Pendragon PLC

Half year results for 30 June 2023

- Strong trading performance despite challenging backdrop
- Broad-based growth across divisions; underlying PBT of £36.7m (H1 FY22: £33.5m)
- Profit before tax up by 10.6% to £36.4m
- Pinewood performance driven by user growth and higher recurring revenues
- Further strategic, financial and operational progress towards medium-term targets

Bill Berman, Chief Executive Officer, said:

"I'm pleased to report a strong trading performance in the first half, with revenue and profits up across all our divisions despite a challenging backdrop. We delivered strong volume growth for both new and used vehicles during the period, while a robust operational performance supported healthy margins in our UK Motor division. Pinewood continues to make very encouraging progress, with investments into product innovation and the delivery of new functionality helping to drive user growth and higher average revenue per user. I'd like to thank all our associates for their hard work delivering another strong set of results.

"Earlier this month, the Board of Pendragon formally concluded its Strategic Review of the business, which was focused on delivering full value for our shareholders. The Group announced a recommended transaction with Lithia Motors that would deliver the sale of our automotive retailing and leasing operations, the launch of Pinewood Technologies as a standalone, listed company and a strategic partnership with Lithia to accelerate Pinewood's growth in North America. The Board has subsequently received unsolicited approaches from Hedin Mobility Group and PAG International and from Autonation, which it is considering in consultation with shareholders. We will provide a further update at the appropriate time."

Group Financial Highlights

£m	**H1 FY23**	H1 FY22	Total change %	Like-for-like[1] change %
Group Revenue	**2,090.0**	1,845.5	13.2%	15.5%
Underlying profit before tax	**36.7**	33.5	9.6%	
Non-underlying charge	**(0.3)**	(0.6)	-50.0%	
Reported Profit before tax	**36.4**	32.9	10.6%	
Profit after tax	**26.9**	26.4	1.9%	

[1] Like for like (LFL) results only include trading businesses which have been trading for 12 consecutive months. Reconciliations of the like for like figures to the total reported figures can see seen in Note 1 – Alternative Performance Measures.

£m	**H1 FY23**	H1 FY22	FY22
Adjusted Net Cash / (Debt)[1]	**41.5**	2.8	(23.3)

[1] Adjusted Net Cash / (Debt) – All loans and borrowings less cash and cash equivalents less IFRS 16 lease liabilities less vehicle stocking loans.

Note: Throughout this document, Alternative Performance Measures have been used which are non-GAAP measures that are presented to provide readers with additional financial information that is regularly reviewed by management and should not be viewed in isolation or as an alternative to the equivalent GAAP measure, see note 1 for details.

Operational highlights

- **Strong financial performance**
    - Revenue up by 13.2% to £2,090.0m (H1 FY22: £1,845.5m), reflecting broad-based growth across the Company's divisions. Revenue up 15.5% on a like-for-like basis.
    - Gross profit up by 8.0% to £250.8m (H1 FY22 £232.2m), with continued benefits from the Group's strategic initiatives. Gross profit was 9.7% higher on a like-for-like basis.
    - New vehicle gross profit up 25.2% (up 26.2% on a like-for-like basis) with new vehicle volumes up 16.0% (up 18.3% on a like-for-like basis) and new vehicle GPUs increasing by 7.9% (up 6.7% on a like-for-like basis).
    - Aftersales gross profit up 9.1% (up 14.3% on a like-for-like basis), driven by an 8.7% growth in aftersales revenue.
    - Underlying profit before tax of £36.7m (H1 FY22: £33.5m), in line with the expectations set out in July 2023.
    - After non-underlying items the Group reported profit before tax of £36.4m (H1 FY22: £32.9m).
    - Adjusted net cash of £41.5m (FY22: adjusted net debt of £23.3m), largely driven by underlying performance, together with a working capital inflow of £41.9m, principally due to higher VAT creditor, and most of which is expected to reverse in the second half of FY23.

- **Further progress against medium-term strategic objectives**
    - Further operational initiatives delivered in the UK motor division, including further progress to accelerate digital innovation, with multiple capability upgrades and improvements to operational excellence unlocking further aftersales growth.
    - New car representation enhanced with new partnership with Genesis, first store to open in Q1 2024.
    - Enhanced capability developed by Pinewood
        - 3rd party lead integration
        - Digital journey optimisation
        - Menu pricing for insurance products
        - Used vehicle equity mining development
        - Automated pricing valuation model; and
        - Further Sales+ improvements

Outlook

The Group delivered a strong first-half performance, despite what remain challenging economic conditions, with pressure from higher interest rates and ongoing elevated levels of cost inflation. We remain mindful of the potential impact that these external pressures may have on consumer sentiment and disposal incomes, however we remain confident in the Group's ability to continue to build on our strategic progress in the second half.

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Divisional Operating Highlights

- **UK Motor**
  - Revenue up 13.3% to £2,042.0m (up 15.5% on a like-for-like basis).
  - Underlying operating profit of £46.0m (H1 FY22: £37.2m).
  - Reported operating profit of £45.7m (H1 FY22: £39.4m).
  - Gross margin of 11.1%, down from 11.7% in H1 FY22.
    - New vehicle gross margin of 9.6% (H1 FY22 8.9%).
    - Used vehicle gross margin of 6.6% (H1 FY22 8.1%).
    - Aftersales gross margin of 51.5% (H1 FY22 51.3%).
  - New vehicle gross profit per unit increased by £203 to £2,779 (H1 FY22: £2,576).
  - Used vehicle gross profit per unit decreased by £256 to £1,420 (H1 FY22: £1,676).
  - New vehicle volumes up 18.3% on a like-for-like basis, compared to an overall market increase of 18.4% and a retail market increase of 1.7%.
  - Used vehicle volumes up 7.2% on a like-for-like basis, compared to market growth of 4.1%.
  - Total operating costs up by £7.0m, or 4.0%, principally driven by the ongoing impact of inflationary cost increases.

- **Pinewood Software**
  - Revenue up 16.9% to £14.5m (H1 FY22: £12.4m).
  - Total users grew by 7% vs H1 FY22 to c.32,800 (H1 FY22 : c30,600).
  - Average recurring revenue per user increased by 7% during H1 FY23.
  - Operating costs increased by 14.3%, driven by higher levels of amortisation following increased product development investment, together with the impact of wage inflation.
  - 18.2% increase in operating profit to £6.5m (H1 FY22: £5.5m), driven by the increase in users and higher average recurring revenue per user, partially offset by operating cost increases.
  - Further product developments delivered in H1 FY23.

- **Leasing – Pendragon Vehicle Management**
  - Revenue up 4.4% to £44.8m (H1 FY22: £42.9m).
  - Operating profit up 14.7% to £11.7m (H1 FY22 : £10.2m).
  - Growth in profit continues to be driven by higher levels of profit on disposal vehicles, and higher short term rental income.
  - Vehicle supply continuing to impact lease fleet, with order bank remaining at elevated levels, with over 2,000 vehicles on order.

Financial performance summary

Consolidated Income Statement

Six months ended 30 June

Underlying unless stated	**H1 2023 £m**	**H1 2022 £m**	Change
Revenue	**2,090.0**	1,845.5	13.2%
Cost of Sales	**(1,839.2)**	(1,613.3)	14.0%
Gross Profit	**250.8**	232.2	8.0%
Underlying operating expenses	**(187.1)**	(180.1)	3.9%
Underlying operating profit	**63.7**	52.1	22.3%
Underlying net finance costs	**(27.0)**	(18.6)	45.2%
Underlying profit before taxation	**36.7**	**33.5**	**9.6%**
Non-underlying charges	(0.3)	(0.6)	-50.0%
Total income tax expense	(9.5)	(6.5)	46.2%
Total profit for the period	**26.9**	**26.4**	**1.9%**
Earnings per share			
Basic earnings per share	**1.9p**	1.9p	-
Diluted earnings per share	**1.9p**	1.9p	-
Non GAAP Measure			
Underlying basic earnings per share	**2.0p**	1.9p	5.3%
Underlying diluted earnings per share	**1.9p**	1.9p	-

Segmental Performance

Units Sold	H1 2023	H1 2022	Change %	LFL Change %
Used Units				
UK Motor	49,650	46,016	7.9%	7.2%
	49,650	**46,016**	7.9%	7.2%
New Units				
UK Motor	28,646	24,686	16.0%	18.3%
	28,646	**24,686**	16.0%	18.3%

	H1 2023	H1 2022	Change %	LFL Change %
Revenue				
UK Motor	**2,042.0**	1,802.9	13.3%	15.5%
Software	**14.5**	12.4	16.9%	16.9%
Leasing	**44.8**	42.9	4.4%	4.4%
US Motor	**-**	-	-	-
Inter-segment revenue	**(11.3)**	(12.7)	-11.0%	-11.0%
	2,090.0	**1,845.5**	13.2%	15.5%
Gross Profit				
UK Motor	**226.9**	211.1	7.5%	9.3%
Software	**12.9**	11.1	16.2%	16.2%
Leasing	**14.1**	12.5	12.8%	12.8%
US Motor	**-**	-	-	-
Inter-segment gross profit	**(3.1)**	(2.5)	24.0%	24.0%
	250.8	**232.2**	8.0%	9.7%
Underlying operating profit				
UK Motor	**46.0**	37.2	23.7%	22.8%
Software	**6.5**	5.5	18.2%	18.2%
Leasing	**11.7**	10.2	14.7%	14.7%
US Motor	**(0.5)**	(0.8)	-37.5%	-
	63.7	**52.1**	22.3%	20.8%
Gross Margin %	**12.0%**	**12.6%**	-0.6%	-0.6%
Underlying Operating Margin %	**3.0%**	**2.8%**	0.2%	0.1%
Operating Profit	**63.4**	**54.3**	16.8%	

Contents

Chief Executive's Review

I am delighted with the progress we have made with our strategy since we launched it in 2020, and we have delivered another strong period of performance in the first half of FY23, outperforming the retail market in both new and used volumes and delivering growth in underlying profit before tax despite the challenging economic conditions. Reported profit before tax increased by 10.6% to £36.4m (H1 FY22: £32.9m).

Over the past few years Pendragon has built one of the UK's leading automotive retailing businesses, underpinned by a market leading dealer management system, the quality of our people, long-standing relationships with OEMs and excellent execution for customers.

The Board remains confident about the future operating prospects for all parts of the Group. Our team has delivered exceptional operational performance and made significant progress towards achieving our medium-term targets originally announced in September 2020. Having restructured the Group's cost base and implemented a number of strategic, financial and operational improvements in recent years, we have achieved strong financial performance in our recent results.

