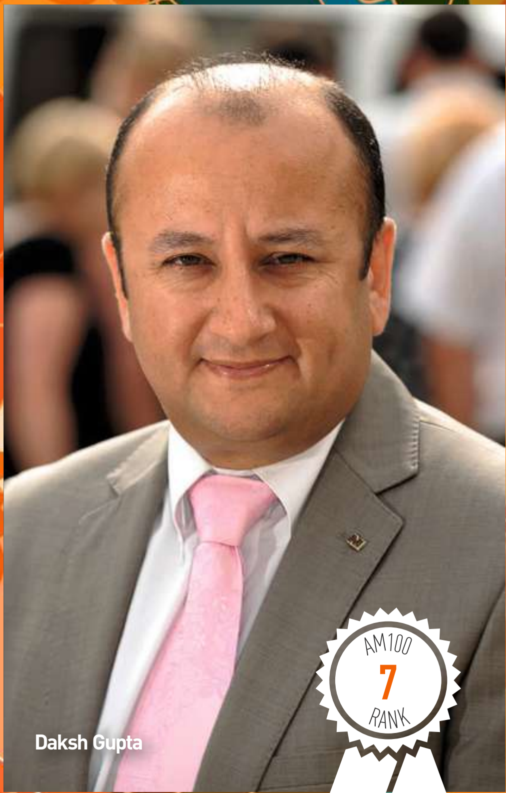
> **WE'VE INVESTED MORE THAN £100M IN OUR PORTFOLIO ON NEW FACILITIES AND UPGRADES, AND HAVE RETURNED MORE THAN £20M IN DIVIDENDS TO SHAREHOLDERS**
> **DAKSH GUPTA, MARSHALL MOTOR HOLDINGS**



Daksh Gupta

Stuart Foulds

TRIUMPHING IN ADVERSITY

2019 was full of optimism with a Brexit deal in sight, but then the Covid-19 pandemic struck, turning the automotive industry upside down. Four leading dealers tell Alex Wright how they have capitalised on a stellar year and their plans to emerge stronger from the pandemic in 2021

HOW PLEASED ARE YOU WITH YOUR GROUP'S 2019 PERFORMANCE?

Daksh Gupta: 2019 was another successful year for the group. It has been the fifth year since we came to market as a public company and during that period the group has had a very strong track record. We have invested more than £160 million in acquisitions, including the acquisition of SG Smith and Ridgeway and 20 other businesses in 2019. We have grown our geographical footprint to 132 operating units across 28 counties. We have consistently grown our business organically, so to put that into perspective, from 2008 through to 2019, every year we haven't just grown through acquisition but also organically on a like-for-like basis, which no other company can say they have done and that's a fact we're very proud of. Our culture has been really strong as well and we have ranked among the best UK workplaces for seven years in a row. Our revenue growth since IPO has grown to £2.3 billion in 2019. Our operating profit grew to £33m last year, which was a really pleasing result. We have also invested more than £100m in our portfolio on new facilities and upgrades, and we have returned more than £20m in dividends to our shareholders as well. In terms of our operational performance as well, we are the benchmark in our peer group according to many analysts. We outperformed the market in all of our KPIs, so if you look at total new sales, despite the fact that the market fell in 2019, we actually grew our car volumes. From a used car perspective, the market was down but we actually grew our used car performance by 6.1%, which is fantastic, as well as aftersales by 3.2%. So, overall, we were really strong and I'm delighted with the results for 2019.

Stuart Foulds: At the time we had significant concerns about the impact of Brexit. But then nothing really happened and on the back of that we actually delivered a really strong result despite significant headwinds. So in terms of performance, we ended up with a revenue of £1.71bn, slightly down on the year before, but that was explained by the switch from parts distribution through TrustFirstParts to the PartsPlus initiative. If you stripped that back

then our revenue was actually up a little bit. In terms of profit, it came in at £13m, which I was pleased with. The key points for me were our net assets ended up at £76m, which was a very strong balance sheet, and in anticipation of Brexit and then of course, subsequently, what became COVID-19, we managed to secure £700m worth of funding. So we had the cash reserves sitting on the side to cover any eventualities, which, in the end, we didn't have to use. It was a good backbone for the continuity of the business, which was important. We sold 105,000 vehicles, took a 50% market share in commercial vehicles, and 23% of car and commercial. Throughout the back end of 2019 we expanded our fleet distribution and preparation facilities where we had the best part of 30 acres of land near Stratford upon Avon. We then opened a second preparation and storage facility in Sherburn, Yorkshire to handle the big fleet and commercial vehicle operations that we run into the north of England and Scotland. In total, we now have about 65 acres of storage and preparation facilities operating out of three sites in Yorkshire, the Midlands and Essex.

