Pendragon re-states growth plans amid falling profits in annual financial results

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Pendragon’s share price has rallied despite its publication of full-year financial results which revealed a 19.9% dip in underlying profit before tax.

The AM100's second largest retail group’s 4.5% increase in turnover, to £4.74 billion, and signs of strength in its used car, aftersales and software operations helped to restore some confidence following an October profit warning which prompted The London Evening Standard’s city expert, Simon English, to suggest that the “bottom just fell out of the UK car industry”.

Pendragon’s share price rose by 4p, a bounce-back of around 21%, in response to today's results, which cover the period to December 31, 2017.

But the group’s fall in underlying profit before tax, to £60.4 million, was attributed to declining “new revenue in the year and the margin impacts in the third quarter” and showed the effects of the slackening of the new car market during 2017.

Trevor Finn, Pendragon’s chief executive, said that the group now has a “clear focus and direction to transform the business and double used revenue by 2021”.

He added: “This will be enabled by our market leading software business to provide the online and technology platform and by investment in increasing the used retail and aftersales representation points in the UK.

“We made further progress towards our goal of doubling used vehicle revenue with growth in the period of 15%. We anticipate our performance in 2018 to be in-line with expectations.”

Pendragon now has a total of 184 franchise points and 27 used retail points.

It said that its gross margin in Q3, 2017, fell by 80 basis points over the prior year quarter due to a reduction in new and nearly new vehicle margin, primarily in the premium sector.

The effect was a 7.5% overall decline in underlying new vehicle revenues, to £1.77 billion, for the financial period.

As a result, the group has once again highlighted its new strategic focus on used cars, aftersales and technology, with the roll-out of its Pinewood DMS system into new overseas territories.

It wants to double its used vehicle revenue over the five years to 2021 while overseeing the disposal of its US retail business and a reduction in exposure to the premium sector in the UK.

Signs that Pendragon’s new direction may already be reaping rewards were recorded in a 15.3% increase in used car revenues. Gross profit declined by 1% like-for-like, to £156.3 million, however.

The group said that 12% of its aftersales growth had been organic (like for like), with the remainder “achieved from investments in used retail points”.

It said: “We opened the following seven used retail points in the period: Amersham, Coventry, Dartford, Glasgow, Gloucester, Reading and Sunbury.

“We now have 27 used retail points in total. We are expecting to open four additional used retail points in the first half of 2018, with a further four additional sites in the second half of 2018.”

Pendragon’s aftersales departments fared better, with underlying revenues up by 6.5% like-for-like to £350.6 million and gross profit up by 1.1% to £191.2 million.

Meanwhile, it reported that its software revenue had risen by 9.7%, with gross profit and operating profit up £0.9 million, as leasing revenues jumped 39% with double-digit growth with a “significant growth” in gross profit and operating profit up £4.8 million to £13.9 million.

Pendragon’s outlook on 2018 said that the group “broadly concur” with the SMMT forecast for UK new car registrations being 6% lower in 2018 and 2% lower in 2019.

It said that disposals within the premium sector would generate £100 million of capital for the group as it drove its objectives in used cars and its global software business, in particular.

A statement said: “Following a challenging trading period in quarter three of 2017 in particular, we experienced a recovery in quarter four and expect to make progress in 2018 on our strategic objectives.”

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