At all times, the Board has focused on maximising value for our shareholders as well as the interests of all stakeholders, and this has included thoroughly exploring strategic options for the Group. The combined impact of the Group's recent financial performance, the progress with our transformation strategy and the conclusion of the Board's review of strategic options, resulted in the recommended transaction we announced on 18 September. This would see Lithia Motors acquire our UK motor and leasing operations, together with the bank debt and pension obligations of the Group, with Pinewood Technologies remaining listed on the London Stock Exchange with a clear plan for accelerated growth. Following this announcement, unsolicited proposals to acquire the entirety of the Pendragon Group have been received from both a combined bidder comprised of Hedin Mobility Group and Penske Automotive Group International Ltd, and also from AutoNation. The Board is carefully considering these proposals and an update will be provided in due course.

I would like to thank all our associates for their ongoing outstanding efforts during the first-half of FY23 and for continuing to unite as one, your hard work and dedication to Pendragon is evident and appreciated

Bill Berman
Chief Executive
27 September 2023

Operating and Financial Review by Segment

The business is organised into 3 segments, analysed as follows:

- Software – Software as a Service provision to global automotive business users
- UK Motor – Sale and servicing of vehicles in the UK
- Leasing – Fleet and contract hire provider and also a source of used vehicle supply.

UK Motor

£m	H1 2023	H1 2022	Change %
Used Revenue	**1,067.4**	948.9	12.5%
Aftersales Revenue	**149.2**	137.2	8.7%
New Revenue	**825.4**	716.8	15.2%
Total Revenue	**2,042.0**	**1,802.9**	**13.3%**
Used Gross Profit	**70.5**	77.1	-8.6%
Aftersales Gross Profit	**76.8**	70.4	9.1%
New Gross Profit	**79.6**	63.6	25.2%
Total Gross Profit	**226.9**	**211.1**	**7.5%**
Gross margin rate	***11.1%***	*11.7%*	*-0.6%*
Underlying Operating Expenses	**(180.9)**	(173.9)	4.0%
Underlying Operating Profit	**46.0**	**37.2**	**23.7%**
Underlying Operating margin rate	***2.3%***	*2.1%*	*0.2%*
Stocking interest [1]	**(12.9)**	(5.7)	126.3%
Profit after stocking interest	**33.1**	31.5	5.1%
Operating Profit	**45.7**	**39.4**	**16.0%**
Total Revenue Change	**13.3%**		
Like-for-like Revenue Change	**15.5%**		
Used Units Sold	**49,650**	46,016	7.9%
New Units Sold	**28,646**	24,686	16.0%
Used GPU [2]	**1,420**	1,676	-15.3%
New GPU [2]	**2,779**	2,576	7.9%
Number of Locations	**146**	148	-1.4%
Average Used Selling Price [3]	**£19,534**	£18,930	3.2%
Average New Selling Price [3]	**£29,521**	£28,643	3.1%

[1] Stocking interest. Whilst stocking interest is an interest expense and not part of operating profit, it is a cost directly related to the trading performance of both new and used cars. It is included as an alternative performance measure in the table above for information.

[2] GPU = Gross Profit per Unit. It is calculated as total New/Used GP divided by total New/Used retail units sold.

[3] Trading dealerships only. The used selling price is retail vehicles only and excludes any trade vehicles. It is calculated as total New/Used retail revenue divided by total New/Used retail units sold. The new selling price excludes vehicles sold by our fleet business (National Fleet Solutions).

The UK Motor business operated from 134 franchise points and 12 used cars only retail points which represent a range of volume and premium products offering both sales and service functions.

- Further progress in respect of strategy to improve performance and unlock significant value in the UK Motor division.
- Introduction of further digital initiatives, underpinned by Pinewood, to differentiate our omni-channel model.

- Strong volume growth in both new and used cars delivered during H1 FY23

Strategy delivery – Unlock value in the UK Motor division

The Group continued to make meaningful progress with its strategy to improve performance and unlock significant value in the UK Motor division through actions to:

1. Accelerate digital innovation
2. Drive operational excellence and embed consistent best practice
3. Operate from a lean and efficient cost base.

These initiatives have been designed to drive improvements in used car margins, aftersales profitability and operating cost efficiency.

Accelerate digital innovation

We continued to develop our digital proposition during the first-half of FY23 making developments in order to reinforce our leading omni-channel proposition with enhanced use of big-data. Further developments made include a new presentation of menu pricing for insurance products which presents products in good, better and best options to provide simple options to our customers. This capability has recently been introduced as a trial across the Car Store estate. We also improved the sales generation opportunity for our sales teams with the inclusion of 3rd party lead integration into the Pinewood dealer management system which adds new lead opportunities in to the selling ecosystem. Although Finance & Insurance penetration levels have come under increasing pressure as interest rates have risen and, as a result, we have seen acceptance rates decline, we have continued to develop our suite of tools to help mitigate this and provide an improved platform for when rates stabilise. This included the extension of our dynamic lender comparison functionality, increasing the size of the prime lending panel from three providers to six, We also continued to work on improving our used vehicle equity mining capabilities, with our data monitoring capability now fully scaled across both Evans Halshaw and Car Store locations. This capability will help us identify the optimum time at which to engage with our customers in order to maximise equity in their vehicles.

During the first-half we also worked on developing our used car acquisition platform “sellyourcar.com” to enable our strategic ambition to double the number of acquisitions made through this channel. Sales+ has been further developed to include new appraisal and valuation capabilities which have been scaled and trained to Evans Halshaw locations. A digital journey trialled in CarStore in FY22 has now been rolled to all Group websites and SellYourCar.com, which we believe will drive both new customer acquisition and incremental purchase opportunities.

During the second half of FY23 we have a pipeline of further opportunities which are being developed, which include the development of a rate-for-risk finance model to enable us to provide more attractive finance propositions catered around customers individual credit profiles. We also expect to introduce targeted customer communications using our data analytic tools to support our used vehicle acquisition targets. Finally, we are continuing to expand the potential opportunity that can be harnessed through data science and machine learning and we are currently trialling the optimisation of pricing on a localised geographic basis using market characteristics for individual vehicles and consumer buying behaviours.

Drive operational excellence and best practice

Driving operational excellence and best practice continues to be a key management focus. During the half we completed a review of our Sales Executives pay plans, with changes made in order to both drive productivity and improve associate retention. We also made further improvements to our analytics and insight environment within PowerBI, making valuable reporting available to store sales leadership teams and associates. The resulting ability to focus on performance measures and benchmarking to peers, on a real time basis, are driving enhanced performance. Further enhancements to our vehicle health check performance in aftersales have underpinned growth in this area.

We will launch our next phase of used guarantee revisions later this year and we are currently developing our ability to sell insurance products outside of the point of vehicle sale, offering an attractive incremental revenue opportunity from customers who qualify for these products but did not purchase at the immediate time of their vehicle purchase.

Enhance new car representation

Further to the launch of our partnership with BYD we will launch our flagship development in Mayfair at the end of September, ahead of the launch of the second BYD model in the UK. While brand awareness remains low, we anticipate that this will continue to grow as new products are launched and BYD increase their brand marketing over time. We have also agreed to partner with Genesis, with a substantial market area across North-East and Central England. Genesis also expect to bring an exciting model line up to the UK. We expect to open our first Genesis location in Q1 2024.

Operating Review

The UK Motor division performed well in H1 FY23 delivering a 13.3% growth in revenue and a 23.7% growth in underlying operating profit. While the overall new car market continues to be well below pre-pandemic levels, there was an improvement in supply during the first half as the market grew overall by 18.4%, and retail sales grew by 1.7%. Pendragon saw new vehicle volume growth of 18.3%, in line with the total market and well ahead of the retail market. In addition to the new vehicle volume growth new vehicle gross profit per unit of £2,779, was up 7.9% or £203 compared to H1 FY22, with the combined impact of both volume and margin increases resulting in a 25.2% increase in new vehicle gross profit.

Used vehicle supply remains tight, with the knock-on impact of lower new vehicle production since the pandemic resulting in lower nearly new vehicle availability. Despite this, the proposition changes made in FY22 continued to underpin performance, with used vehicle volumes up 7.2% against market growth of 4.1%. Used vehicle GPU's declined by 15.3% to £1,420, a decrease of £256 per unit compared to H1 FY22. The majority of this reduction had already occurred during the second half of FY22, where the used GPU was £1,534 with a further decline of £114 experienced between H2 FY22 and H1 FY23. The decline in margin compared to H2 FY22 was principally a result of lower F&I income as penetration has dropped as interest rates have increased. As a result, used gross profit was down 8.6% year on year.

Aftersales revenue grew in the period, up by 8.7% (18.6% on a like-for-like basis). There were also further improvement in the gross margin of 20bps to 51.5% (H1 FY22: 51.3%).

Financial Review

Revenue increased by 13.3% to £2,042.0m in H1 FY23 (15.5% on a like-for-like basis), with the volume growth across new, used and aftersales functions driving this increase.

Gross profit grew by 7.5% to £226.9m in H1 FY23 (9.3% on a like-for-like basis). The impact of volume growth together with the improvements in both new and aftersales gross margins more than offset the decline in used car GPU, resulting in overall growth in gross profit.

Underlying operating expenses have increased by 4.0% (6.3% on a like-for-like basis), principally driven by the impact of payroll inflation and volume related variable costs, partially offset by savings in utilities as prices have subsided and lower marketing costs following FY22's investment in CarStore relaunch.

The division recorded an underlying operating profit of £46.0m (H1 FY22: £37.2m) and a reported operating profit after non-underlying items of £45.7m (H1 FY22: £39.4m). Non underlying items of £0.3m were recorded in the half, principally relating to an impairment charge on a vacant property held for sale.

Software - Pinewood

£m	H1 2023	H1 2022	Change %
Revenue	**14.5**	12.4	16.9%
Gross Profit	**12.9**	11.1	16.2%
Gross margin rate	**89.0%**	89.5%	-0.5%
Operating Expenses	**(6.4)**	(5.6)	14.3%
Operating Profit	**6.5**	5.5	18.2%
Operating margin rate	**44.8%**	44.4%	0.4%

A more detailed breakdown of the Pinewood financials for H1 FY23 can be seen below:

£m	Contribution from Pendragon	Contribution from external customers	**Pinewood PLC standalone result**	Share of Pendragon Group Overheads	**Pinewood segment as a reported in Pendragon Group accounts**
Revenue	3.5	11.0	**14.5**	-	**14.5**
Gross Profit	3.1	9.8	**12.9**	-	**12.9**
Operating Expenses	(1.2)	(5.0)	**(6.2)**	(0.2)	**(6.4)**
Operating Profit	**1.9**	**4.8**	**6.7**	**(0.2)**	**6.5**

- Approximately 90% of DMS revenues are recurring.
- Strong international growth driven by expansion of the direct sales model and new market launches.
- Strong partnerships with strategic OEMs.