Sean Kelly: 2019 (while it feels like a lifetime ago) started like a train with a significant increase on our 2018 performance, continued growth in used cars and aftersales off-set some erosion in new car profitability. This continued through the first six months, flattened in Q3 and then took a downturn in Q4, eroding some of the profit from the first half of the year. This required the business to create a new strategy for 2020, planning for further growth and improved returns.

Shaun Foweather: Our financial year runs from May to the following April. So we were affected by COVID-19 at the end of 2019/20. That said, the previous year, which ended in April 2019, was a record year for us.

WHAT DEVELOPMENTS OR INITIATIVES REALLY HELPED DRIVE THAT ACHIEVEMENT?

Foulds: We have an ongoing programme of improving our business, so in 2019 we invested £5m each in four Ford stores, which were big mothership businesses in Northern Ireland, Bristol and Staines. Additionally, we launched TrustFord Now in 2018, an undertaking that if a customer came into a dealership and saw a new or used car they wanted to buy, then they could take it away within one hour – we pushed that very hard and then added a couple of other initiatives. The second initiative gave the opportunity for a customer to see a vehicle in a dealership and if they wanted to buy it we could move it to their local dealership in 24 hours, but with an actual goal to do that within 12 hours so they could secure the vehicle. Because we have got a strong logistics operation through our fleet business, we are able to do this seamlessly, and that makes us stand out from the crowd in terms of being able to do it very quickly. Then our third initiative was to bring it to the customer's home. We also have a TrustFord Service Now proposition, which we have introduced over the past 18 months and are accelerating, where if the customer drove into one of our dealerships for a routine service unannounced, we would guarantee to service their vehicle within one hour. Also, we introduced our TrustFord Service Now At Home initiative and that's something we're progressing with, building a fleet of home servicing engineers who will come out to customers' homes or places of business to carry out the service at a convenient time.

Kelly: We refreshed our online provision, launching a new group website that allows for a full sales and after-sales journey without the need to visit our premises. We bolstered our apprentices scheme and recruited double the number from the prior year. A continued focus on our management capabilities resulted in some headcount exchange, and a development plan for all line managers and heads of business.

Foweather: Digital is a big part of what we do. All of our digital work is done at our head office in Thorne, Doncaster, and we have our own developers, and social media and Google teams, and we have put a lot of work into making sure our organic presence, especially on Google, has been strong and we are continuing to punch above our weight there. By organic presence, a recent industry survey has ranked us fourth in the UK, which for a dealer group of our size is some feat.

Gupta: We are strong on technology. In-house we have developed business intelligence MI software called Phoenix, which is our IP. We have developed it over the last 12 years. Nobody else has that software. It has helped us to deliver a strong used car performance and that's underpinned our 2019 results as we continue to focus on colleague engagement. We are doing a lot of work around our external marketing through social media, which is very strong, and expanding our brand proposition of Marshall.co.uk. We have started a number of initiatives on national TV around England national football, cricket and rugby games, and we have been increasingly promoting the offering to consumers as we have got bigger.

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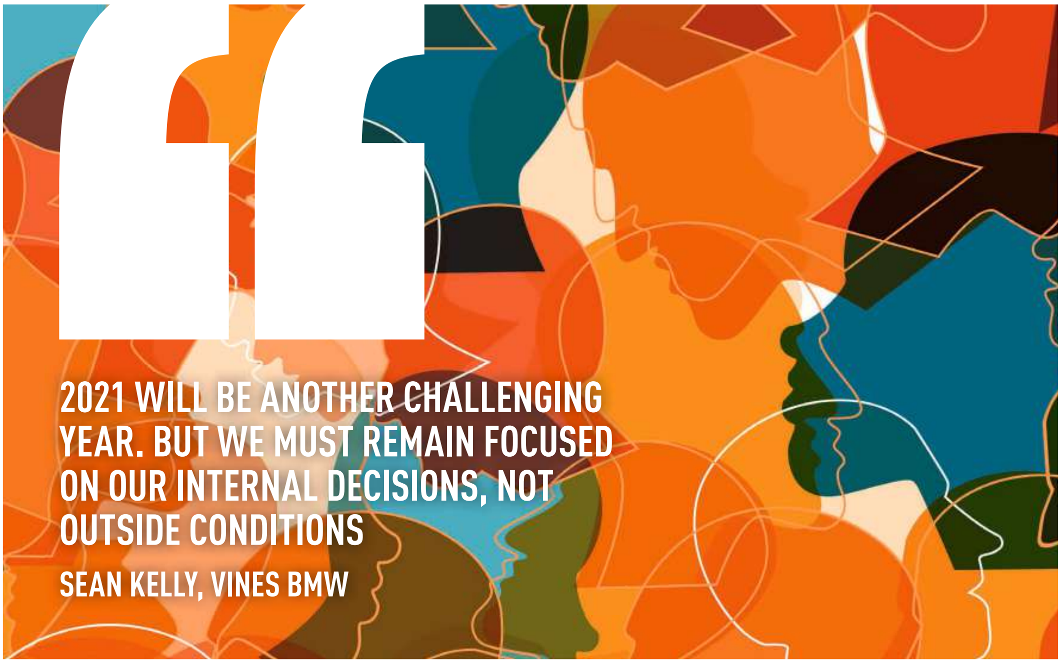
LOOKING AT 2020, WHAT IMPACT HAVE THE EVENTS OF THIS YEAR HAD ON THE GROUP UNTIL NOW?

