work within the franchise dealer network. The Group is developing substantial expertise in its service departments in the area of batteries. Leeds Volkswagen, for example, is only one of 15 specialist battery centres in the Volkswagen network in the UK. With our Manufacturer relationships, scale, financial strength and expertise, the Board sees the drive train transition as an opportunity rather than a threat.

FCA

Following the publication of the FCA's final findings in connection with their review of motor finance, the Group amended its sales processes in January 2021 to ensure that its arrangement with finance providers were aligned with the ban of discretionary commission models. These changes have been seamlessly introduced, aided by the Group's in-house developed sales technology platform, Click2Drive. The changes have not had a material impact on earnings from finance commission to date.

UK withdrawal from the EU

The UK's future trading arrangements with the European Union are now clear, with agreement having been reached prior to the 31 December 2020 deadline. The SMMT reported that 7 out of 10 vehicles sold in 2020 in the UK were imported from Europe. The application of zero tariffs and quota free trade was therefore critical to a strong new car market in the UK. Clarity over the UK's future relationship with the EU has removed a major sector uncertainty.

The Sterling Euro exchange rate remains an important factor in the pricing and import of vehicles manufactured in Europe into the UK. Since 1 January 2021, Sterling has strengthened against the Euro and a stronger pound helps make imported new cars more affordable to UK buyers.

Strategic Summary

The Group's stable and experienced management team and financial strength ensures that the Group is well positioned to take advantage of opportunities arising and we remain ambitious to do so. We will ensure that capital is allocated to those activities, locations and franchises that are best placed to meet the competitive challenges arising, to provide the best growth opportunities and maximise return on invested capital.

We will continue to innovate to meet changes in customers' needs, leveraging our brand strength, reputation for excellence in customer service and national footprint to maximise on the available online opportunity. We will execute cost saving initiatives, enhance operational efficiency and pursue other new business opportunities which complement the Group's core activities. The goal is to drive growth in the cash flows of the business to provide returns for shareholders.

OPERATING PERFORMANCE REVIEW

This unprecedented Year has been impacted by successive lockdowns as a Government response to COVID-19. The period from 1 March to 31 May 2020 saw the peak registration month of March increasingly impacted by a pre-lockdown slowdown, until the first national lockdown was initiated on 23 March. The Group was then significantly impacted for the remainder of the first quarter of the Year. Vehicle sales activity was initially halted and the Group's aftersales operations opened on a much reduced basis, to provide only essential repairs to keep key workers and their vehicles on the road. The period from 1 June to 31 October saw dealerships able to reopen to customers under social distancing restrictions and trading benefitted from significant levels of pent-up demand following the first lockdown. The remaining period from 1 November through to 28 February saw further local and national lockdowns, which again closed sales showrooms to customers for prolonged periods. However, in contrast to much of the first national lockdown, sales of vehicles were permitted through click and collect or home delivery. In this period, our service departments remained fully operational as an essential service and saw near normal levels of demand. In contrast, trade parts operations and accident repair centres have seen continued year-on-year declines in activity due to lower accident levels as journeys undertaken fell below normal levels in the UK.

The Group's revenues and margins are shown below. The impact of the first national lockdown on trading in the first quarter of the financial year, March to May, was very significant. This quarter has therefore been shown separately, along with the remaining nine month period and full financial year below:

	Mar to May FY21 £'m	June to Feb FY21 £'m	FY21 £'m	Mar to May FY20 £'m	June to Feb FY20 £'m	FY20 £'m	Mar to May Year on Year Variance £'m	June to Feb Year on Year Variance £'m
Revenue								
New	132.2	607.5	739.7	299.3	563.2	862.5	(167.1)	44.3
Fleet & Commercial	77.1	501.3	578.4	225.7	482.8	708.5	(148.6)	18.5
Used	92.6	915.8	1,008.4	335.2	900.2	1,235.4	(242.6)	15.6
Aftersales	30.4	190.8	221.2	66.7	191.4	258.1	(36.3)	(0.6)
Total Group Revenue	**332.3**	**2,215.4**	**2,547.7**	**926.9**	**2,137.6**	**3,064.5**	**(594.6)**	**77.8**
Gross Profit								
New	11.7	42.6	54.3	19.4	43.3	62.7	(7.7)	(0.7)
Fleet & Commercial	3.6	19.6	23.2	7.1	18.7	25.8	(3.5)	0.9
Used	7.7	86.2	93.9	27.8	74.3	102.1	(20.1)	11.9
Aftersales	16.5	113.1	129.6	37.1	106.4	143.5	(20.6)	6.7
Total Gross Profit	**39.5**	**261.5**	**301.0**	**91.4**	**242.7**	**334.1**	**(51.9)**	**18.8**
Gross Margin								
New	8.9%	7.0%	7.3%	6.5%	7.7%	7.3%	2.4%	(0.7%)
Fleet & Commercial	4.7%	3.9%	4.0%	3.1%	3.9%	3.6%	1.6%	-
Used	8.3%	9.4%	9.3%	8.3%	8.3%	8.3%	-	1.1%
Aftersales[5]	46.9%	49.7%	49.3%	46.5%	47.1%	46.9%	0.5%	2.6%
Total Gross Margin	**11.9%**	**11.8%**	**11.8%**	**9.9%**	**11.4%**	**10.9%**	**2.0%**	**0.4%**

[5] Aftersales margin expressed on internal and external revenues

Volumes of vehicles sold by the Group on a like-for-like basis for the same periods were:

	Mar to May FY21	Jun to Feb FY21	FY21	Mar to May FY20	June to Feb FY20	FY20	Mar to May FY21 % Var to FY20	June to Feb FY21 % Var to FY20
Used retail vehicles	**5,813**	**55,897**	**61,710**	**22,446**	**61,651**	**84,097**	**(74.1%)**	**(9.3%)**
New retail cars	4,771	18,324	23,095	11,731	20,770	32,501	(59.3%)	(11.8%)
Motability cars	910	7,057	7,967	2,826	6,667	9,493	(67.8%)	+5.8%
Direct fleet cars	1,478	7,988	9,466	5,136	11,831	16,967	(71.2%)	(32.5%)
Agency fleet cars	752	2,913	3,665	1,484	4,220	5,704	(49.3%)	(31.0%)
Total fleet cars	2,230	10,901	13,131	6,620	16,051	22,671	(66.3%)	(32.1%)
Commercial vehicles	1,965	13,659	15,624	5,951	11,719	17,670	(67.0%)	+16.6%
Total New vehicles	**9,876**	**49,941**	**59,817**	**27,128**	**55,207**	**82,335**	**(63.6%)**	**(9.5%)**
Total vehicles	**15,689**	**105,838**	**121,527**	**49,574**	**116,858**	**166,432**	**(68.4%)**	**(9.4%)**

UK Market (SMMT)		
New retail cars	(60.5%)	(11.2%)
Motability cars	(67.9%)	4.8%
Fleet cars	(69.3%)	(17.5%)
Commercial vehicles	(65.7%)	3.3%

March to May Quarter

The Group incurred an adjusted loss before tax of £14.3m in the March to May quarter ("Q1"), a shortfall of £27.4m on the prior year period (Q1 2020: Profit before tax of £13.1m).