Strategy delivery – Grow and diversify Pinewood

As part of its Group strategy presentation, Pendragon announced its plan to 'grow and diversify Pinewood'. This included the key objectives of:

- Growing the international user base by 80% and the total user base by 10%; and,
- Further product extension enabling turn-key digital automotive retail solutions

In H1 FY23 Pinewood continued to focus on these two pillars:

- User growth: strong international growth with an expansion of the direct sales model in Asia Pacific as well as growth in Europe and the Middle East. The UK and Ireland market continued to grow both in terms of users and revenues.

- Product innovation: development of the core DMS product continues. New products designed to support digital automotive retail are being developed for initial use by Pendragon and, in the longer term, the external customer base. Pinewood continues to be a key enabler in the development of new functionality, including vehicle acquisition, management and pricing platforms and powering web capabilities.

Pinewood developed further functionality, designed to enhance retailing capability, including the recent release of product menu pricing for insurance products, initially being trialled in Pendragon's Car Store estate. This functionality presents products in good, better best options for customers. There were further enhancements made to the Sales+ module to add 3rd party lead integration, surfacing increased lead opportunities to drive sales efficiency

During the second half of FY23 Pinewood will continue with its programme of product development to include the development of a rate-for-risk finance model to enable the provision of more attractive finance propositions catered around customers individual credit profiles.

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Operating Review

Pinewood is a software business that provides Software as a Service ("SaaS") in the UK and in a number of countries worldwide.

The UK Dealer Management Systems (DMS) market for Franchised Motor Dealers is estimated to be worth over £100 million in the UK. Three DMS providers dominate the UK market of which Pinewood is one. The global DMS market which is highly fragmented, is estimated to be worth approximately £3.8bn, with over 50 different DMS providers within Europe alone.

Pinewood's unique approach to the DMS market is characterised by:

- a single product capable of global deployment, which simplifies future developments to the system and reduces operating costs;
- a feature-rich cloud-based solution, with no need for costly third-party add-ons;
- focus on strong manufacturer partnerships and supporting dealer profitability; and
- commitment to using the latest technology to reshape motor retail

Pinewood was an early adopter of the SaaS business model and has focused on developing recurring revenue streams. Today, around 90% of Pinewood's DMS revenues are on a recurring basis. Whilst Pendragon remains an important customer to Pinewood, as Pinewood has grown, Pendragon's proportion of the Pinewood total user base has been diluted to c.17% with intra-group charging maintained at a competitive market rate.

During H1 FY23 user numbers increased by 7% compared to H1 FY22 reaching an average of c.32,500, and ending the half with over 32,800 users (H1 FY22: c.30,600). Across Pinewood's international markets there was a 12% net increase in average user numbers compared to H1 FY22, with users reaching c. 6,500. All international markets grew user numbers, with Pinewood benefiting from the launches in Singapore and the Middle East at the end of FY22. Pinewood is now also preparing to launch in the Japanese market.

In the UK and Ireland market (excluding Pendragon) average user numbers increased by 6% compared to H1 FY22 to an average of c.20,600. The growth from new customers seen in H2 FY22 continued into 2023 with churn remaining at a low level and net churn being negative, indicating that existing customers were adding users at a faster rate than user reductions.

There has also been good further progress in terms of OEM support at an international level. Pinewood continues to build a strong partnership with Volkswagen AG and Porsche, which has enabled constructive dialogue with large international dealer groups in both the European and Asia Pacific markets.

Financial Review

Total revenues increased by 16.9% to £14.5m compared to H1 FY22. International DMS recurring revenues increased by 35% in the period, reflecting the underlying user growth and expansion of the direct sales model.

UK and Ireland DMS recurring revenues (excluding Pendragon) increased by 12% compared to H1 FY22, with Pinewood benefiting from user additions and low churn in 2023 as well as the impact of user growth from H2 FY22. In addition to recurring revenue growth, external DMS non-recurring revenues have doubled from H1 FY22, driven by implementation revenues from new customers.

Gross profit increased by 16.2% to £12.9m. There was a slight reduction in gross margins driven by increased hosting costs, in part as a result of the changing sales mix where smaller international markets cost more on a per user basis.

In order to facilitate investment in new functionality of the DMS platform as outlined above development expenditure rose to £3.7m (H1 2022: £3.3m), with c.80% of these development costs being capitalised. Substantial investments have also been made in platform architecture and security with greatly expanded use of the Microsoft Azure platform.

Operating costs increased by 14.3% compared to H1 FY22. The increase was driven by personnel costs and a higher amortisation charge, both reflecting ongoing increases in investment in the development of the software asset and Pinewood's operational capabilities. Further cost increases arose as a result of higher travel expenditure due to Pinewood's continued international growth.

As a result of these movements, operating profit was £6.5m, an increase of 18.2% compared to H1 FY22.

Leasing – Pendragon Vehicle Management

£m	H1 2023	H1 2022	Change %
Revenue	**44.8**	42.9	4.4%
Gross Profit	**14.1**	12.5	12.8%
Gross margin rate	**31.5%**	29.1%	2.4%
Operating Expenses	**(2.4)**	(2.3)	4.3%
Operating Profit	**11.7**	10.2	14.7%
Operating margin rate	**26.1%**	23.8%	**2.3%**
Revenue Change	**4.4%**		

Operating Review

Pendragon Vehicle Management ("PVM"), a vehicle leasing business, offers a complete range of fleet leasing and contract hire solutions. Its customers represent all business sectors with varied fleet sizes. The fleet of vehicles is financed through third party asset funders which results in a high return on capital.

The increased revenue compared to H1 FY22 was generated by a small increase in the number of vehicle disposals at higher sales values along with higher revenue in our short term hire product offering. Profit on disposal per unit remains at higher levels compared with pre-pandemic comparators as used vehicle prices have remained at elevated levels, with disposals in the half still based on residual values set before these price increases occurred. This is underpinned by the ongoing shortage of high quality used cars. There is increased demand for new vehicle leases in the corporate sector and despite new vehicle lease deliveries increasing by 23% in H1 FY23 compared to H1 FY22, the level of vehicles on order for our customers remains at higher than normal levels, with over 2,000 orders outstanding.

PVM's fleet transformation continues to experience a rapid change in the powertrains demanded by customers in the corporate car sector as employers look to improve their green footprint whilst providing their associates with low CO2 vehicles. This, coupled with manufacturer supply constraints easing slightly on car supply, has resulted in new vehicle delivery lead times decreasing compared to lead times in the prior year. Light Commercial Vehicle lead times continue to be challenging.

Financial Review

Revenue increased by 4.4%, due to the slightly higher turnover on disposals. Gross profit increased by 12.8% due to the strong disposal values as described above. Operating expenses increased by 4.3% compared to the prior year due to inflationary and cost of living pressures.

Operating profit increased by 14.7% to £11.7m (H1 FY22: £10.2m).

Industry Insight

New Car Market

The UK new car market was 950k vehicles in the first half of FY23 which was an increase of 18.4% over the prior year, as supply chain shortages ease. The UK new car market is divided into two markets, retail and fleet. The retail market is the direct selling of vehicle units to individual customers and operates at a higher margin than the fleet market. The retail market is the key market opportunity for the Group and represents 46% of the total market in the year. The fleet market represents the sale of multiple vehicles to businesses, and is predominately transacted at a lower margin and consumes higher levels of working capital than retail, and represents 54% of the market in the year.

Used Car Market

In the first half of FY23, there were 3.7m used cars sold in the UK, an increase of 4.1% on the prior year.

Aftersales Market

The main determinant of the aftersales market is the number of vehicles on the road, known as the 'car parc'. The car parc in the UK has risen to 35.8m vehicles at H1 FY23, a rise of 0.8% from the end of FY22. The car parc can also be segmented into markets representing different age groups. At H1 FY23, around 14% of the car parc was represented by less than three-year-old cars, around 17% by four to six-year-old cars and 69% is greater than seven-year-old cars. The demand for servicing and repair activity is less affected than other sectors by economic conditions, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons.

UK New Car Registrations '000	**H1 2023**	**H1 2022**	Change %
UK Retail Registrations	**435.3**	428.1	1.7%
UK Fleet Registrations	**514.4**	374.0	37.5%
Total UK Registrations	**949.7**	802.1	18.4%
Group Represented* UK Retail Registrations	**246.1**	251.6	-2.2%
Group Represented* UK Fleet Registrations	**271.1**	222.3	22.0%
Group Represented* Registrations	**517.2**	473.8	9.2%

* Group Represented – defined as national registrations for the franchised brands that the Group represents as a franchised dealer.

The new retail market was up by 1.7% in H1 2022, and the new fleet market increased by 37.5% in the period. All new car market figures are from the Society of Motor Manufacturers and Traders (SMMT).

Underlying Net Financing Costs

£m	**H1 2023**	**H1 2022**	Change (%)
Interest payable on bank borrowings, senior note and loan notes	**6.0**	5.1	17.6%
Vehicle stocking plan interest	**12.9**	5.7	126.3%
Net lease interest	**6.8**	6.6	3.0%
Unwinding of discounts in contract hire residual values	**1.3**	1.2	8.3%
Total Underlying Net Financing Costs	**27.0**	**18.6**	**45.2%**

Underlying net financing costs increased by £8.4m to £27.0m. Interest payable on bank borrowings increased from £5.1m to £6.0m, driven by the full-year impact of higher borrowing rates on the Group's banking facility, which was renewed in March 2022 together with the impact of increases in the base interest rate. Vehicle stocking plan interest increased from £5.7m to £12.9m, driven primarily by the impact of the higher bank base rates.

There were small increases in net lease interest and unwinding of discount in contract hire residual values of £0.2m and £0.1m respectively.

Non-underlying Items

£m	H1 2023	H1 2022
Impairment of goodwill	**-**	(3.6)
Impairment of property, plant and equipment - owned	**(0.2)**	(1.0)
Impairment of right of use assets	**-**	(0.2)
Termination and severance costs	**-**	(0.2)
(Loss) / profit on the sale of businesses and property	**(0.1)**	7.2
Pension costs	**-**	(0.2)
Refinancing costs	**-**	(2.6)
Total non-underlying items before tax	**(0.3)**	**(0.6)**
Non-underlying items in tax	**-**	0.5
Total non-underlying items after tax	**(0.3)**	**(0.1)**

Non-underlying income and expenses are items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business. During the first-half the Group has recognised a net charge of £0.3m of pre-tax non-underlying items compared to a charge of £0.6m in H1 FY22.

The was an impairment of £0.2m on property, plant and equipment and losses of £0.1m on the sale of business and property arose from a dealership disposal.

Capital Allocation

Adjusted net cash* has improved by £64.8m from an adjusted net debt* of £23.3m at 31 December 2022 to adjusted net cash of £41.5m at 30 June 2023. Given the adjusted net cash position, the adjusted net cash to underlying EBITDA ratio* was zero for the rolling 12 months to H1 FY23. The adjusted net debt to underlying EBITDA ratio was 0.1x at FY 2022. This is principally due to the strong trading performance in the first-half.

