



# BUSINESS UPDATE

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Q3 RESULTS TO 31 DECEMBER 2022



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# AGENDA

1. Q3 business update
2. Q3 market reporting : electric vehicles & residual values
3. Financial performance
4. Closing remarks, Q&A

**Presenters:**

Tim Buchan  
Mark Phillips

CEO  
CFO



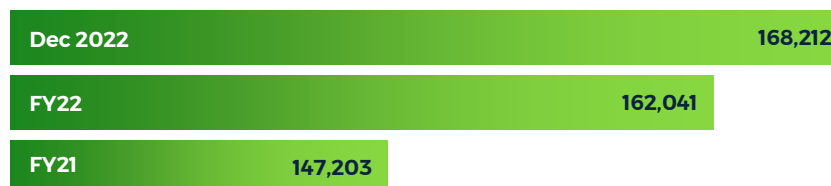
# Q3 TO 31 DEC 2022: HIGHLIGHTS

## BUSINESS HIGHLIGHTS

- Adjusted EBITDA for nine months to date stable at £59.3m vs. £59.7m in equivalent period last year (-0.6%)
- Solid operating and financial performance, despite the “macro”
- Credit defaults and delinquencies across all divisions still negligible
- Order bank remains strong (>14k units in total) including Consumer and Commercial
- Total fleet growth YoY of 6.5% to 168,212 and our funded fleet by 9.4% to 74,486
- Increased our securitisation facilities by £250m to £975m during the quarter and extended to November 2025
- Supply chain easing, but continues to impact deliveries (and terminations)
- Consumer confidence impacts ZenAuto demand as consumers go “risk off”, but good sign of recovery into Q4
- Similar trend on smaller scale in salary sacrifice – but mitigated by favourable BIK environment
- Autumn Statement removed BIK “cliff edge” and supports transition to BEV. BIK rates set to remain low until at least March 2028.

## FLEET DYNAMICS

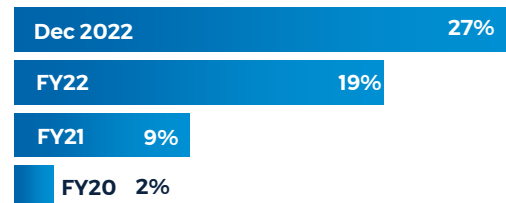
### TOTAL FLEET



### FUNDED FLEET

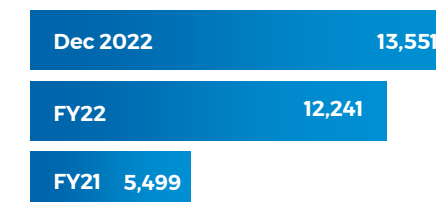


### CORPORATE FUNDED FLEET: BEVs



## ORDER BOOK TRENDS

### CORPORATE ORDER BOOK



### CORPORATE ORDERS: CHANGING FLEET

BEV AS % OF ORDERS	BEV + HYBRIDS AS %
<b>56%</b>	<b>75%</b>

MOST POPULAR BEV ON ORDER

**Audi Q4**



# ROBUST OPERATIONAL PERFORMANCE DESPITE THE CURRENT MACRO-ECONOMIC CONDITIONS

## CORPORATE

- **Funded fleet up** by c.2k units in Q3
- **Termination volumes up** 10% versus Q2 and up 7% versus Q3 of last year
- **Supply chain challenges** limit key-for-key exchanges and depress deliveries and terminations. Signs of easing in Q3 with record deliveries in recent years.
- RV Profits/unit **remain at elevated levels**

### Effects of current “macro” environment

- **Robust performance** via contracted and recurring incomes
- Cashflow down in quarter due to discretionary stock purchases, delayed deliveries and factors linked to increasing swap rates. Significant improvements to date in Q4
- RV profits per car remain strong a trend which continued into Q4 despite falls in EV prices
- **Salary Sacrifice** orders are robust, but **affected by consumer confidence, but again improving in Q4**
- Positive changes in **Autumn Statement. Longer runway in “dash to electric” (2028)**

## COMMERCIAL

- Managed fleet and **total fleet decreased** marginally in Q3 (<1k units)
- Total RV Profits are 34% lower vs Q2 driven by lower volumes. We anticipate a reversal in Q4
- **Supply chain challenges** similar to Corporate, but lower “churn” and longer vehicle lives, **impact is mitigated**

### Effects of current “macro” environment

- **Stable performance** via fleet management
- **Sector focus** supports performance, e.g. non-discretionary areas such as grocery
- **Trailer rental utilisation is down** on last year’s peak, e.g. driven by lower goods transportation given the current consumer environment
- We are experiencing some **increasing maintenance cost inflation**