The closure of the retail network during this first period of lockdown saw total registrations of new cars in the UK in Q1 fall by 65.2%, representing a decline year-on-year of over half a million vehicles. During this period, the Group maintained marketing activity and continued to build a vehicle order bank via online and telephone orders. Nevertheless, the Group's like-for-like sales of new retail and Motability cars fell to 39.0% of prior year levels, fleet and commercial sales to 33.4% and used retail vehicles to 25.9% of prior year in Q1. Total Group gross profit from the sale of vehicles fell in Q1 by £31.3m compared to the same period in the prior year.

After 23 March 2020, the vast majority of the Group's aftersales operations remained open for key worker and essential service vehicles, on much reduced capacity at first and then progressively growing as lockdown eased. This resulted in the generation of total aftersales gross profits of £16.5m, which was £20.6m below the same quarter last year.

The Group took all available actions to mitigate this significant reduction in activity and profitability by reducing its costs during this period. Remuneration costs represent the largest component of the Group's operating expense and, whilst savings were made through the furloughing of colleagues, the Group paid colleagues in excess of the amounts received under the Job Retention Scheme. No colleague was paid below the national minimum wage and colleagues were not capped at the maximum grant receipt of £2,500 per month. This protected colleagues' earnings during this critical and anxious time (paying 80% of average earnings if above the £2,500 level). In addition, the Group's Senior Management who remained at work volunteered to take a 20% reduction in salary, and all members of the plc Board elected to take a 30% reduction in salary for the period from 1 April to the end of May. The executive directors also waived their entitlement to all bonuses for the financial year. In light of the performance and the significant progress made by the Group during the year, the Remuneration Committee have elected to award one-off bonuses to the executives. These bonuses will be paid 50% in cash and 50% in shares in the Company, with the shares required to be held for three years from the date of issue. Further details are provided in the Remuneration Committee Report. Gross pay was £4.5m in excess of the grant receipt in the quarter for those colleagues on furlough leave. The Group initially placed up to 80% of Group colleagues on furlough leave, though this declined over time as activity increased. The resultant receipt from the Government's Job

Retention Grant of £17.7m significantly supported the Group in this first quarter as did the business rates relief of £1.5m in the same period.

Other costs were reduced significantly, particularly when showrooms were closed, to conserve cash. Group centralised supplier arrangements facilitated swift actions to be taken to remove costs. In addition, the Group received substantial support from third-party suppliers who reduced or suspended charges. The Group's Manufacturer partners were also excellent in taking steps to reduce franchise costs and to ensure retailers were able to conserve cash.

June to February Period

The remaining nine months of the financial year from 1 June 2020 to 28 February 2021 ("Period") generated an adjusted profit before tax of £38.9m, significantly more than the prior year profit of £9.9m in the same period. Strong demand in most channels, beneficial used car pricing movements, strong cost control and continued Government and Manufacturer support all contributed to a very strong trading environment for the Group, despite successive local and national lockdowns and restrictions. Enhancements to the Group's Click2Drive sales platform allowed the business to increasingly operate very effectively online in the sales area despite showroom closures.

The following departmental trends were seen in this Period:

Used retail vehicles

The used vehicle market in the UK has been remarkably resilient since 1 June 2020. Pent-up consumer demand was apparent, particularly from June to October. Despite further restrictions closing showrooms from November, sales rates were significantly in excess of those seen in the first lockdown, as both the Group and customers adapted to the situation.

The wholesale used vehicle market in the UK operates almost as a 'perfect market' as far as pricing is concerned. From June to October, tight supply of vehicles coincided with a period of robust consumer demand and consequently strong used vehicle pricing conditions were apparent. This strength in used vehicle values was in contrast to historic seasonal norms. As lockdowns again impacted on demand from November onwards, wholesale prices witnessed slightly higher than normal seasonal reductions. Margins overall, however, remained strong in the Period especially in relation to premium franchises.

Reduction in pressure to achieve new vehicle volume targets, particularly in premium franchises, has led to a reduction in nearly new vehicles in the used supply channel and this has also had a beneficial impact on margin retention from which the Group benefitted. In addition, a new stock management and pricing system was developed in-house and implemented in the Period ("Vertu Analytics") which has also aided pricing decisions and margin management.

The beneficial used car pricing environment went some way to offsetting the impact of a like-for-like 9.3% year-on-year reduction in Group used vehicle sales volumes in the Period. Gross profit per unit on a like-for-like basis increased to £1,467 from £1,197 (22.6%) with this uplift even more apparent in the Group's premium franchise dealerships. The growth in profitability contributed to Group used gross margin percentages for the Period improving from 8.3% to 9.6% on a like-for-like basis, despite a 5.4% increase in average selling prices. Overall, core Group gross profit generated from used vehicle sales in the Period increased by £8.3m compared to the prior year due to this enhanced margin retention.

New retail cars and Motability sales

Demand for new cars was weaker than used cars in the first national lockdown and was slower to rebuild momentum. UK retail registrations have declined year-on-year in every month of the Group's financial year except for just one month, July. Supply constraints and a reduced volume push by Manufacturers have been part of the reason for this reduction. Supply constraints in the Period were driven by post lockdown logistics dislocation, the impact of social distancing on production levels both in Manufacturers and their suppliers and also the challenges of switching the emissions mix of vehicle production to meet emissions regulations.

In the vast majority of franchises, volume targets were amended, reduced or removed by Manufacturers in response to showroom opening restrictions. The rise in consumer demand seen in used cars was replicated in new cars from July, with underlying consumer demand robust throughout the summer and this was witnessed in the building of strong order banks for the September market. Overall, the Period saw UK new retail registrations fall 11.2%. The Group's like-for-like new retail volumes declined by 11.8% broadly matching these market trends.

UK Motability sales operations closed completely during the first lockdown, re-opening for new applications from 1 July and remaining open during subsequent lockdowns. In the Period, UK registrations in this channel grew by 4.8%, reflective of pent-up consumer demand as deferred contracts were renewed. The Group's Motability volumes in the Period grew 5.8% on a like-for-like basis representing outperformance. The Group has the largest Motability vehicle fleet in the mainland of the UK.

Like-for-like gross profits from the sale of new retail and Motability vehicles fell £4.1m year on year in the Period. Reduced volumes of vehicles sold, together with significantly reduced quarterly manufacturer volume bonus income receipts in June (representing the period, April to June) were the primary reasons for this decline. The lockdown impact on vehicle sales volumes in April and May inevitably reduced volume bonus earnings recognised at the end of the calendar quarter in June. New vehicle gross profit per unit fell 2.2% on a like-for-like basis in the Period and the Group's new vehicle margin percentages declined from 7.7% to 7.0% on a like-for-like basis. Excluding the impact of the reduction in quarterly volume bonuses earned in the calendar quarter to June, underlying new retail margins were robust.

Fleet & Commercial vehicle sales

The UK car fleet market declined 17.5% in the Period. A lack of demand from the daily rental market, principally due to reductions in leisure and airport travel, along with reduced demand from corporate fleets, drove this decline. Like-for-like the Group delivered 10,901 fleet cars in the Period, representing a decline of 32.1%, which was behind the market. This reflects the mix of franchises held by the Group, with some Manufacturers moving away from this low margin channel to preserve profit and reflecting constrained supply.