* These are Alternative Performance Measures (APMs), see page 31 below for more detail.

Cash Flow

The following table summarises the cash flows and adjusted net debt of the Group for the six-month periods ended 30 June 2023 and 30 June 2022 as follows:

	H1 2023 £m	H1 2022 £m
Underlying Operating Profit	**63.7**	**52.1**
Depreciation and Amortisation	**17.6**	17.0
Share Based Payments	**1.9**	1.7
Non-underlying Items	**-**	(0.2)
Contribution into defined benefit pension scheme	**(6.6)**	(6.5)
Working Capital and Contract Hire Vehicle Movements [1]	**41.9**	24.2
Cash Generated from Operations	**118.5**	**88.3**
Capital Expenditure	**(16.8)**	(19.1)
Business and Property Disposals	**1.3**	12.6
Net Capital Expenditure [2]	**(15.5)**	**(6.5)**
Tax (Paid) / Received	**(3.0)**	0.5
Interest Paid excluding lease interest [3]	**(18.0)**	(9.6)
Lease Payments & Receipts [4]	**(16.0)**	(16.9)
Non underlying finance cost	**-**	(2.6)
Other	**(1.2)**	(0.7)
Decrease in Adjusted Net Debt	**64.8**	**52.5**
Opening Adjusted Net Debt	**(23.3)**	(49.7)
Closing Adjusted Net Cash	**41.5**	**2.8**

[1] being the change in trade and other receivables, change in trade and other payables, change in stocking loans and movement in contract hire vehicle balances.

[2] being the proceeds from sale of businesses, purchase of property, plant, equipment and intangible assets and proceeds from sale of property, plant, equipment and intangible assets.

[3] being bank and stocking interest paid.

[4] being receipts of lease receivables and payment of lease liabilities including lease interest paid and received.

Reconciliation to Consolidated Cash Flow Statement

	H1 2023 £m	H1 2022 £m
Net cash from operating activities	**90.7**	**70.0**
Net capital expenditure	**(15.5)**	(6.5)
Receipt of lease receivables	**1.2**	1.0
Net cash outflow from investing activities	**(14.3)**	**(5.5)**
Financing cash flows as included above:		
Payment of lease liabilities	**(10.4)**	(11.3)
Financing cash flows not included above relating to loans:		
Repayment of loans	**(2.0)**	(88.5)
Proceeds from issue of loans (net of directly attributable transaction costs)	**(0.5)**	94.4
Disposal of shares by EBT	**-**	0.1
Net cash outflow from financing activities	**(12.9)**	**(5.3)**

Cash generated from operations was an inflow of £118.5m compared to an inflow of £88.3m in the first-half of 2022. The main contributors to this increase were an £11.6m increase in underlying operating profit and a higher level of working capital inflow of £41.9m compared to £24.2m in H1 FY22. The inflow of £41.9m is driven primarily by short-term timing differences principally driven by a £30m increase in the VAT creditor, most of which are expected to reverse in the second half of FY23.

The net capital expenditure of £15.5m (H1 FY22: expenditure of £6.5m) comprised capital expenditure of £16.8m partially offset by property disposals of £1.3m. Capital expenditure of £16.8m (H1 FY22: £19.1m) was made up of investments into a number of brands including Porsche, Ford and BMW together with increased investment into Pinewood's software development.

The increase in interest paid from £9.6m to £18.0m was primarily due to higher vehicle stocking plan interest as a result of higher bank base rates.

Balance Sheet

The following table summarises the balance sheet of the Group at 30 June 2023, 30 June 2022 and 31 December 2022.

Balance Sheet (£m)	**Jun-23**	**Jun-22**	**Dec-22**
Property	**234.4**	222.5	233.7
Plant & Equipment	**30.1**	24.3	26.8
Goodwill	**144.6**	144.6	144.6
Intangible Assets	**13.1**	11.7	12.4
Right of Use Assets – property	**126.9**	133.8	130.5
Contract hire vehicle assets	**126.5**	127.1	124.9
Inventories	**602.7**	529.9	620.3
Receivables[1]	**130.1**	134.8	132.9
Net Assets Held as for Sale[2]	**7.2**	7.6	6.1
Net Tax Balance[3]	**8.8**	16.0	14.9
Retirement benefit surplus	**2.6**	4.2	-
Total Assets	**1,427.0**	**1,356.5**	**1,447.1**
Payables[4]	**(833.7)**	(749.7)	(810.7)
Lease Liabilities	**(210.8)**	(224.1)	(217.9)
Contract hire vehicle liabilities	**(115.5)**	(113.9)	(111.6)
Retirement Benefit Obligations	**-**	-	(2.6)
Adjusted Net Cash / (Debt)[5]	**41.5**	2.8	(23.3)
Total Liabilities	**(1,118.5)**	**(1,084.9)**	**(1,166.1)**
Shareholders' Funds	**308.5**	**271.6**	**281.0**

1 being trade and other receivables and finance lease receivables

2 being assets classified as held for sale and liabilities directly associated with assets held for sale

3 being deferred tax assets, current tax assets and current tax payable

4 being trade and other payables, deferred income less contract hire vehicle liabilities

5 being cash and cash equivalents and interest bearing loans and borrowings

Net assets have increased from £281.0m at 31 December 2022 to £308.5m at 30 June 2023.

At 30 June 2023, the Group had £234.4m (£361.3m) of land and property assets (31 December 2022: £233.7m (£364.2m including IFRS16 right of use assets)). The increase in property principally reflects capital investments, partially offset by disposal of excess property together with depreciation.

Inventories have decreased by £17.6m to £602.7m (31 December 2022: £620.3m), which is a result a reduction of approximately £40m in used car inventory as supply remains tight combined with the reduction from seasonally high inventory levels at the end of December. New car inventory remains significantly below historic records as a result of the ongoing supply shortages, but grew by £25m compared to FY22 as supply began to ease slightly.

The increase in payables of £23.0m to £833.7m (31 December 2022: £810.7m) principally relates to a £30m increase in the VAT creditor, which will unwind during the second half of FY23, partially offset by movements in vehicle creditors in relation to the reduction in vehicle inventory.

The net tax balance has decreased from £14.9m at 31 December 2022 to £8.8m, which is primarily the lower deferred tax asset arising from the use of brought forward tax losses against taxable profits in the period.

Pension

The net liability for defined benefit pension scheme obligations has improved from a £2.6m liability at FY22 to a £2.6m asset at HY23. The movement of £5.2m comprises contributions of £6.6m and a net actuarial loss of £1.4m. The net actuarial loss has arisen due in part to changes in the principal assumptions used in the valuation of the scheme's assets and liabilities and also the change in value of the assets held over the year. The Group contributed £6.6m to the Pension Scheme in the period in line with the Group's funding commitment.

The triennial valuation of the company's pension scheme as at 31 December 2021 was completed during 2022. The valuation concluded that the actuarial funding deficit had reduced from £117m as at 31 December 2018 to £33m as at 31 December 2021. The company and trustees agreed to continue the current level of contributions into the pension scheme (H1 FY23: £6.6m) until the end of 2023, at which point the actuarial deficit is expected to be met. Following this, the company and trustees agreed to move towards a long-term funding target and continue contributions at a reduced level of contribution of £3.5m p.a. until 31 December 2026, at which point the scheme is expected to be fully funded on a long-term funding target basis.

Dividend

The Group is not proposing an interim dividend for 2023.

Revolving Credit Facility (RCF)

In March 2022 the Group refinanced its £175m RCF and £60m Private Placement, both of which were due to mature in March 2023. The new facilities comprise a 5-year, amortising, £100m Term Loan, maturing March 2027, with the Group's existing Private Placement lender plus a new lender, and a £75m 3+1+1 RCF with the Group's existing bankers, maturing March 2026, with a further one-year extension option available at the election of lenders to March 2027.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Note	H1 2023 £m	H1 2022 £m
Revenue	7	**2,090.0**	1,845.5
Cost of sales		**(1,839.2)**	(1,613.3)
Gross profit		**250.8**	232.2
Operating expenses		**(187.3)**	(185.1)
Operating profit before other income		**63.5**	47.1
Other (expense) / income – gains on the sale of businesses and property, plant and equipment	8	**(0.1)**	7.2
Operating profit		**63.4**	54.3
Analysed as:			
Underlying operating profit		**63.7**	52.1
Non-underlying operating (loss)/profit	8	**(0.3)**	2.2
Finance expense	10	**(27.4)**	(21.9)
Finance income	11	**0.4**	0.5
Net finance costs		**(27.0)**	(21.4)
Analysed as:			
Underlying net finance costs		**(27.0)**	(18.6)
Non-underlying net finance costs	8	**-**	(2.8)
Profit before taxation		**36.4**	32.9
Analysed as:			
Underlying profit before taxation		**36.7**	33.5
Non-underlying loss before taxation	8	**(0.3)**	(0.6)
Income tax expense	12	**(9.5)**	(6.5)
Profit for the period		**26.9**	26.4
Earnings per share			
Basic earnings per share	13	**1.93p**	1.90p
Diluted earnings per share	13	**1.87p**	1.85p
Non GAAP Measure			
Underlying basic earnings per share	13	**1.95p**	1.90p
Underlying diluted earnings per share	13	**1.89p**	1.85p

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	H1 2023 £m	H1 2022 £m
Profit for the period	**26.9**	26.4
Other comprehensive income		
Items that will never be reclassified to profit and loss:		
Defined benefit plan remeasurement (losses) / gains	**(1.4)**	21.5
Income tax relating to defined benefit plan remeasurement gains / (losses)	**0.3**	(4.1)
	(1.1)	17.4
Items that are or may be reclassified to profit and loss:		
Foreign currency translation differences of foreign operations	**(0.2)**	0.4
	(0.2)	0.4
Other comprehensive (expense)/income for the period, net of tax	**(1.3)**	17.8
Total comprehensive income for the period	**25.6**	44.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Share capital £m	Share premium £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2023	69.9	56.8	18.2	0.5	135.6	**281.0**
Total comprehensive income for H1 2023						
Profit for the period	-	-	-	-	26.9	**26.9**
Other comprehensive expense for the period, net of tax	-	-	-	(0.2)	(1.1)	**(1.3)**
Total comprehensive income for the period	-	-	-	(0.2)	25.8	**25.6**
Share based payments	-	-	-	-	1.9	**1.9**
Balance at 30 June 2023	69.9	56.8	18.2	0.3	163.3	**308.5**
Balance at 1 January 2022	69.9	56.8	18.2	-	80.7	**225.6**
Total comprehensive income for H1 2022						
Profit for the period	-	-	-	-	26.4	**26.4**
Other comprehensive income for the period, net of tax	-	-	-	0.4	17.4	**17.8**
Total comprehensive income for the period	-	-	-	0.4	43.8	**44.2**
Share based payments	-	-	-	-	1.7	**1.7**
Own shares issued by EBT	-	-	-	-	0.1	**0.1**
Balance at 30 June 2022	69.9	56.8	18.2	0.4	126.3	**271.6**