Foweather: It was a very difficult March and April being in lockdown, but we still came out of the financial year with an overall profit. Since we reopened in June, my staff have responded magnificently in the circumstances and we performed exceptionally from June through to September. In fact, I would go as far as to say they were four of the best months we have ever had for the business. But we would never have achieved it without our people. We have just had our forecast for September and we are on course for the most successful September in our history. We are on track for a bottom line net profit of around £4m for the month. New car sales were down about 7% while used car sales were up 15-20% year-on-year for the period. The growth in used cars is down to pent-up customer demand and people moving away from public transport for safety reasons, as reflected in our auction sales. As far as new cars are concerned, it's a slightly different story, with manufacturers having an issue with supply and lack of investment in products and marketing, stemming from WLTP fines.

Gupta: COVID-19 has already impacted every business out there, particularly in this sector. When we reported our first-half results it showed that we posted an £8.9m loss in the first half. We were very disappointed because we had got such good momentum going into March, and at the time of the March results we released a trading outlook statement that said we were on track to have a strong Q1. But unfortunately lockdown then happened at the worst possible time during the busiest week in the busiest month, so it was just incredibly frustrating. That said, since we reactivated our businesses on June 1, it has been very buoyant and that has given us the confidence to believe we can turn the loss into a break-even position, which is what we are targeting as a board. So we have got a lot of momentum going into the second half. Clearly we have got concerns about what is happening with COVID and then we have got Brexit, which everyone thought had gone away with the election, but that's clearly getting a lot of momentum again, meaning there is still much uncertainty.



Foulds: We started off the year strongly and were looking towards a successful Q1, but in the middle of March we were impacted by lockdown, which obviously affected us on a number of fronts. Firstly, we had a lot of vehicles that had been sold and were awaiting delivery that had to effectively be frozen and put on hold until lockdown lifted. We had many customers on PCP and finance expiries through the lockdown and obviously we had to come to an arrangement with these customers to put the demise of their finance agreement on hold until lockdown was lifted. During lockdown, we furloughed the majority of our colleagues, but we did keep most of our workshops open for key workers, blue light services and the NHS. We kept our PartsPlus service open throughout the entirety of lockdown, again to be able to supply parts for NHS and key workers, and some of the big delivery companies. When we came back to work in June, the spike in business was very much driven by the pent-up demand from those customers whose vehicles were locked down when they should have had them in March. There was a big splurge of customers whose finance agreements had come to an end and who wanted to renew, with a general lift in enquiries, particularly on smaller cars and used cars, where the government advice had been not to use public transport. We have had a fantastically successfully July, August and September. From a new vehicle perspective, we have registered 20,022 in that three-month period. That's about 5,000 up on our normal run-rate. Our Q3 results are also about £5m up on 2019.

Kelly: 2020 is Vines' 40th year anniversary as a BMW dealer. We clearly were unprepared for the lockdown caused by the coronavirus pandemic, and like many businesses we had to react rapidly to an ever-changing environment. This enforced some significant changes in our business, which (a few bear traps aside), has created massive improvements in the productivity and efficiency in our business. We are now fully focused on our CHIPs strategy for the remainder of 2020 and into 2021. This says if an action or process in the business doesn't directly support selling another car, hour or part we don't do it.

WHAT OPPORTUNITIES DO YOU WANT TO CAPITALISE ON IN 2021?

Kelly: 2021 will be another challenging year. While we cannot predict the prevalence of coronavirus, nor the end of the Brexit transition period's impact, we must remain focused on our internal decisions, not outside conditions. Therefore the lockdown learnings of agility and rapidity will remain at the heart of all our actions. The used car market will likely remain buoyant (as the move away from public transport is likely to continue) and a more stable supply and demand basis on new cars suggests a better overall return. We need to ensure we are well-funded to capitalise on the market opportunity.