The SMMT reported a 3.3% increase in registrations of commercial vehicles in the UK in the Period. This reflected strong demand for commercial vehicles, in particular, to satisfy increased demand for home deliveries as internet shopping increased. The Group's like-for-like sales volumes of new commercial vans was significantly ahead of these market trends, increasing by 16.6% in the Period. This was aided by very strong performance from the Group's Vansdirect business and the Group taking share from competitors seeking to reduce their working capital demands by reducing their exposure to fleet and commercial vehicle channels. As a consequence of strong demand for vans, both here in the UK and across Europe, van supply was tight which aided margin retention.

Like-for-like gross profit per unit in the Fleet and Commercial vehicle channel grew 14.2% from £671 to £766, reflecting both the change in mix away from the low margin daily rental channel and strong demand for commercial vehicles. Group like-for-like gross profit generation from fleet and commercial sales increased by £0.2m in the Period. As with new vehicles, lack of calendar quarter volume bonus receipts in June, driven by the reduction in volumes in the initial lockdown period held back performance.

Aftersales

From June to September pent-up demand from customers aided growth in the Group's vehicle servicing departments, driving increased like-for-like service revenues. Further national COVID-19 restrictions from November drove year-on-year reductions in the Group's like-for-like service revenues from November to February. Overall, in the Period, 0.6% growth in Group like-for-like service revenues was delivered with the impact of acquisitions driving Group total service revenues up 8.1%.

The like-for-like gross margin percentage on vehicle servicing rose to 78.5% in the Period (FY20: 77.5%). Higher average invoice values on retail work were achieved through the Group's effective vehicle health check processes. The introduction of individual timed appointments for customers, to ensure social distancing in dealerships, allowed more time for the Group's Service Advisors to better explain identified work to customers, aiding improved sales conversion. In addition, the Group saw a higher retail mix of work in workshops as warranty work remained muted compared to normal and this also aided margins and productive efficiency. Like-for-like gross profits generated from service activity increased by £1.5m in the Period as a result of these trends.

In contrast, like for like gross profits arising from the sale of parts and accident repair centres fell £2.5m in the Period. Like-for-like revenues fell 11.0% in the Period as fewer motoring journeys led to fewer accidents, reducing accident repair work and trade parts sales to accident repair centres.

The Group currently operates 10 accident repair centres, with dealership acquisitions made since 1 January 2020 representing half of this total. In recognition of this growing number of operations, the Group formed Vertu Accident Repair Limited ("VARC") in early 2021. VARC has a separate dedicated management team, with significant accident repair experience, in order to provide specialist focus to these businesses. All of the Group's accident repair centres will be transferred into VARC from the Group's franchised dealership divisions over the remainder of 2021. Growth in accident repair revenues is targeted, through the expansion of the number of manufacturer repair approvals held by each outlet and improved relationships with insurance work providers, as well as through further targeted acquisitions. Greater efficiencies will be sought by enhancing standard Group systems and processes across the accident repair centres and gaining from the impact of the dedicated new management team.

Parts revenues were also negatively impacted by the previously announced changes to parts distribution within the Vauxhall network. As a consequence of these changes, the Group exited trade parts in the franchise in early 2020 with an impact on revenues and profits but a gain in short term cash generation as working capital was liquidated. The Group previously indicated this would reduce annual profits by £0.9m.

Overall, like-for-like gross profits in aftersales declined £1.0m in the Period.

Current trading and outlook

In March 2021, the Group's sales showrooms remained closed as a result of the continued national lockdown. The Group's Macklin Motors sales showrooms in Scotland reopened on 5 April (subject to requiring an appointment to be made) with the rest of the Group's sales showrooms opening on 12 April without the need for an appointment. Despite the lockdown restrictions, the Group saw strong trading conditions in March with trading profits at record levels for the Group. The reopening of showrooms in April saw pent-up demand in sales again evident as customers sought to test drive vehicles for the first time in three months. The Group undertook significant marketing activity to gain market share. As a consequence, the Group saw March and April deliver a combined adjusted profit before tax of £19.2m which was in excess of the Group's business plan, prepared assuming no impact of COVID-19 on the business.

The Group's trading performance in March and April ("the post year end period") is summarised below:

March and April Performance	Year on Year % Change		
	Total	Like-for- Like	SMMT
Group Revenues	152.8%	134.8%	
Service Revenues[6]	107.7%	91.8%	
Volumes:			
Used Retail Vehicles	238.8%	215.9%	
New Retail Vehicles	59.1%	47.4%	41.8%
Motability Vehicles	129.0%	122.8%	110.2%
New Fleet Cars[7]	103.9%	112.3%	89.4%
New Commercial Vehicles	167.5%	169.3%	157.4%

[6] Includes internal and external revenues
[7] Includes agency volumes

Group revenue rose substantially as expected since last year was significantly impacted by the first national lockdown which started on 23 March 2020. The Group has also undertaken considerable acquisition activity in the last 12 months and these acquired dealerships contributed over £50m to Group revenues in the post year end period.

Service activity saw strong levels of demand in March aided by substantial vehicle sales volumes, the Group's well developed customer contact strategy and high level of pre-paid service plans held by the Group's customers. In April 2020, service departments operated on a significantly reduced basis due to the impact of the lockdown in the prior year. Many service and MOTs were postponed (until after the lockdown eased in late May). Group vehicle sales levels in April 2020 were also very low due to the lockdown. As a result, in April 2021 the Group has seen some weakening of demand for retail annual servicing. This may very well reverse in future months as the seasonalisation of service work has been changed by lockdowns.

New and used retail vehicle demand and volumes have increased substantially year-on-year in the Period as expected. Whilst sales under lockdown conditions in March 2021 were considerably higher than in the first lockdown (at around 60% and 97% of normalised levels for new retail and used volumes respectively), there was still an element of pent-up demand exhibited when showrooms reopened in April 2021. This pent-up demand was primarily due to customers holding off on purchases until test drives and physical visits to dealerships could be resumed.

The new car market in the UK is as much driven by supply factors as those impacting demand. There are increasing signs that new car supply will be tight in the coming months reflecting the continued impact of COVID-19 on manufacturing both in the assembly plants and the parts supplier base. Semi-conductor shortages are also likely to limit new vehicle supply in the months ahead as several plant closures and curtailments of production have been announced across the globe. Manufacturers are also having to balance the emission levels of their sales, which may impact production and availability. In contrast, the renewed strength of Sterling against the Euro and Yen makes the UK a more profitable market for Manufacturers to export cars into and this tends to increase supply levels. Overall, the Board believes constrained new vehicle supply is a key uncertainty in the near term which may impact the business.

The used car market remains very robust from a demand perspective. Coming out of the lockdown in April 2021, supply of used cars in the UK was much tighter than normal for the time of year. In addition, new car supply constraints are also likely to contribute to this tightness in used car markets continuing over the summer and perhaps beyond. Used car values are therefore expected to remain robust for the remainder of H1 at least.

The fleet car market recovered well in March and April from the lows of last year. Fleets that had postponed vehicle changes took advantage of the strong used car market for disposal of defleeted vehicles, contributing to this recovery. The Group took share with like-for-like fleet car volumes increasing 112.3% compared to a 89.4% growth in SMMT registrations in the post year end period.