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2023

	Note	**Jun-23**	Restated * Jun-22	Dec-22
		£m	£m	£m
Non-current assets				
Property, plant and equipment		**517.9**	507.7	515.9
Goodwill		**144.6**	144.6	144.6
Other intangible assets		**13.1**	11.7	12.4
Finance lease receivables		**13.7**	15.8	14.8
Retirement benefit surplus		**2.6**	4.2	-
Deferred tax assets		**6.5**	12.4	11.6
Total non-current assets		**698.4**	696.4	699.3
Current assets				
Inventories		**602.7**	529.9	620.3
Trade and other receivables		**114.1**	116.8	115.7
Finance lease receivables		**2.3**	2.2	2.4
Current tax assets		**2.3**	3.6	3.3
Cash and cash equivalents*	16	**271.9**	294.5	171.9
Assets classified as held for sale	15	**7.2**	7.6	6.1
Total current assets		**1,000.5**	954.6	919.7
Total assets		**1,698.9**	1,651.0	1,619.0
Current liabilities				
Bank overdraft*		**(139.0)**	(197.8)	(102.5)
Interest bearing loans and borrowings		**(2.0)**	(2.0)	(1.7)
Lease liabilities	17	**(18.8)**	(20.9)	(20.0)
Trade and other payables	21	**(830.1)**	(749.0)	(812.0)
Deferred income	18	**(39.7)**	(36.2)	(38.2)
Total current liabilities		**(1,029.6)**	(1,005.9)	(974.4)
Non-current liabilities				
Interest bearing loans and borrowings	17	**(89.4)**	(91.9)	(91.0)
Lease liabilities	17	**(192.0)**	(203.2)	(197.9)
Trade and other payables		**(37.2)**	(39.8)	(35.7)
Deferred income	18	**(42.2)**	(38.6)	(36.4)
Retirement benefit obligations	22	**-**	-	(2.6)
Total non-current liabilities		**(360.8)**	(373.5)	(363.6)
Total liabilities		**(1,390.4)**	(1,379.4)	(1,338.0)
Net assets		**308.5**	271.6	281.0
Capital and reserves				
Called up share capital		**69.9**	69.9	69.9
Share premium account		**56.8**	56.8	56.8
Capital redemption reserve		**5.6**	5.6	5.6
Other reserves		**12.6**	12.6	12.6
Translation reserve		**0.3**	0.4	0.5
Retained earnings		**163.3**	126.3	135.6
Total equity attributable to equity shareholders of the Company		**308.5**	271.6	281.0

* See Note 2

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**For the six months ended 30 June 2023 £m**	For the six months ended 30 June 2022 £m	For the year ended 31 December 2022 £m
Cash flows from operating activities				
Profit for the period		**26.9**	26.4	45.5
Adjustment for taxation		**9.5**	6.5	11.7
Adjustment for net financing expense		**27.0**	21.4	43.8
		63.4	54.3	101.0
Depreciation and amortisation		**17.6**	17.0	33.5
Share based payments		**1.9**	1.7	3.3
Profit on sale of business and property, plant and equipment		**0.1**	(7.2)	(7.7)
Impairment of goodwill		**-**	3.6	3.6
Impairment of property, plant and equipment		**0.2**	0.6	0.6
Impairment of assets held for sale		**-**	0.6	0.6
Contribution into defined benefit pension scheme	22	**(6.6)**	(6.5)	(13.1)
Changes in inventories	20	**41.1**	(2.9)	(119.8)
Changes in trade and other receivables		**1.6**	(15.8)	(15.2)
Changes in trade and other payables		**10.0**	54.6	150.8
Movement in contract hire vehicle balances	19	**(10.8)**	(11.7)	(20.9)
Cash generated from operations		**118.5**	88.3	116.7
Taxation received/(paid)		**(3.0)**	0.5	(1.4)
Bank and stocking interest paid		**(18.0)**	(12.2)	(25.5)
Lease interest paid		**(7.2)**	(7.1)	(14.7)
Finance lease interest received		**0.4**	0.5	1.0
Net cash from operating activities		**90.7**	70.0	76.1
Cash flows from investing activities				
Proceeds from sale of business		**1.3**	0.3	3.9
Purchase of property, plant, equipment and intangible assets		**(16.9)**	(20.6)	(44.3)
Proceeds from sale of property, plant, equipment and intangible assets		**0.1**	13.8	13.3
Receipt of lease receivables		**1.2**	1.0	2.0
Net cash used in investing activities		**(14.3)**	(5.5)	(25.1)
Cash flows from financing activities				
Payment of lease liabilities		**(10.4)**	(11.3)	(22.2)
Repayment of loans		**(2.0)**	(88.5)	(90.5)
Proceeds from issue of loans (net of directly attributable transaction costs)		**(0.5)**	94.4	93.8
Disposal of shares by EBT		**-**	0.1	0.1
Purchase of shares by EBT		**-**	-	(0.5)
Net cash outflow from financing activities		**(12.9)**	(5.3)	(19.3)
Net increase in cash and cash equivalents		**63.5**	59.2	31.7
Opening cash and cash equivalents		**69.4**	37.6	37.6
Effects of exchange rate changes on cash held		**-**	(0.1)	0.1
Closing cash and cash equivalents	16	**132.9**	96.7	69.4

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN ADJUSTED NET CASH/(DEBT)

	For the six months ended 30 June 2023	For the six months ended 30 June 2022	For the year ended 31 December 2022
	£m	£m	£m
Net increase in cash and cash equivalents	**63.5**	59.2	31.7
Repayment of loans	**2.0**	88.5	90.5
Proceeds from issue of loans (net of directly attributable transaction costs)	**0.5**	(94.4)	(93.8)
Non-cash movements	**(1.2)**	(0.8)	(2.0)
Decrease in adjusted net debt in the period	**64.8**	52.5	26.4
Opening adjusted net debt	**(23.3)**	(49.7)	(49.7)
Closing adjusted net cash / (debt)	**41.5**	2.8	(23.3)

Note: The reconciliation of net cash flow to movement in adjusted net debt is not a primary statement and does not form part of the consolidated cash flow statement but forms part of the notes to the financial statements. Adjusted net debt is defined in note 1.

NOTES
1. Basis of Preparation

Pendragon PLC (the 'Company') is a public company incorporated, domiciled and registered in England in the UK. The registered number is 2304195 and the registered address is Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2023 comprise the Company and its subsidiaries (together referred to as the 'Group').

Going concern

Notwithstanding net current liabilities of £29.1m as at 30 June 2023 for the Group, the Directors are, at the time of approving the financial statements, satisfied that the Group and Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. The Directors have considered the potential impact of a macro-economic downturn, a market correction in new and used pricing and shortfalls in used car supply.

The Group meets its day-to-day working capital requirements from a revolving credit facility of £75m and term loan with a current outstanding amount of £95m, together with cash balances and a requirement for ongoing access to rolling vehicle credit stocking facilities: these are from OEM partners sufficient to fund new vehicles, demonstrators and certain used vehicles, together with total facilities from third party partners amounting to £376.0m at 30 June 2023. The total actually drawn down at 30 June 2023 was £267.4m. The senior note is due for renewal in March 2027 and the revolving credit facility is due for renewal in March 2026, with a further one-year extension option available at the election of lenders to March 2027. The senior note and revolving credit facility have quarterly leverage and fixed charge covenants, as well as an absolute EBITDA covenant, a breach of which would result in the amounts drawn becoming repayable on demand. The Group remained compliant with its banking covenants throughout the period to 30 June 2023.

In the context of the above, the directors have prepared cash flow forecasts for the period to 31 December 2024 which indicate that, taking account of reasonably possible downsides, the Group will have sufficient funds to meet its liabilities as they fall due for that period. The Directors have modelled scenarios as follows:

1. A base cash flow forecast. The 2023 figures in this forecast are based on the Group's 2023 budget, which reflect current run-rates and expected strategic improvements. The 2024 figures in the base cash flow forecast are based on the 2023 budget with a modest growth rate applied to gross profit and operating costs.

2. A severe, but plausible downside scenario. The directors have also prepared a sensitised forecast which considers the impact of certain severe but plausible downside events, when compared to the base case. This scenario reflects a severe downturn to vehicle volumes and margins. Vehicle volumes are the number of new and used vehicles sold and vehicle margins are the average amount of gross profit made per vehicle sold. The total impact of the downturn in vehicle volumes and margins, before any mitigations was a reduction in profitability of £58.0m from the period September 2023 to December 2024. In this scenario the directors have assessed that the business would operate with lower staffing levels through the non-replacement of leavers. This scenario demonstrates that the Group would remain within its facility limits and would retain significant headroom of liquidity covenants. This scenario shows that the Group would also remain within its minimum EBITDA covenant.

On 18 September 2023, the Board of Pendragon PLC announced a proposed transaction, having reached agreement for the sale of the UK Motor and Leasing business (the Disposal Group) to Lithia Motors, Inc. for a gross aggregate consideration of £250m (subject to certain financial adjustments). If the transaction completes, all senior note and bank debt will be repaid and £15m of the share subscription will be invested in Pinewood. As a stand alone entity, Pinewood is expected to be cash generative in base case and downside scenarios.

Based on the above, the directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and therefore the directors believe it remains appropriate to prepare the financial statements on a going concern basis.

The condensed set of financial statements for the six months ended 30 June 2023 are unaudited but have been reviewed by the auditors. The independent review report is set out below.

Alternative performance measures

The Group uses a number of key performance measures ('KPI's') which are non-IFRS measures to monitor the performance of its operations. The Group believes these KPI's provide useful historical financial information to help investors and other stakeholders evaluate the performance of the business and are measures commonly used by certain investors for evaluating the performance of the Group. In particular, the Group uses KPI's which reflect the underlying performance on the basis that this provides a more relevant focus on the core business performance of the Group. The Group has been using the following KPI's on a consistent basis and they are defined and reconciled as follows:

Gross margin % - gross margin is defined as gross profit as a percentage of revenue.

Like for Like – results on a like for like basis include only businesses which have been trading for 12 consecutive months. We use like for like results to aid in the understanding of the like for like movement in revenue, gross profit and operating profit in the business. The difference to underlying results are simply those businesses which are not like for like which have recently commenced operation and therefore do not have a 12 month history plus any businesses closed during the current or previous period.

Operating margin % - operating margin is defined as operating profit as a percentage of revenue.

Underlying operating profit/profit before tax - results on an underlying basis exclude items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business. The detail of the non-underlying results is shown in note 8.