Foulds: We continue to invest in our property portfolio. With that in mind, we have just opened a big used vehicle supersite in Barnsley. We have big expectations to expand that and make it a much larger operation. Also, we have got a new smart hub opening by Junction 32 on the M62 at the end of October,

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C which is a pop-up store within a shopping centre, where our teams will be showing customers the benefits of the vehicles rather than trying to sell them. Our plan is to open more across different parts of the UK. We are also in the process of investing a huge amount of money in EV charging points and footprints within our dealerships in anticipation of a big increase in EVs. About 70% of our sites have already got the EV points in place. Our mobile Service Now operations and smart repairs is something that we're pushing hard and we'll continue to invest in. Likewise, we are investing heavily in the use of video for workshops and customer car sales, to be able to get the remote part exchange valuations and finance functionality.

Gupta: We want to continue to grow our business. On a like-for-like basis, if we were to continue to grow organically and through acquisition, we have got a strong balance sheet. For the half-year, we reported a net cash position of just under £33m in the bank. We have no pension deficits either, so the business is in a really strong position. Clearly, we have been one of the leading consolidators in the market place. We are going to see the bigger groups get stronger, and rationalisation driven by OEMs as they right-size the networks. But we'll also see a number of the smaller, weaker players exit the market and that will provide opportunities for groups such as ours.

Foweather: We have got to keep up the good work we have been doing recently. But we can get better, as can the motor trade in general. The only reason the likes of WeBuyAnyCar, Carwow and Cazoo managed to get a niche in the market is because us car dealers weren't doing our job as well as we can. We'll learn from that, improve in how we deal with customers and capitalise on new opportunities through the use of digital marketing. The future is looking very bright.

WILL YOU BE ACQUIRING/ EXPANDING OR RESTRUCTURING IN 2021?

Foweather: In the future there will be fewer dealers. Some are going to fall by the wayside and businesses such as ours will take advantage of that. We are already making big strides in that areas, recently acquiring Hodgson in the North East in our first foray into the Toyota and, soon to be, Lexus markets. We are also talking to other new brands that we are looking to bring into the group as we seek to expand the businesses over the next five years. Additionally, we have done some restructuring over the last six months, but the staff numbers we have lost have been minimal and we have only done so organically. We aim to have completed the process by the end of October because we feel it's necessary to move quickly and get it all done in one hit. That way, our existing staff can settle down and get on with doing their job to the best of their ability.

Kelly: We are always keen to expand our business. While direct opportunities in the premium segment are increasingly rare, we'll be ready for any suitable opportunity. For 2021, our plans include developing aftersales and body repair capacity, and a move into more direct retail of non-franchised used cars.

Gupta: In terms of acquisitions, we have bought and sold 161 businesses since I took over as CEO in 2008. So clearly we will continue to grow the business organically and through acquisition, but we will only do so where it makes strategic and financial sense for our shareholders. Quite frankly, if we don't buy anything now it won't be because we haven't tried, it will be because there aren't any out there that are right for us. The appetite, track record, shareholder, board and bank's support are all there, but if we do any deals they have to make sense.

Foulds: There's a degree of consolidation taking place in the Ford franchise right now to reduce the size of the network down to about 210 dealerships. We are part of that consolidation, so we will continue to grow our Ford stores, obviously at the expense of some of the very small businesses. We have already started to do that by moving some of the smaller dealerships into the big motherships, and that will continue. We have got very aggressive plans in terms of PartsPlus business. That has grown and we have now got 25% of the parts business in the UK.

IF YOU HAD ONE MESSAGE FOR YOUR WORKFORCE, WHAT IS IT?

Gupta: My message to our workforce is to continue to do the right things they have always done, and stick to the same values and principles of looking after the customer first as well as acting in the interests of our shareholders, colleagues, suppliers and brand partners. If they do that we will continue to grow as a successful business. And, of course, I want to say a big thank you for all your hard work and dedication.

Kelly: Don't declare victory too soon. In order to continue to grow the business post-coronavirus we need to set out our stall for some record results. They don't happen by accident, they require a clearly defined objective, strong strategy and execution of specific tactics. Sharing this plan with the team, gaining individual and team commitment to the objectives, and executing our tactics are the only ways to guarantee success.

Foweather: A massive thank you and well done to every single person in the organisation. Every one of them has done an absolutely sterling job. I can't praise them enough: they have been outstanding. Keep up the great work you are doing.

Foulds: Let's keep doing what we have been doing because it has proven to be very successful. I'm very proud of the team and want to extend my heartfelt thanks to everybody for their sterling efforts.

> **WE'LL ALSO SEE A NUMBER OF THE SMALLER, WEAKER PLAYERS EXIT THE MARKET AND THAT WILL PROVIDE OPPORTUNITIES FOR GROUPS SUCH AS OURS**
>
> **DAKSH GUPTA, MARSHALL MOTOR HOLDINGS**