The Group's new commercial vehicle sales were up 169.3% in volume terms on a like-for-like basis, with the SMMT reporting a growth of 157.4%. The SMMT reported that the UK new van market in April was the highest on record, reflecting strong demand driven principally by the rise of courier services and delivery of online purchases. Whilst the Group took share in this buoyant market, demand exceeded supply with new van order lead times very much extended as supply remains tight. The global semi-conductor shortage will not help this supply situation in the short-term.

The Group continued to benefit from the extended business rates holiday on showrooms in March and April (impact of £1.8m) and the cost savings from the cost reduction programme undertaken in 2020. The furlough scheme was utilised on a very small scale in March and early April with receipts of £0.4m. It is envisaged that in the absence of further lockdowns and restrictions related to COVID-19, the Group will make no further use of the Job Retention Scheme.

The Group's BMW and MINI dealerships acquired in December 2020 saw a strong performance in March and April, delivering an adjusted profit before tax over the two months of £0.5m. This is ahead of business plan for the year to date. The Board is pleased with the progress of this new Division and the success of the integration process.

The Board remains confident in the prospects for the Group. With its strong asset base, balance sheet, scale, Manufacturer relationships, well invested systems including the Click2Drive sales technology platform and experienced leadership team, the Board believes that the Group is strategically very well placed to capitalise on the consequent changes and opportunities in the UK motor retail sector.

The promising trading result in the post year end period has been aided by strong consumer demand. Supply of new vehicles in the coming months is a concern, however, reduced supply should result in robust vehicle margins. The Board expect the Group will deliver an adjusted profit before tax for the year ending 28 February 2022 in the range of £24.0m to £28.0m.

Robert Forrester, CEO

CHIEF FINANCIAL OFFICER'S REVIEW

The Group's income statement for the Year is summarised below, including analysis of the initial quarter, March to May, which included the first national COVID-19 lockdown and the remainder of the financial year's results:

	Mar to May FY21 £'m	June to Feb FY21 £'m	FY21 £'m	Mar to May FY20 £'m	June to Feb FY20 £'m	FY20 £'m	June to Feb % Var
Revenue	**332.3**	**2,215.4**	**2,547.7**	**926.9**	**2,137.6**	**3,064.5**	**3.6%**
Gross Profit	**39.5**	**261.5**	**301.0**	**91.4**	**242.7**	**334.1**	**7.7%**
Operating Expenses (gross)	(68.9)	(226.1)	(295.0)	(76.2)	(225.7)	(301.9)	(0.2%)
Job Retention Scheme Grant	17.7	10.1	27.8	-	-	-	-
Operating Expenses (net)	(51.2)	(216.0)	(267.2)	(76.2)	(225.7)	(301.9)	4.2%
Adjusted Operating (Loss) Profit	**(11.7)**	**45.5**	**33.8**	**15.2**	**17.0**	**32.2**	**167.6%**
Net Finance Charges	(2.6)	(6.6)	(9.2)	(2.1)	(7.1)	(9.2)	7.0%
Adjusted (Loss) Profit Before Tax	**(14.3)**	**38.9**	**24.6**	**13.1**	**9.9**	**23.0**	**292.9%**
Non-Underlying Items[8]			(2.2)			(15.7)	
Profit Before Tax			**22.4**			**7.3**	
Taxation			(6.1)			(4.3)	
Profit After Tax			**16.3**			**3.0**	

[8] Non-underlying items represent share-based payments, amortisation of intangible assets and non-cash impairment of assets

Operating Expenses

In the three months to 31 May 2020 and in the light of the impact of the national lockdown, the Group took decisive action to minimise costs as outlined in the previous section. As a consequence of these actions, total Group operating expenses, excluding the Job Retention Grant receipt, were 9.6% lower than the same quarter in the prior year. This represented a saving of £10m in the Core Group, with the total inclusive of the impact of acquired businesses. Relief on business rates in respect of the Group's showrooms saved £1.5m of this total. Savings were delivered on almost every other cost line in the business.

The focus on cost reduction continued throughout the remainder of the financial year on reopening from 1 June 2020 to 28 February 2021 ('Period'). The application of technological developments to improve efficiency, allowed the Group to remove costs from some key areas. This restructuring programme was completed in July and as previously announced, this generated annualised headcount cost savings of approximately £10m. Total restructuring costs for the financial year of £1.1m have been included in underlying expenses. Group operating expenses in the Period, excluding furlough grant receipts, were £0.4m higher than the prior year period as a result of dealership acquisitions. However, excluding the impact of acquisitions and receipts from the Job Retention Grant, operating expense savings of £16m were delivered in the Core Group in the Period with business rates relief saving £7.2m of this total.

The Group disposed of a surplus property asset in the Period generating cash proceeds of £0.8m and a profit on disposal, included within the underlying result of £0.4m.

Government Support

Given the forced closure of the business due to Government lockdown regulations, the Group received Government assistance during the Year in two key areas. For the full financial year, furlough grant receipts of £27.8m and business rates relief savings of £8.7m arose. This assistance offset substantial losses particularly in the first lockdown. In April and May 2020, for example, the Group reported a pre-tax loss of £20.1m after Government assistance.

The Group does not intend to repay this Government support which arose due to the forced closure of its operations.

Net Finance Charges

Net finance charges were level year-on-year, as set out below:

	FY21 £'m	FY20 £'m	Variance £'m
Bank interest payable	1.8	1.2	0.6
Mortgage interest payable	0.1	-	0.1
Vehicle stocking interest expense			
- New vehicle Manufacturer stocking interest	3.6	3.9	(0.3)
- Used vehicle stock funding interest	0.3	0.6	(0.3)
Interest on lease liabilities	3.6	3.6	-
Interest income	(0.2)	(0.1)	(0.1)
Net finance charges	**9.2**	**9.2**	**-**

At the start of the first national lockdown in March 2020, the Group took action to protect liquidity by drawing an additional £10m on its revolving credit facility. The increase in interest on bank borrowings of £0.6m relates to this increase in drawings, together with a 0.8% increase in the margin charged on bank borrowings effective from 1 June 2020 to 1 December 2020. This increase followed a waiver of covenants obtained in respect of the first half of the financial year. The margin charged on this borrowing reverted to previous levels on 1 December 2020.

The Group partly funded the purchase of its BMW/MINI acquisition in December 2020 through taking a new £12.76m 20-year mortgage on the freehold and long leasehold properties acquired. The mortgage is repayable in 240 equal instalments over the 20-year term and carries a fixed annual interest rate of 2.9% for the first five years.

The Group saw a year-on-year reduction in interest charged by Manufacturers on funded new vehicle inventory. As a consequence of the timing of the first nationwide lockdown, being normally the most significant month for new vehicle sales in the calendar year, interest bearing new vehicle stock levels in the Group were on average £80m higher in the first quarter compared to the previous year. On the reopening from June onwards, the Group was successful in significantly reducing the new vehicle stock pipeline and hence interest charged. New vehicle supply constraints also had an impact reducing new vehicle pipeline stocks below last year's levels. As a consequence, over the year as a whole, consignment stock interest reduced by £0.3m.