Operating profit reconciliation

	Note	**H1 2023 £m**	H1 2022 £m
Underlying operating profit		**63.7**	52.1
Gains on the sale of businesses and property, plant and equipment	8	**(0.1)**	7.2
Impairment of goodwill	8	**-**	(3.6)
Impairment of property, plant and equipment	8	**(0.2)**	(1.0)
Impairment of right of use assets	8	**-**	(0.2)
Termination and severance payments	8	**-**	(0.2)
Non-underlying operating (loss)/profit items		**(0.3)**	2.2
Operating profit		**63.4**	54.3

Profit before tax reconciliation

	Note	**H1 2023 £m**	**H1 2022 £m**
Underlying profit before tax		**36.7**	33.5
Non-underlying operating (loss)/profit items (see reconciliation above)		**(0.3)**	2.2
Non-underlying net finance (costs)	8	**-**	(2.8)
Non-underlying operating loss and finance costs items		**(0.3)**	(0.6)
Profit before tax		**36.4**	32.9

Profit after tax reconciliation

	Note	**H1 2023 £m**	H1 2022 £m
Underlying profit after tax		**27.2**	26.5
Non-underlying operating loss and finance costs items (see reconciliation above)		**(0.3)**	(0.6)
Non-underlying tax	8	**-**	0.5
Non-underlying operating loss, finance costs and tax items		**(0.3)**	(0.1)
Profit after tax		**26.9**	26.4

Underlying basic earnings per share ('underlying earnings per share') – Underlying basic earnings per share is calculated by dividing the underlying profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. A full reconciliation of how this is derived is found in note 13.

Underlying diluted earnings per share – Underlying diluted earnings per share is calculated by dividing the underlying profit and loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue taking account of the effects of all dilutive potential ordinary shares, which comprise of share options granted to employees and LTIPs. A full reconciliation of how this is derived is found in note 13.

Adjusted net debt – All loans and borrowings net of cash and cash equivalents excluding IFRS 16 lease liabilities and vehicle stocking loans. Lease liabilities and vehicle stocking loans are excluded as they are not included in the Group's borrowing covenant calculations.

Leverage ratio – the Group uses the ratio of net cash/(debt) to underlying EBITDA to assess the use of the Group's financial resources.

Net debt : Underlying EBITDA reconciliation

	H1 2023 £m	H1 2022 £m
Underlying operating profit (12 months rolling 1 July 2022 to 30 June 2023)	**110.1**	116.5
Depreciation and amortisation (12 months rolling 1 July 2022 to 30 June 2023)*	**69.5**	71.3
Underlying EBITDA (12 months rolling 1 July 2022 to 30 June 2023)	**179.6**	187.8
Adjusted net cash	**41.5**	2.8
Adjusted net debt : underlying EBITDA ratio	**0.0**	0.0

Given the adjusted net cash position, the adjusted net cash to underlying EBITDA ratio* was zero for the rolling 12 months to H1 FY23.

Like for Like reconciliations

Like for like - results on a like for like basis include only businesses which have been trading for 12 consecutive months. We use like for like results to aid in the understanding of the like for like movement in revenue, gross profit and operating profit in the business. The difference to underlying results are simply those businesses which are not like for like which have recently commenced operation and therefore do not have a 12 month history plus any retail points closed during the current or previous period.

Revenues by Department – UK Motor

	H1 2023 Group revenue £m	**H1 2023 Disposals revenue £m**	**H1 2023 Other non like for like revenue £m**	**H1 2023 Like for like revenue £m**
Aftersales revenue	**149.2**	(0.1)	-	**149.1**
Used vehicle revenue	**1,067.4**	(0.7)	(10.0)	**1,056.7**
New vehicle revenue	**825.4**	(0.6)	(0.7)	**824.1**
Total Revenue	**2,042.0**	(1.4)	(10.7)	**2,029.9**

	H1 2022 Group revenue £m	**H1 2022 Disposals revenue £m**	**H1 2022 Other non like for like revenue £m**	**H1 2022 Like for like revenue £m**
Aftersales revenue	**137.2**	(11.5)	-	**125.7**
Used vehicle revenue	**948.9**	(5.2)	-	**943.7**
New vehicle revenue	**716.8**	(29.1)	-	**687.7**
Total Revenue	**1,802.9**	(45.8)	-	**1,757.1**

Gross Profit by Department – UK Motor

	H1 2023 Group gross profit £m	**H1 2023 Disposals gross profit £m**	**H1 2023 Other non like for like gross profit £m**	**H1 2023 Like for like gross profit £m**
Aftersales gross profit	**76.8**	-	(0.1)	**76.7**
Used vehicle gross profit	**70.5**	-	(0.4)	**70.1**
New vehicle gross profit	**79.6**	(0.5)	(0.1)	**79.0**
Total Gross profit	**226.9**	(0.5)	(0.6)	**225.8**

	H1 2022 Group gross profit £m	H1 2022 Disposals gross profit £m	H1 2022 Other non like for like gross profit £m	H1 2022 Like for like gross profit £m
Aftersales gross profit	**70.4**	(3.3)	-	**67.1**
Used vehicle gross profit	**77.1**	(0.3)	-	**76.8**
New vehicle gross profit	**63.6**	(1.0)	-	**62.6**
Total Gross profit	**211.1**	(4.6)	-	**206.5**

Underlying operating profit

	H1 2023 Group Underlying operating profit/(loss) £m	H1 2023 Disposals Underlying operating profit £m	H1 2023 Other non like for like Underlying operating profit £m	H1 2023 Like for like Underlying operating profit £m
UK motor	**46.0**	(0.1)	0.9	**46.8**
Software	**6.5**	-	-	**6.5**
Leasing	**11.7**	-	-	**11.7**
US Motor	**(0.5)**	0.5	-	**-**
Total underlying operating profit	**63.7**	0.4	0.9	**65.0**

	H1 2022 Group Underlying operating profit/(loss) £m	H1 2022 Disposals Underlying operating profit £m	H1 2022 Other non like for like Underlying operating profit £m	H1 2022 Like for like Underlying operating profit £m
UK motor	**37.2**	0.9	-	**38.1**
Software	**5.5**	-	-	**5.5**
Leasing	**10.2**	-	-	**10.2**
US Motor	**(0.8)**	0.8	-	**-**
Total underlying operating profit	**52.1**	**1.7**	**-**	**53.8**

2. Restatement

The Group has made adjustments to the presentation of the 30 June 2022 Balance Sheet. The directors have considered that the overdraft balances of Group entities should be separately presented gross on the Consolidated Balance Sheet, rather than netted off against cash and cash equivalents held either by the same entity, or other Group entities, with the same bank. As a result, the Consolidated Balance Sheet as at 30 June 2022 has been restated as follows.

	Jun-22 as reported £m	Restatement £m	Jun-22 restated £m
Current assets			
Cash and cash equivalents	96.7	197.8	294.5
Current liabilities			
Bank overdraft	-	(197.8)	(197.8)
	96.7	-	96.7

The restatement did not result in any change to reported profit, earnings per share, net assets or cash flows reported in the period to 30 June 2022.

3. Statement of compliance

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2023 has been prepared in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. It does not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2022, which are prepared in accordance with UK-adopted International Accounting Standards.

These condensed consolidated interim financial statements were approved by the board of directors on 27 September 2023.

4. Significant accounting policies

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2022, except as explained below.

Adoption of new and revised standards

The following amended standards and interpretations have been adopted during the year and have not had a significant impact on the Group's consolidated financial statements:

IFRS 17 Insurance Contracts - IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.

Amendments to IAS 8 - Amended by definition of accounting estimates

Amendments to IFRS 16 - Amendments re sale and leaseback transactions.

5. Estimates and judgements

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2022.

Inventories

Included within the write-down of inventories to net realisable value is the write-down of used vehicle inventory of £8.0m (HY 2022: £6.1m). The key assumptions underpinning the write-down of net realisable value of the used vehicle inventory are (i) the time to sell each vehicle; (ii) the expected sales price at the date of sale. Sensitivities have been performed on the key assumptions; (i) a 30 day sensitivity has been used for the time to sell each vehicle as this is a plausible scenario and (ii) a £500 sensitivity has been used for the expected sales price at the date of sale as in the region of £500 variations in GPUs have been seen in previous reporting periods.

If the average time to sell a vehicle is increased by 30 days then it would increase the write-down of the used vehicle inventory by £2.8m (HY 2022: £2.1m). If the expected sales prices at the date of sale were to decrease by £500 per vehicle, then it would increase the value of the write-down of used vehicle inventory by £3.7m (HY 2022: £3.3m) at the balance sheet date. Whereas if the average time to sell a vehicle is decreased by 30 days then it would decrease the value of the writedown of used vehicle inventory by £2.7m HY 2022: £2.2m). Also if the expected sales prices at the date of sale were to increase by £500 per vehicle then it would decrease the value of the write-down of used vehicle inventory by £2.4m (HY 2022: £2.1m) at the balance sheet date.

Employee post-retirement benefit obligations

During the six months ended 30 June 2023 management reassessed its estimates and assumptions in respect of employee post-retirement benefit obligations. The obligations under these plans are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates and return on assets, details of which are provided in note 22 below.

Goodwill Impairment

Goodwill is allocated across multiple cash-generating units (CGUs) which are the individual UK Motor franchise groups, Pinewood and Leasing. This is the lowest level at which CGUs are formed and at which goodwill is monitored. At the end of each reporting period, the entity assesses whether there is any indication that an asset may be impaired. The majority of the

CGUs have performed ahead of the business plan in H1 2023 and hence there is no impairment trigger identified. A CGU with goodwill of £1.1m was identified to have traded behind the business plan, however a revised assessment of its recoverable amount confirmed that sufficient headroom existed and no impairment was required.

On 18 September 2023, the Board of Pendragon PLC announced a proposed transaction, having reached agreement for the sale of the UK Motor and Leasing business (the Disposal Group) to Lithia Motors, Inc. for a gross aggregate consideration of £250m (subject to certain financial adjustments). Furthermore, Pendragon PLC and Lithia Motors, Inc. have agreed terms of a strategic partnership for an aggregate subscription price of £30m to accelerate Pinewood's, the Group's dealer management software business, entry into the North American market. There is no certainty at the point of the interim accounts that this transaction will proceed as it remains dependant on a number of conditions being met, including but not limited to shareholder consent, FCA approval and OEM approval.

The proposed consideration of £250m for the Disposal Group is lower than the carrying value of the net assets of the Disposal Group as at 30 June 2023 of c. £277m and is therefore considered an indicator of impairment. The net assets of the Disposal Group include all obligations associated with the defined benefit obligation. The IAS 19 valuation of the defined benefit obligation as at 30 June 2023 is a surplus of £2.6m.

The Board have considered whether the value in use (VIU) assessments of each CGU remain appropriate in light of the valuation implied for the group of CGUs that make up the Disposal Group by the proposed consideration. The Board note that the VIU assessments for the CGUs that make up the Disposal Group include future pension contributions under the group's defined contribution pension schemes but do not include deficit reduction payments for the defined benefit scheme as the scheme is closed to future accrual and the IAS 19 surplus or deficit is included separately on the group's balance sheet.

If the transaction proceeds as currently proposed, the purchaser has agreed to assume the Group defined benefit pension scheme. The Board notes that elimination of the entirety of the risk within the defined benefit scheme is akin to its valuation on a current buyout basis. The estimated deficit in the scheme on a buyout basis as at 30 June 2023 was £72m.

Removing this ongoing pension liability from the proposed retained Group, adds additional value to the transaction for shareholders. The significant majority of the pension liabilities have been historically incurred within the UK Motor and Leasing business, and the Board consider that this provides additional value, resulting in an adjusted implied valuation for the group of CGUs that make up the Disposal Group in excess of the c.£277m of the Disposal Group net assets.

IAS 36 requires that any impairment assessment utilises the higher of the VIU and the fair value less costs to sell for each CGU. On the basis of the above analysis, the Board concluded that the VIU assessments that did not result in an impairment for any CGU remained appropriate.

Further to this, the illiquid nature of the Group's shares following the two aborted transactions during FY22, and the impact this has on the market valuation of the Group, the Board consider that shareholders may find the proposed transaction attractive, in order to achieve a return of cash via the proposed dividend, and to unlock a future valuation opportunity for the retained Group through its Pinewood software as a service business.

Subsequent to the announcement on 18 September 2023 when the Board of Pendragon PLC announced they had reached agreement for the sale of the UK Motor and Leasing business (the Disposal Group) to Lithia Motors, Inc., there have been three further offers for the entire Group, all of which are significantly in excess of the net assets of the Group. This further supports the decision not to impair any of the goodwill balance.

The Group has performed ahead of the business plan during H1 2023 and therefore the VIU calculations, and associated sensitivity of those assumptions, are comparable with those undertaken as at 31 December 2022 and disclosed in the 2022 Annual report.

Assets held for sale

Following the Board of Pendragon PLC reaching agreement for the sale of the UK Motor and Leasing business (the Disposal Group) to Lithia Motors, Inc., the Board have considered whether the Disposal Group needs to be classified as assets held for sale. As the assets held for sale requirements in IFRS 5 were not met, the Disposal Group was not classified as assets held for sale.

6. Comparative figures

The comparative figures for the financial year ended 31 December 2022 are extracted from the Group's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

7. Revenue

The Group's main operations and revenue streams are those described in the last annual financial statements. All the Group's revenue is derived from contracts with customers.

Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, major products/service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's three strategic divisions, which are its reportable segments, see note 9.

For the six months ending 30 June 2023	UK Motor £m	Software £m	Leasing £m	Total £m
Primary geographical markets				
Europe	2,042.0	10.4	37.0	**2,089.4**
Africa	-	0.3	-	**0.3**
Asia	-	0.3	-	**0.3**
Revenue from external customers	**2,042.0**	**11.0**	**37.0**	**2,090.0**
Major products/service lines				
Aftersales revenue	149.2	-	-	**149.2**
Used vehicle revenue	1,067.4	-	-	**1,067.4**
New vehicle revenue	825.4	-	-	**825.4**
Software revenue	-	11.0	-	**11.0**
Leasing revenue	-	-	37.0	**37.0**
Revenue from external customers	**2,042.0**	**11.0**	**37.0**	**2,090.0**
Timing of revenue recognition				
At point in time	2,036.4	1.2	21.3	**2,058.9**
Over time	5.6	9.8	15.7	**31.1**
Revenue from external customers	**2,042.0**	**11.0**	**37.0**	**2,090.0**

For the six months ending 30 June 2022	UK Motor £m	Software £m	Leasing £m	Total £m
Primary geographical markets				
Europe	1,802.9	9.2	33.1	**1,845.2**
North America	-	-	-	**-**
Africa	-	0.2	-	**0.2**
Asia	-	0.1	-	**0.1**
Revenue from external customers	**1,802.9**	**9.5**	**33.1**	**1,845.5**
Major products/service lines				
Aftersales revenue	137.2	-	-	**137.2**
Used vehicle revenue	948.9	-	-	**948.9**
New vehicle revenue	716.8	-	-	**716.8**
Software revenue	-	9.5	-	**9.5**
Leasing revenue	-	-	33.1	**33.1**
Revenue from external customers	**1,802.9**	**9.5**	**33.1**	**1,845.5**
Timing of revenue recognition				
At point in time	1,798.2	0.8	16.1	**1,815.1**
Over time	4.7	8.7	17.0	**30.4**
Revenue from external customers	**1,802.9**	**9.5**	**33.1**	**1,845.5**

8. Non-underlying Items

Non-underlying income and expenses are items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business.

	H1 2023 £m	H1 2022 £m
Within operating expenses:		
Impairment of goodwill	**-**	(3.6)
Impairment of property, plant and equipment – owned	**(0.2)**	(1.0)
Impairment of right of use assets	**-**	(0.2)
Termination and severance costs	**-**	(0.2)
	(0.2)	(5.0)
Within other income – gains on the sale of businesses, property, plant and equipment:		
Loss on the sale of businesses	**(0.1)**	-
Profit on the sale of property	**-**	7.2
	(0.1)	7.2
Within net finance expense:		
Loss on refinancing	**-**	(2.6)
Net interest on pension scheme	**-**	(0.2)
	-	(2.8)
Total non-underlying items before tax	**(0.3)**	(0.6)
Non-underlying items in tax	**-**	0.5
Total non-underlying items after tax	**(0.3)**	(0.1)

Goodwill has been reviewed for any possible impairment, with due consideration given to the announcement made on 18 September 2023, where the Board of Pendragon PLC have recommended the sale of the UK Motor and Leasing business to Lithia Motors, Inc. and the subsequent three further offers for the entire Group as outlined above in note 5. As a result of this review there was no impairment charge made during the period (2022: £3.6m).

Group property, plant and equipment and assets held for sale have been reviewed for possible impairments. As a result of this review there was an impairment charge against assets held for sale during the period of £0.2m (2022: £0.6m). Property, plant and equipment were impaired by £0.2m (2022: £0.4m) and right of use assets £nil (2022: £0.2m). There were no reversals of previous impairment charges in respect of assets held for sale where anticipated proceeds less costs to sell have increased over their impaired carrying values (2022: £nil).

During the previous period a number of employees were offered compensation on either being made redundant or terminating their employment contracts which amounted to £0.2m.

Other income, being the profit or loss on disposal of businesses and property was a loss of £0.1m (2022: profit of £7.2m). This comprises a profit of £nil (2022: £7.2m) on disposal of property and a loss on the disposal of motor vehicle dealerships of £0.1m (2022: £nil).

During the previous period, on completion of the Group re-financing in March 2022, an expense of £2.6m was incurred in settling obligations under the previous arrangement, which has been recognised as a non-underlying finance expense during the period.

The net interest expense on pension obligations in respect of the defined benefit schemes closed to future accrual is shown as a non-underlying item due to the volatility and non-trading nature of this amount. There was an immaterial amount of pension interest income in the period (2022: £0.2m expense).

9. Segmental Analysis

				Discontinued operations		
For the six months ending 30 June 2023	**UK Motor £m**	**Software £m**	**Leasing £m**	**Group interest £m**	**US Motor £m**	**Total £m**
Total gross segment turnover	2,042.0	14.5	44.8	-	-	**2,101.3**

Inter-segment turnover	-	(3.5)	(7.8)	**-**	**-**	**(11.3)**
Revenue from external customers	**2,042.0**	**11.0**	**37.0**	**-**	**-**	**2,090.0**
Operating profit/(loss) before non-underlying items	46.0	6.5	11.7	-	**(0.5)**	**63.7**
Other income and non-underlying items	(0.3)	-	-	-	**-**	**(0.3)**
Operating profit/(loss)	**45.7**	**6.5**	**11.7**	**-**	**(0.5)**	**63.4**
Finance expense	(20.1)	-	(1.3)	(6.0)	-	**(27.4)**
Finance income	-	-	-	0.4	-	**0.4**
Segmental profit/(loss) before tax	**25.6**	**6.5**	**10.4**	**(5.6)**	**(0.5)**	**36.4**
Depreciation and amortisation	15.1	2.4	17.1	-	-	**34.6**
Impairment of goodwill	-	-	-	-	-	**-**
Impairment of property, plant and equipment – owned	0.2	-	-	-	-	**0.2**
Impairment of right of use assets	-	-	-	-	-	**-**

					Discontinued operations	
For the six months ending 30 June 2022	**UK Motor £m**	**Software £m**	**Leasing £m**	**Group interest £m**	**US Motor £m**	**Total £m**
Total gross segment turnover	1,802.9	12.4	42.9	**-**	**-**	**1,858.2**
Inter-segment turnover	-	(2.9)	(9.8)	**-**	**-**	**(12.7)**
Revenue from external customers	**1,802.9**	**9.5**	**33.1**	**-**	**-**	**1,845.5**
Operating profit/(loss) before non-underlying items	37.2	5.5	10.2	-	**(0.8)**	**52.1**
Other income and non-underlying items	2.2	-	-	-	**-**	**2.2**
Operating profit/(loss)	**39.4**	**5.5**	**10.2**	**-**	**(0.8)**	**54.3**
Finance expense	(15.1)	-	(1.5)	(5.3)	-	**(21.9)**
Finance income	-	-	-	0.5	-	**0.5**
Segmental profit/(loss) before tax	**24.3**	**5.5**	**8.7**	**(4.8)**	**(0.8)**	**32.9**
Depreciation and amortisation	14.9	2.0	17.8	-	-	**34.7**
Impairment of goodwill	3.6	-	-	-	-	**3.6**
Impairment of property, plant and equipment – owned	1.0	-	-	-	-	**1.0**
Impairment of right of use assets	0.2	-	-	-	-	**0.2**

10. Finance expense

Recognised in profit and loss

	Note	**H1 2023 £m**	H1 2022 £m
Interest payable on bank borrowings, senior note and loan notes		**6.0**	5.1
Vehicle stocking plan interest		**12.9**	5.7
Interest payable on leases		**7.2**	7.1
Costs incurred on refinancing	8	**-**	2.6
Net interest on pension scheme obligations	8	**-**	0.2

Total interest expense being interest expense in respect of financial liabilities held at amortised cost	**26.1**	20.7
Unwinding of discounts in contract hire residual values	**1.3**	1.2
Total finance expense	**27.4**	21.9

11. Finance income

Recognised in profit and loss

	H1 2023 £m	H1 2022 £m
Interest receivable on finance leases	**0.4**	0.5
Total finance income	**0.4**	0.5

12. Taxation

The UK corporate tax rate increased from 19% on 1 April 2023 to 25% giving a blended rate for the full 2023 year of 23.5%. The effective tax rate on underlying profit for the first half of 2023 is 25.9% (2022: 20.9%). The effective tax rate for the first half of 2023 is higher than the blended corporate tax due to expenditure not allowable for UK corporate tax purposes and a loss in the USA for which no US tax relief is anticipated and on which no deferred tax asset is provided.