The Group also accesses used vehicle stocking loans to fund working capital. As a result of the strong cash position of the Group throughout much of the financial year, amounts utilised on this £45m facility were reduced to £5.9m at 28 February 2021, representing 4.9% of used vehicle inventory (29 February 2020: £25.5m, 21.0% of inventory).

Finally, additional working capital requirements are met by a committed money market loan ('CMML') facility. This facility varies over a financial year with peak availability in the months following calendar quarter ends, namely April, July, October and January. The Group has not utilised its peak CMML facility since early 2019 and consequently has agreed to reduce the peak facility from £68m to £48m to better reflect utilisation patterns and to minimise recurring costs. Margins on this facility were increased by 25pbs on renewal in April 2021.

Pension Costs

The accounting surplus on the Group's closed defined benefit pension scheme was £6.2m at 28 February 2021 (29 February 2020: £8.9m). During the Year, there have been changes in the financial and demographic assumptions underlying the calculation of the liabilities. In particular, the discount rate, which is linked to movements in corporate bond yields, has increased slightly as has the expectation of higher future inflation. The effect of these changes in assumptions resulted in a decrease in liabilities of £0.4m. Scheme assets reduced in value by £3.0m over the financial year. In total, an actuarial loss of £2.6m has been recognised in the Statement of Comprehensive Income in the Year.

Tax Payments

In the July 2020 Finance Act, the previously announced reduction in the rate of corporation tax to 17% was removed. This resulted in the Group's deferred tax obligations being measured at the higher rate of 19% in the financial year (2020: 17%). On 3 March 2021, the Chancellor announced that the headline UK corporation tax rate will rise to 25% from 1 April 2023. As this increase had not been enacted by the balance sheet date, the further revaluation of the Group's deferred tax obligations from 19% to 25% is likely to be applied in the financial year ending 28 February 2022. This change is expected to increase the Group's non-underlying tax charge by £2.9m for FY22.

The Group's underlying effective rate of tax for the year increased to 21.25% (2020: 19.65%). The overall effective tax rate, impacted by the revaluation of deferred tax obligations, was 27.17% (2020: 59.18%). The Group continues to be classified as "low risk" by HMRC and takes a pro-active approach to minimising tax liabilities whilst ensuring it pays the appropriate level of tax to the UK Government.

Shareholder Returns

The Group commenced operations in March 2007 and in November 2021 will have been incorporated for 15 years. In that time, the Group has utilised equity markets to create a Top 5 UK automotive retailer which is also the 9th largest in Europe by revenues. The Group has delivered profitability each year since incorporation, has an excellent asset base with £181.6m of tangible net assets and normalised annual revenues of over £3.7bn. Crucially, returns generated to date are in excess of the weighted average cost of capital.

The Board remains cognisant of the importance of dividends to total shareholder returns. Mindful of the substantial amounts of Government support received and the need to protect the Group's liquidity in the first quarter, the Board did not declare a final dividend for the year ended 29 February 2020, nor propose any dividend for the financial year ended 28 February 2021. The Board anticipates that the payment of dividends will resume in respect of the financial year to February 2022, dependent on the financial performance of the Group.

Another important element of shareholder return can be share buyback programmes, particularly in an environment of share price weakness compared to the Board's view of the intrinsic value of the business. The Board will evaluate the benefits of such a programme in 2021.

Capital Expenditure

Despite the curtailment of capital expenditure to preserve liquidity during the Year, the Group completed some key projects in the year ended 28 February 2021. These included the completion of the redevelopment of the Bradford and Nelson Land Rover showrooms. These developments deliver operations with greater capacity for sales and service and will underpin the Group's future profitability and cash generation.

In terms of large-scale projects for the coming financial year, the Group will construct a new build dealership in Edinburgh so that the current multi-franchise operation in the city in short leasehold premises can be relocated. The Group already owns the land on which this new dealership will be built having acquired it a number of years ago. The Group also plans to execute on its multi-franchising strategy in a number of existing locations which will require capital expenditure investment albeit it is aided by support from Manufacturers. Capital expenditure for FY22 is currently expected to be approximately £18.6m.

Managing Working Capital

The Group has generated cash from operating activities of £74.9m (2020: £19.5m) aided by a substantial level of cash generation from a reduction in working capital of £29.6m. This was due to reduced sales activity levels which have led to lower levels of receivables and inventory at 28 February 2021 compared to last year.

The Group has significant levels of working capital in the form of inventory, receivables and payables. These are ordinarily subject to significant, yet predictable, seasonal fluctuations which coincide with plate change months and quarterly Manufacturer new car campaigns.

New vehicle funded inventory reduced by £49.1m as high levels of new inventory seen at the end of the last financial year significantly unwound. A related £46.9m decrease in trade creditors was also seen. Reduced levels of supply of new vehicles along with reduced sales activity, particular in fleet car sales, meant that tactical registration activity was much reduced compared to the prior year. Fully paid new vehicle stock was consequently lower than seen at 29 February 2020, with a decline of £2.9m.

Trade receivables also fell by £12.7m year-on-year reflecting reduced levels of sale activity as a result of the lockdown in the run up to the year end. Used vehicle inventory fell by £10.3m as the Group sought to control its stock levels during lockdown, in the context of lower sales levels and moderate month-on-month market value reductions in the run up to the year end.

Financing and Capital Structure

The Group has a balance sheet with shareholders' funds of £275.9m (2020: £263.4m) representing net assets per share of 76.2p (2020: 71.7p). The net asset value is underpinned by a freehold and long leasehold portfolio of £229.2m (2020: £211.8m) and net debt (excluding lease liabilities) of £4.5m at 28 February 2021. The Group's conservative financing and capital structure results in a strong tangible net assets position of £181.6m at 28 February 2021.

The Group has a committed acquisition debt facility of £62m, maturing in February 2024, with the potential to add a further £15m, which is currently uncommitted. £54m of this committed facility was drawn as at 28 February 2021. As a consequence of the losses incurred in Q1, waivers were obtained in respect of the covenants in place in respect of this facility for the test periods ended 31 May and 31 August 2020. Strong cash generation means that the Group is anticipated to be able to operate comfortably within all covenants for the foreseeable future.

The Group's Adjusted net cash position of £1.4m is stated excluding £5.9m of used car stocking loans (2020: £25.5m). These used car stocking loans with third party banks are subject to interest and are secured on the related used vehicle inventories. The Group has a £45m facility under these arrangements but uses these facilities selectively, and this has acted to the benefit of the Group in the Period, as significant cash was able to be generated from reducing used vehicle stock levels, aiding liquidity. This resulted in the repayment of significant amounts of used car stocking loans given the Group's strong cash position. The Group had £121.2m of used vehicle inventory at 28 February 2021 (2020: £121.3m) and the low level of used car stocking loan utilisation is a major structural difference in financing compared to many industry peers.