13. Earnings per share

	H1 2023 pence	H1 2022 pence
Basic earnings per share	**1.93**	1.90
Effect of adjusting items	**0.02**	-
Underlying basic earnings per share (Non-GAAP measure)	**1.95**	1.90
Diluted earnings per ordinary share	**1.87**	1.85
Effect of adjusting items	**0.02**	-
Underlying diluted earnings per share (Non-GAAP measure)	**1.89**	1.85

The calculation of basic, adjusted and diluted earnings per share is based on the following number of shares in issue (millions):

Number of shares (millions)	**H1 2023 Number**	H1 2022 Number
Weighted average number of shares used in basic and adjusted earnings per share calculation	**1,395.4**	**1,391.5**
Weighted average number of dilutive shares under option	42.7	35.8
Diluted weighted average number of shares used in diluted earnings per share calculation	**1,438.1**	**1,427.3**

Earnings	**H1 2023 £m**	H1 2022 £m
Profit for the period	26.9	26.4
Adjusting items:		
Non-underlying items attributable to the parent (see note 8)	0.3	0.6

Tax effect of non-underlying items	-	(0.5)
Earnings for adjusted earnings per share calculation	**27.2**	**26.5**

14. Business and property disposals

During the period the Group generated net proceeds of £1.3m (2022: £0.3m) with a loss on disposal of £0.1m (2022: £nil) from the sale of businesses. One small franchised motor business was sold in 2023.

The Group sold no property assets in the period. In the previous period the Group sold property generating net proceeds of £12.3m with a profit on disposal of £7.2m.

15. Assets held for sale and Discontinued operations

The Group holds a number of properties that are currently being marketed for sale which are expected to be disposed of during the next 12 months. An impairment loss of £0.2m has been recognised in the income statement for the six months to 30 June 2023 on re-measurement of properties to the lower of their carrying amount and their fair value less costs to sell (2022: £nil).

In the previous period the Group held for sale four motor vehicle dealerships. Goodwill in respect of these businesses was impaired by £3.6m and an impairment of £0.6m on property, plant and equipment was also made in respect of this transaction.

During the period to 30 June 2023 there were no disposals of assets classified as held for sale. In the previous year disposals of assets classified as held for sale resulted in a profit of £8.0m on disposal.

The major classes of assets comprising the assets held for sale are:

	Jun-23 £m	Jun-22 £m	Dec-22 £m
Goodwill	**-**	2.1	-
Property, plant and equipment	**7.2**	5.5	6.1
Assets classified as held for sale	**7.2**	7.6	6.1

16. Cash and cash equivalents

		Restated*	
	Jun-23 £m	Jun-22 £m	Dec-22 £m
Bank balances and cash equivalents	**271.9**	294.5	171.9

* see note 2

		Restated*	
	Jun-23 £m	Jun-22 £m	Dec-22 £m
Cash and cash equivalents in the Balance Sheet	**271.9**	294.5	171.9
Bank overdrafts repayable on demand and used for cash management in the Balance Sheet	**(139.0)**	(197.8)	(102.5)
Cash and cash equivalents in the statement of cash flows	**132.9**	96.7	69.4

* see note 2

Bank overdrafts reflect the aggregated overdrawn balances of Group companies (even if those companies have other positive cash balances).

17. Net borrowings

	Jun-23 £m	Jun-22 £m	Dec-22 £m
Cash and cash equivalents (see note 16)	**132.9**	96.7	69.4
Current interest bearing loans and borrowings	**(2.0)**	(2.0)	(1.7)

Non-current interest bearing loans and borrowings	**(89.4)**	(91.9)	(91.0)
Adjusted net cash/(debt)	**41.5**	2.8	(23.3)
Lease liabilities	**(210.8)**	(224.1)	(217.9)
Net borrowings	**(169.3)**	(221.3)	(241.2)

18. Deferred income

	Jun-23 £m	Jun-22 £m	Dec-22 £m
Warranty policies sold	**24.2**	19.4	21.2
Contract hire leasing income	**57.7**	55.4	53.4
	81.9	74.8	74.6
Current	**39.7**	36.2	38.2
Non-current	**42.2**	38.6	36.4
	81.9	74.8	74.6

19. Changes in contract hire vehicle balances

	Jun-23 £m	Jun-22 £m	Dec-22 £m
Depreciation	**17.0**	17.7	36.1
Changes in trade and other payables and deferred income	**3.9**	(5.6)	(7.9)
Purchases of contract hire vehicles	**(30.4)**	(22.6)	(46.6)
Unwinding of discounts in contract hire residual values	**(1.3)**	(1.2)	(2.5)
Cash flow movement in contract hire vehicle balances	**(10.8)**	(11.7)	(20.9)

20. Change in inventories

	Jun-23 £m	Jun-22 £m	Dec-22 £m
Movement in inventory	**17.6**	(17.1)	(107.5)
Inventory changes in business combinations and disposals	**(1.5)**	-	(37.2)
Non-cash movement in consignment vehicles	**13.2**	5.2	8.1
Transfer value of contract hire vehicles from fixed assets to inventory	**11.8**	9.0	16.8
Cash flow increase/(decrease) due to movements in inventory	**41.1**	(2.9)	(119.8)

21. Trade and other payables due within one year

	Jun-23 £m	Jun-22 £m	Dec-22 £m
Consignment vehicle liabilities	**48.5**	32.4	35.3
Stocking loans – Manufacturer finance arm	**142.1**	177.5	286.0
Stocking loans – Third party stock finance	**267.4**	248.5	296.7

Stocking loans	**458.0**	458.4	618.0
Other trade creditors and accruals	**372.1**	290.6	194.0
Trade and other payables due within one year	**830.1**	749.0	812.0

22. Pension funds

The net asset for defined benefit obligations has increased from £2.6m deficit at 31 December 2022 to a £2.6m surplus at 30 June 2023, which comprises a defined benefit obligation of £352.5m and pension scheme assets of £355.1m. The increase of £5.2m comprises a net remeasurement loss of £1.4m and contributions paid of £6.6m. The net remeasurement loss has arisen in part due to changes in the principal assumptions used in the valuation of the scheme's liabilities over those used at 31 December 2022. The assumptions subject to change are the discount rate of 5.35% (31 Dec 2022: 5.00%), the inflation rate (RPI) of 3.30% (31 Dec 2022: 3.25%), the inflation rate (CPI) of 2.90% (31 Dec 2022: 2.85%) and the mortality assumptions adopted at 30 June 2023 are 109% of the standard tables S3PMA/S3PFA_M, Year of birth, no age rating projected using CMI_2022 converging to 1.25% p.a. (31 Dec 2022: 111% of the standard tables S3PMA/S3PFA_M, Year of birth, no age rating projected using CMI_2021 converging to 1.25% p.a.).

The Trust Deed provides Pendragon PLC with an unconditional right to a refund of surplus assets assuming the full settlement of scheme liabilities in the event of a scheme wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up, or otherwise augment the benefits due to members of the scheme. Based on these rights, any net surplus in the Pendragon Group Pension Scheme is recognised in full, assuming the gradual settlement of plan liabilities over time until all members have left the plan.

23. Related party transactions

There have been no new related party transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the Group during that period and there have been no changes in the related party transactions described in the last annual report that could do so.

24. Contingent liability

One of the Group's subsidiary companies, Pinewood Technologies PLC ("Pinewood"), is currently in dispute with one of its former software resellers, Pinewood Technologies Asia Pacific Limited ("PAP").

PAP historically contributed c.£0.2m of profit p.a. to the overall Pinewood performance. PAP owes Pinewood approximately £0.5m (including daily interest and other charges), which relates to unpaid invoices arising from the reseller agreements. Subsequent to the non-payment of this debt, PAP has claimed that Pinewood is in breach of the reseller agreements and has made a claim against Pinewood. It is not practicable to estimate any potential financial effect of this claim because it is at a level that Pinewood considers to be entirely disproportionate to the scale of the business. This claim includes a claim for 'loss of profits' which is specifically excluded from the reseller agreement.

Notwithstanding the size of the claim, Pinewood considers PAP's claim to be entirely misconceived and lacking merit such that no provision needs to be made for it on that basis. Pinewood has also applied for summary judgment to dismiss PAP's claim and on Pinewood's claim for payment of the outstanding debt.

25. Risks and uncertainties

The Board maintains a policy of continuous identification and review of risks which may cause our actual future Group results to differ materially from expected results.

The principal risks identified were: failure to adopt the right strategy or failure of our adopted strategy to be effectively implemented or to deliver the desired results, dependence on vehicle manufacturers for the success of our business, failure to meet competitive challenges to our business model or sector, European economic instability affecting the UK in particular impacting used vehicle prices, UK governmental spending constraints, impacts of international import tariffs on motor vehicles, changes to the type of vehicles sold (including the trend away from the purchase and use of diesel vehicles) or the amount of road use, availability of debt funding, funding requirements of the occupational pension scheme, significant litigation or regulator action against or otherwise impacting the Group, failure of systems, reliance on the use of estimates, failure to attract, develop, motivate and retain good quality team members, failure to provide safe working and retail environments, failure to control environmental hazards, failure to comply with the General Data Protection Regulation and the potential impacts associated with the UK's decision to leave the EU. Additionally, there are vehicle credit stocking facilities which are secured against inventory and are made available to the group on a continuous basis with notice periods of between 1 and 4 months. Based on discussions with the main providers of these facilities and historic availability, the directors expect these stocking facilities to remain available to the Group throughout the forecast period. There is also a short-term risk to new car supply from the impact of micro-chip shortages.

The Risk Control Group has met to consider these risks and uncertainties and will continue to monitor how these risks evolve. The Board has recently reviewed the risk factors and confirms that they remain an appropriate assessment of our risks for the rest of the current year. The Board considers the main areas of risk and uncertainty that could impact profitability to be used vehicle prices, economic and business conditions and Sterling/Euro exchange rates.

26. Responsibility Statement

We confirm that to the best of our knowledge:

(a) The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the United Kingdom;

(b) The interim management report includes a fair review of the information required by:

(i) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(ii) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board,

W Berman

Chief Executive Officer

M S Willis

Chief Financial Officer

27 September 2023

INDEPENDENT REVIEW REPORT TO PENDRAGON PLC

Conclusion

We have been engaged by Pendragon Plc ("the Company") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ("ISRE (UK) 2410") issued for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Group to cease to continue as a going concern, and the above conclusions are not a guarantee that the Group will continue in operation.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 3, the annual financial statements of the Group are prepared in accordance with UK-adopted international accounting standards.

The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed set of financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Craig Parkin
for and on behalf of KPMG LLP
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

27 September 2023