Karen Anderson, CFO

CONSOLIDATED INCOME STATEMENT (AUDITED)

For the year ended 28 February 2021

	Note	Underlying items 2021	Non-underlying items 2021 (Note 2)	Total 2021	Underlying items 2020	Non-underlying items 2020 (Note 2)	Total 2020
		£'000	£'000	£'000	£'000	£'000	£'000
Revenue		2,547,665	-	2,547,665	3,064,530	-	3,064,530
Cost of sales		(2,246,642)	-	(2,246,642)	(2,730,473)	-	(2,730,473)
Gross profit		**301,023**	**-**	**301,023**	**334,057**	**-**	**334,057**
Operating expenses		(267,240)	(2,153)	(269,393)	(301,878)	(15,706)	(317,584)
Operating profit		**33,783**	**(2,153)**	**31,630**	**32,179**	**(15,706)**	**16,473**
Finance income	3	174	-	174	405	-	405
Finance costs	3	(9,405)	-	(9,405)	(9,561)	-	(9,561)
Profit / (loss) before tax		**24,552**	**(2,153)**	**22,399**	**23,023**	**(15,706)**	**7,317**
Taxation	4	(5,217)	(867)	(6,084)	(4,523)	193	(4,330)
Profit / (loss) for the year attributable to equity holders		**19,335**	**(3,020)**	**16,315**	**18,500**	**(15,513)**	**2,987**
Basic earnings per share (p)	5			**4.44**			**0.81**
Diluted earnings per share (p)	5			**4.36**			**0.80**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (AUDITED)
For the year ended 28 February 2021

	2021 £'000	2020 £'000
Profit for the year	**16,315**	**2,987**
Other comprehensive (expenses) / income		
Items that will not be reclassified to profit or loss:		
Actuarial (losses) / gains on retirement benefit obligations	(2,619)	2,400
Deferred tax relating to actuarial losses / (gains) on retirement benefit obligations	498	(408)
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges	(6)	(468)
Deferred tax relating to cash flow hedges	10	80
Other comprehensive (expense) / income for the year, net of tax	**(2,117)**	**1,604**
Total comprehensive income for the year attributable to equity holders	**14,198**	**4,591**

CONSOLIDATED BALANCE SHEET (AUDITED)
As at 28 February 2021

	2021 £'000	2020 £'000
Non-current assets		
Goodwill and other indefinite life assets	99,192	99,315
Other intangible assets	1,948	2,120
Retirement benefit asset	6,246	8,867
Property, plant and equipment	246,664	229,148
Right-of-use assets	81,152	87,013
Total non-current assets	**435,202**	**426,463**
Current assets		
Inventories	597,391	639,177
Trade and other receivables	59,375	71,720
Cash and cash equivalents	67,828	40,839
	724,594	751,736
Property assets held for sale	1,369	417
Total current assets	**725,963**	**752,153**
Total assets	**1,161,165**	**1,178,616**
Current liabilities		
Trade and other payables	(688,948)	(716,270)
Current tax liabilities	(1,573)	(2,935)
Contract liabilities	(12,395)	(10,974)
Borrowings	(6,582)	(25,547)
Lease liabilities	(14,126)	(14,071)
Total current liabilities	**(723,624)**	**(769,797)**
Non-current liabilities		
Borrowings	(65,777)	(43,657)
Lease liabilities	(76,975)	(82,823)
Derivative financial instruments	(497)	(493)
Deferred income tax liabilities	(9,180)	(8,179)
Contract liabilities	(9,172)	(10,294)
Total non-current liabilities	**(161,601)**	**(145,446)**
Total liabilities	**(885,225)**	**(915,243)**
Net assets	**275,940**	**263,373**
Capital and reserves attributable to equity holders of the Group		
Ordinary share capital	36,917	36,917
Share premium	124,939	124,939
Other reserve	10,645	10,645
Hedging reserve	(403)	(407)
Treasury share reserve	(2,791)	(803)
Capital redemption reserve	2,810	2,810
Retained earnings	103,823	89,272
Total equity	**275,940**	**263,373**

CONSOLIDATED CASH FLOW STATEMENT (AUDITED)

For the year ended 28 February 2021

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Operating profit		31,630	16,473
Profit on sale of property, plant and equipment		(432)	(238)
Profit on lease modification		(234)	-
Amortisation of other intangible assets		436	595
Depreciation of property, plant and equipment		12,333	11,309
Depreciation of right of use asset		15,643	14,065
Impairment charges		1,452	16,878
Change to fair value of contingent consideration		-	(2,500)
Movement in working capital		29,640	(23,563)
Share based payments charge		373	619
Cash inflow from operations		**90,841**	**33,638**
Tax received		188	362
Tax paid		(6,692)	(5,348)
Finance income received		23	237
Finance costs paid		(9,440)	(9,387)
Net cash inflow from operating activities		**74,920**	**19,502**
Cash flows from investing activities			
Acquisition of businesses, net of cash, overdrafts and borrowings acquired		(21,489)	(12,398)
Acquisition of freehold and long leasehold land and buildings		(2,713)	(1,421)
Proceeds from disposal of a business		1,698	-
Purchases of intangible assets		(264)	(155)
Purchases of other property, plant and equipment		(11,844)	(14,180)
Proceeds from disposal of property, plant and equipment		972	3,255
Net cash outflow from investing activities		**(33,640)**	**(24,899)**
Cash flows from financing activities			
Proceeds from borrowings	7	22,760	2,381
Repayment of borrowings	7	(19,705)	-
Principal elements of lease repayments		(15,342)	(13,392)
Purchase of treasury shares		(2,004)	(401)
Repurchase of own shares		-	(2,749)
Dividends paid to equity holders		-	(6,122)
Net cash outflow from financing activities		**(14,291)**	**(20,283)**
Net increase / (decrease) in cash and cash equivalents	7	**26,989**	**(25,680)**
Cash and cash equivalents at beginning of year		40,839	66,519
Cash and cash equivalents at end of year		**67,828**	**40,839**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (AUDITED)
For the year ended 28 February 2021

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2020	36,917	124,939	10,645	(407)	(803)	2,810	89,272	263,373
Profit for the year	-	-	-	-	-	-	16,315	16,315
Actuarial losses on retirement benefit obligations	-	-	-	-	-	-	(2,619)	(2,619)
Tax on items taken directly to equity	-	-	-	10	-	-	498	508
Fair value losses	-	-	-	(6)	-	-	-	(6)
Total comprehensive income for the year	-	-	-	4	-	-	14,194	14,198
Issue of treasury shares	-	-	-	-	16	-	(16)	-
Purchase of treasury shares	-	-	-	-	(2,004)	-	-	(2,004)
Share based payments charge	-	-	-	-	-	-	373	373
As at 28 February 2021	**36,917**	**124,939**	**10,645**	**(403)**	**(2,791)**	**2,810**	**103,823**	**275,940**

The other reserve is a merger reserve, arising from shares issued as consideration to the former shareholders of acquired companies.

The purchase of treasury shares in the period relates to the acquisition of 5,273,820 shares by Ocorian Limited, the Trustee of Vertu Motors plc's Employee Benefit Trust ("EBT"). The shares were purchased by the Trustee to be held for the purposes of the EBT and may be used to transfer shares to individuals when options are exercised. This could include the Company's Long Term Incentive Plan ("LTIP") or Partnership Share Options ("PSO"), under which each of the executive directors of the Company, the Company's other PDMRs and certain other senior managers are potential participants and is therefore regarded as having a notional interest in these shares.

During the year, 40,337 treasury shares were transferred from the EBT on exercise of vested LTIP options. 7,287,304 shares were remaining in the EBT at 28 February 2021.

For the year ended 29 February 2020

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2019	37,661	124,939	10,645	(19)	(602)	2,066	92,745	267,435
Profit for the year	-	-	-	-	-	-	2,987	2,987
Actuarial gains on retirement benefit obligations	-	-	-	-	-	-	2,400	2,400
Tax on items taken directly to equity	-	-	-	80	-	-	(408)	(328)
Fair value losses	-	-	-	(468)	-	-	-	(468)
Total comprehensive income for the year	-	-	-	(388)	-	-	4,979	4,591
Sale of treasury shares	-	-	-	-	200	-	(200)	-
Purchase of treasury shares	-	-	-	-	(401)	-	-	(401)
Repurchase of own shares	-	-	-	-	-	-	(2,749)	(2,749)
Cancellation of repurchased shares	(744)	-	-	-	-	744	-	-
Dividend paid	-	-	-	-	-	-	(6,122)	(6,122)
Share based payments charge	-	-	-	-	-	-	619	619
As at 29 February 2020	**36,917**	**124,939**	**10,645**	**(407)**	**(803)**	**2,810**	**89,272**	**263,373**

NOTES

For the year ended 28 February 2021

1. Basis of preparation

Vertu Motors plc is a Public Limited Company which is listed on the AiM market and is incorporated and domiciled in England. The address of the registered office is Vertu House, Fifth Avenue Business Park, Team Valley, Gateshead, Tyne and Wear, NE11 0XA. The registered number of the Company is 05984855.

The consolidated financial statements of Vertu Motors plc have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("UK IFRS"). Further information in relation to the Standards adopted by the Group is available on the Group's website www.vertumotors.com.

Whilst the financial information included in this announcement has been computed in accordance with UK IFRS, this announcement does not itself contain sufficient information to comply with UK IFRS's. The Group audited consolidated financial statements that comply with IFRS's will be published on the Group's website, www.vertumotors.com.

The consolidated financial statements have been prepared on the going concern basis under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value.

In order to prepare the financial statements on the going concern basis, the Directors have considered detailed financial projections for a period of 12 months from the date of signing the financial statements ('Review Period'). These projections are based on the Group's detailed annual business plan for the year ending 28 February 2022 as well as the known financial performance of the Group in the period subsequent to 28 February 2021, projected forward to cover the Review Period. The Directors have considered these financial projections in conjunction with the Group's available facilities, which are outlined in detail in note 26 to the consolidated financial statements.

The Directors have also considered sensitivity analysis performed in respect of these forecasts to model the impact of potential further 3-month period of COVID-19 related sales restrictions taking place later in the year ending 28 February 2022, based on assumptions driven by analysis of the actual trends that the Group experienced during the latest restrictions imposed in the year ended 28 February 2021. This analysis did not indicate any issues with the Group's ability to operate within its banking facilities during the Review Period.

Based on the forecast information available and the sensitivity analysis performed as set out above, the Directors believe it is appropriate to prepare these financial statements on the going concern basis.

The financial information presented for the years ended 28 February 2021 and 29 February 2020 does not constitute the Company's statutory accounts as defined in Section 434 of the Companies Act 2006 but is derived from those financial statements. The auditors' reports on the 2021 and 2020 financial statements were unqualified. A copy of the statutory accounts for 2020 has been delivered to the Registrar of Companies. Those for 2021 will be delivered following the Company's annual general meeting, which will be convened on 23 June 2021.

Accounting policies

The annual consolidated financial statements of Vertu Motors plc are prepared in accordance with UK IFRS. The annual report has been prepared on the going concern basis under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

The accounting policies adopted in this report can be found on our website, www.vertumotors.com, and are consistent with those of the Group's financial statements for the year ended 29 February 2020.

The Group adopted IFRS 16 'Leases' for the first time in the year ended 29 February 2020. As the new standard was adopted prospectively, the impact on the Consolidated Income Statement was presented within non-underlying items in the year ended 29 February 2020 to enhance the comparability of the financial results in that year. As the standard has now been adopted for two full financial years, the Consolidated Income Statement for the year ended 29 February 2020 has been restated to present the impact of IFRS 16 'Leases' within underlying items.

As a result, underlying operating expenses in the year ended 29 February 2020 have decreased by £3,117,000 (and non-underlying operating expenses have increased by the same value) and underlying finance costs have increased by £3,595,000 (non-underlying finance costs have decreased by the same value).

Segmental information

The Group adopts IFRS 8 "Operating Segments", which determines and presents operating segments based on information provided to the Group's Chief Operating Decision Maker ("CODM"), Robert Forrester, Chief Executive Officer. The CODM receives information about the Group overall and therefore there is one operating segment.

The CODM assesses the performance of the operating segment based on a measure of both revenue and gross margin. However, to increase transparency, the Group has included below an additional voluntary disclosure analysing revenue and gross margin within the reportable segment.

Year ended 28 February 2021

	Revenue £'m	**Revenue Mix %**	**Gross Profit £'m**	**Gross Profit Mix %**	**Gross Margin %**
Aftersales *	221.2	8.7	129.6	43.1	49.3
Used cars	1,008.4	39.6	93.9	31.2	9.3
New car retail and Motability	739.7	29.0	54.3	18.0	7.3
New fleet and commercial	578.4	22.7	23.2	7.7	4.0
	2,547.7	**100.0**	**301.0**	**100.0**	**11.8**

Year ended 29 February 2020

	Revenue £'m	**Revenue Mix %**	**Gross Profit £'m**	**Gross Profit Mix %**	**Gross Margin %**
Aftersales *	258.1	8.4	143.5	43.0	46.9
Used cars	1,235.4	40.3	102.1	30.6	8.3
New car retail and Motability	862.5	28.1	62.7	18.8	7.3
New fleet and commercial	708.5	23.2	25.8	7.6	3.6
	3,064.5	**100.0**	**334.1**	**100.0**	**10.9**

* Margin in aftersales expressed on internal and external turnover. A significant part of the role of the service department is to support the vehicle sales department and therefore this is considered to be an important measure for the purpose of monitoring the departmental performance

2. Non-underlying items

	2021 £'000	**2020 £'000**
Impairment charges	(1,452)	(16,878)
Change to fair value of contingent consideration	-	2,500
Net impairment charges *	(1,452)	(14,378)
Share based payments charge	(265)	(733)
Amortisation	(436)	(595)
Non-underlying loss before tax	**(2,153)**	**(15,706)**

*£2,500,000 of the impairment charges in the year ended 29 February 2020 related to Vans Direct Limited. Contingent consideration for a corresponding amount was also released.

Non-underlying items are presented separately in the Consolidated Income Statement to enhance comparability of trading performance between periods.

Details of current and deferred tax arising in respect of non-underlying items is shown in note 4.

3. Finance income and costs

	2021 £'000	2020 £'000
Interest on short-term bank deposits	24	237
Net finance income relating to defined benefit pension scheme	150	168
Finance income	**174**	**405**
Bank loans and overdrafts	(1,874)	(1,418)
Vehicle stocking interest	(3,899)	(4,548)
Lease liability interest	(3,632)	(3,595)
Finance costs	**(9,405)**	**(9,561)**

4. Taxation

	2021 £'000	2020 £'000
Current tax		
Current tax charge	5,279	4,495
Adjustment in respect of prior years	(137)	(307)
Total current tax	**5,142**	**4,188**
Deferred tax		
Origination and reversal of temporary differences	76	181
Adjustment in respect of prior years	(95)	(21)
Rate differences	961	(18)
Total deferred tax	**942**	**142**
Income tax expense	**6,084**	**4,330**
Profit before taxation	22,399	7,317
Profit before taxation multiplied by the rate of corporation tax in the UK of 19% (2020: 19%)	4,256	1,390
Non-qualifying depreciation	560	944
Non-deductible expenses	305	68
Change to fair value of contingent consideration	-	(475)
Goodwill impairment	276	2,770
Effect on deferred tax balances due to rate change	961	(18)
IFRS 16 adjustment	31	91
Property adjustment	(30)	10
Permanent benefits	(43)	(122)
Adjustments in respect of prior years	(232)	(328)
Total tax expense included in the income statement	**6,084**	**4,330**

A summary of the Group's tax expense in respect of underlying and non-underlying items is as follows:

	Underlying items 2021 £'000	**Non-underlying items 2021 £'000**	**Total 2021 £'000**	**Underlying items 2020 £'000**	**Non-underlying items 2020 £'000**	**Total 2020 £'000**
Profit / (loss) before tax	24,552	(2,153)	22,399	23,023	(15,706)	7,317
Taxation	(5,217)	(867)	(6,084)	(4,523)	193	(4,330)
Profit / (loss) after tax	**19,335**	**(3,020)**	**16,315**	**18,500**	**(15,513)**	**2,987**
Effective tax rate	**21.25%**		**27.17%**	**19.65%**		**59.18%**

The Group's underlying effective rate of tax is 21.25% (2020: 19.65%) which is higher than the standard rate of corporation tax in the UK as a result of the impact of non-qualifying depreciation in the year ended 28 February 2021.

In March 2020 it was announced that the reduction in the UK rate of corporation tax to 17% would not occur and the rate would be held at 19%. As this was substantively enacted during the year ended 28 February 2021, the Group's deferred tax obligations have been remeasured at 19%. This resulted in a deferred tax charge of £961,000 being incurred in the year ended 28 February 2021 which has been presented within non-underlying items as a result of this being driven by a non-recurring legislative change taking place in the year.

On 3 March 2021, the Chancellor announced that the headline UK corporation tax rate will rise to 25% from 1 April 2023. As this increase had not been enacted by the balance sheet date, the further revaluation of the Group's deferred tax obligations from 19% to 25% will be applied in the financial year ending 28 February 2022 and is expected to increase the Group's tax charge by £2.9m for in that year.

The overall effective tax rate of 27.17% includes tax on non-underlying items (2020: 59.18%).

5. Earnings per share

Basic and diluted earnings per share are calculated by dividing the earnings attributable to equity shareholders by the weighted average number of ordinary shares during the year or the diluted weighted average number of ordinary shares in issue in the year.

For the purposes of calculating the weighted average shares in issue, shares held by the Group's employee benefit trust are excluded as rights to dividends on such shares have been waived.

Details of the shares held in the Group's employee benefit trust are provided on page 68 of the consolidated financial statements.

The Group only has one category of potentially dilutive ordinary shares, which are share options. A calculation has been undertaken to determine the number of shares that could have been acquired at fair value (determined at the average annual market price of the Group's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

The number of shares calculated, as set out above, is compared with the number of shares that would have been issued assuming the exercise of the share options.

Underlying earnings per share is calculated by dividing underlying earnings attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year.

	2021 £'000	2020 £'000
Profit attributable to equity shareholders	16,315	2,987
Non-underlying loss after tax (note 4)	3,020	15,513
Underlying earnings attributable to equity shareholders	**19,335**	**18,500**
Weighted average number of shares in issue ('000s)	367,092	370,470
Potentially dilutive shares ('000s)	7,134	4,348
Diluted weighted average number of shares in issue ('000s)	**374,226**	**374,818**
Basic earnings per share	**4.44p**	**0.81p**
Diluted earnings per share	**4.36p**	**0.80p**
Basic underlying earnings per share	**5.27p**	**4.99p**
Diluted underlying earnings per share	**5.17p**	**4.94p**

6. Dividends per share

As a result of the substantial amounts of Government support received and the need to protect the Group's liquidity in the year ended 28 February 2021, the Board did not declare a final dividend for the year ended 29 February 2020, nor any dividend for the financial year ended 28 February 2021. Dividends of £6,122,000 were paid in the year ended 29 February 2020, representing 1.65p per share.

7. Reconciliation of net cash flow to movement in net debt

	2021 £'000	2020 £'000
Net increase / (decrease) in cash and cash equivalents	26,989	(25,680)
Cash inflow from proceeds of borrowings	(22,760)	(2,381)
Cash outflow from repayment of borrowings	19,705	-
Cash movement in net debt	**23,934**	**(28,061)**
Capitalisation of loan arrangement fees	75	118
Amortisation of loan arrangement fees	(175)	(175)
Non-cash movement in net debt	**(100)**	**(57)**
Movement in net debt (excluding lease liabilities)	**23,834**	**(28,118)**
Opening net debt (excluding lease liabilities)	**(28,365)**	**(247)**
Closing net debt (excluding lease liabilities)	**(4,531)**	**(28,365)**
Lease liabilities at 1 March	(96,894)	(87,961)
Capitalisation of new leases	(12,098)	(22,325)
Disposal of lease liabilities	2,549	-
Interest element of lease repayments (note 3)	(3,632)	(3,595)
Cash outflow from lease repayments	18,974	16,987
Lease liabilities at 28 February	**(91,101)**	**(96,894)**
Closing net debt (including lease liabilities)	**(95,632)**	**(125,259)**

8. Business combinations

On 1 October 2020, the Group acquired the trade and assets of Nottingham Kia from Sandicliffe Limited. The consideration payable on completion amounted to £1,904,000 and was settled from the Group's existing cash resources.

On 6 December 2020, the Group acquired the business and assets of a market area of 12 sales outlets located in York, Sunderland, Teesside, Durham and Malton. These five locations each represent the BMW and MINI franchises, in addition to a BMW Motorrad motorcycle operation in Sunderland and a used car operation located in York. The Business was acquired from The Cooper Group Limited, part of Inchcape plc for estimated cash consideration of £19,585,000. The cash consideration has been funded with a combination of a new £12,760,000 20-year mortgage facility from BMW Financial Services, secured on the acquired freehold and long leasehold dealership properties at a fixed interest rate of 2.9% for the first 5 years, and a payment from the Group's existing cash resources.

On 30 November 2020, the Group disposed of its ancillary wheelchair accessible vehicle business, Versa, to Gowrings Mobility. Consideration of £1,698,000 was received in cash on completion.

9. Post balance sheet events

On 12 March 2021, the Group acquired the trade and assets of a Honda car dealership in Huddersfield, West Yorkshire, which also holds an authorised repair contract for Mitsubishi, from Hepworth Motor Group. Total consideration of £0.8m was settled from the Group's cash resources.

On 7 May 2021, the Group disposed of a surplus properly in Whitchurch following the closure of its Volkswagen dealership on 26 April 2021, which previously operated from these premises. Sales proceeds of £430,000 were received generating a profit on disposal of £55,000.