## CONSUMER

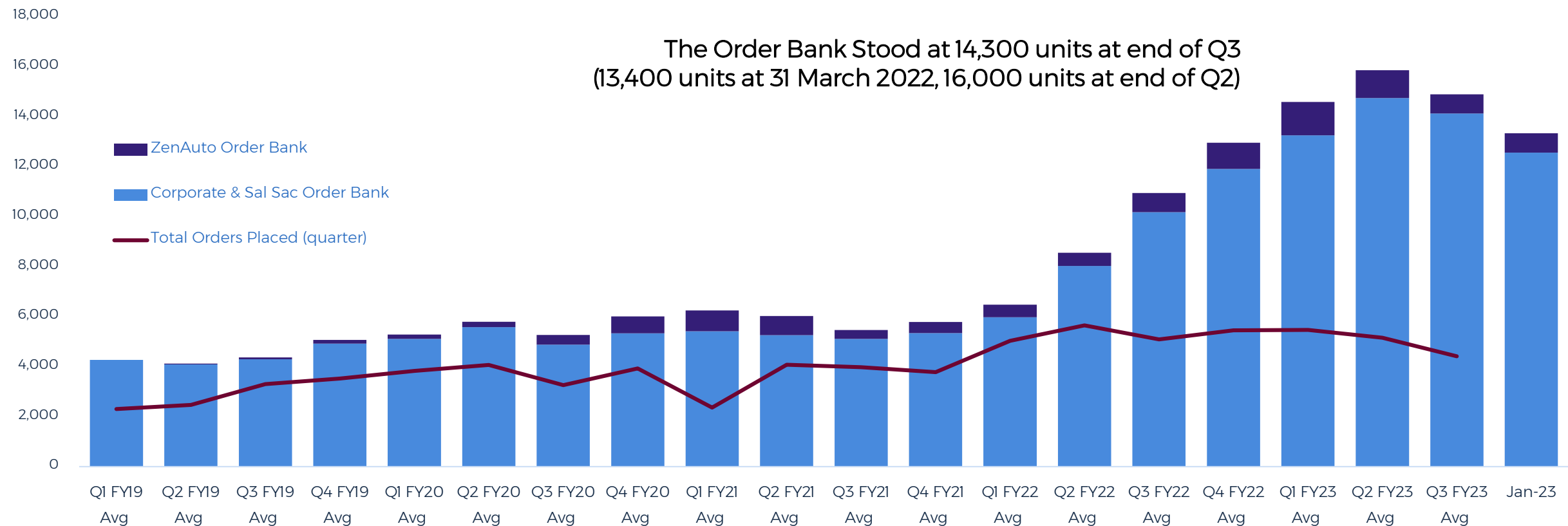
- **ZenAuto fleet** up by c.500 units in Q3
- ZenAuto fleet +17% this year, below expectations: supply chain and consumer confidence
- ZenAuto has slipped into small loss position given deferral of consumer demand
- There will be some exceptional stock provisions likely to be around £2.8m required in Q4
- White Label has grown fleet by 11% since Y/E, but growth slowed in Q2 & Q3 (similar dynamics to ZenAuto)

### Effects of current “macro” environment

- Consumer confidence fell in Q3 and we observed less website traffic and orders were down
- However, we believe that this is a **deferral of demand** and prospects remain healthy
- Good recovery of demand and orders into Q4
- **Customer defaults remain negligible**, but we remain alert

# ENCOURAGING SIGNS OF SUPPLY CHAIN UNLOCKING WITH 27% MORE NEW VEHICLE DELIVERIES IN Q3 THAN Q2

CORPORATE & ZENAUTO ORDER BANK (number of vehicles)



- Order intake has declined in Q3 but still at very positive levels
- Combined with the supply chain easing moderately, and therefore deliveries increasing significantly this has caused the order bank to decrease

# SUPPLY CHAIN CHALLENGES HAVE EASED IN Q3 BUT THE UNWIND IS GRADUAL

## LEAD TIMES BY Q3

AVERAGE LEAD TIME AT ORDER:

**~110-130 days** pre-Covid

**~210 days** Jan 2022

**~240 days** after Ukraine

**~190 days** Oct to Dec 2022

AVERAGE OBSERVED TIME TO DELIVERY:

**Improved again since the end of December now standing at 178 days**

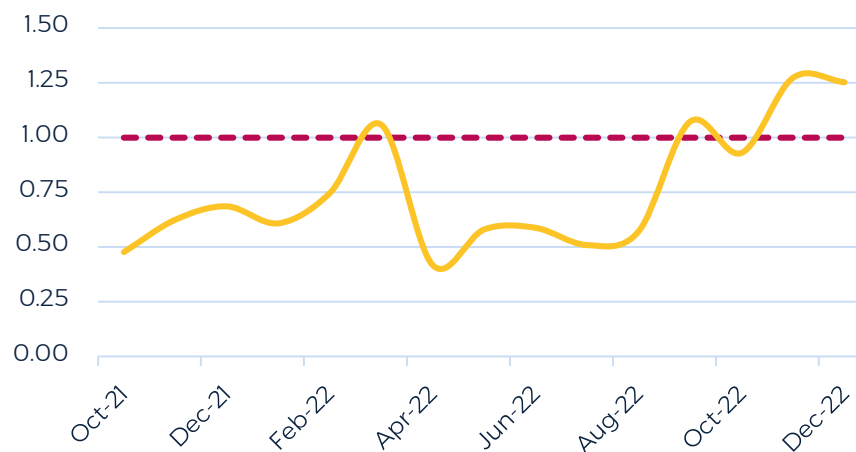
LONGEST LEAD TIMES:

**>500 days**

## ORDER INTAKE VERSUS SUPPLY

**Since end of Sep:**

Number of average deliveries remains above average orders, indicating a continued unwinding of the order bank

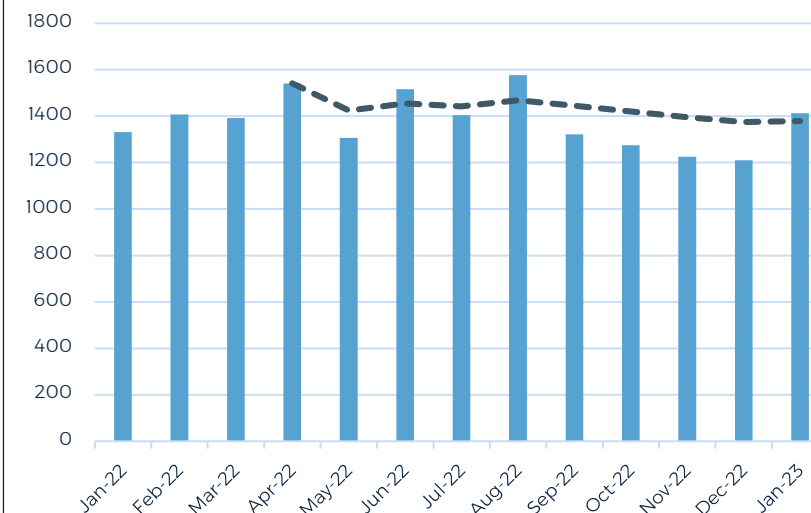


i.e. ratio of orders taken to deliveries of vehicles to dealerships for our customers

On a static order book, "par" would be 1x – i.e. a new order is offset by one delivery

## CORPORATE ORDER TRENDS

**LAST TWO MONTHS OF Q3's ORDERS ARE DOWN IN LINE WITH SEASONAL TRENDS AND THE MACRO, BUT BOUNCED BACK IN JANUARY**





# OUR NATURAL HEDGES & HOW THEY TYPICALLY UNFOLD

## VARIATION OR RISK

### Shortage of vehicle supply, delays to delivery and fleet growth

Knock-on impact on delivery- and disposal-related incomes  
Fewer termination volumes (lower RV profits – volume variance)  
Lower fleet growth → margin & churn delayed to later periods

### Higher cost of new vehicles

Caused by restricted supply or by greater mix of BEVs

### Lower cost of new vehicles

e.g. reducing cost of BEVs over time

### Inflation impacts new car prices, fixed maintenance net incomes and overheads

Majority of our funded fleet is on maintenance contracts  
Inflation in parts, tyres and labour costs impacts profitability of maintenance contracts  
Higher car prices  
Higher overheads (mainly salaries)

## NATURAL HEDGE EFFECT

### Delays to delivery...indicates lack of supply

Lack of supply pushes used vehicle prices up: higher RV Profits, but lower volumes  
Existing vehicles goes into extension, favourable margin  
Higher car rentals used as a substitute (i.e. a “lead in” vehicle)

### Higher purchase cost implied higher lease margin / unit

Vehicles priced on % yield, rather than £/unit margins  
As long as RVs move in-line, little impact on affordability – if RV do not move in-line, financing element is relatively small part of total cost of ownership  
Leasing more attractive in times of rising prices versus buying outright as customer only pays depreciation plus interest

### Lower up-front cost stimulates demand, driving volume

Drives growth in Consumer BEVs demand and salary sacrifice in Corporate  
Lower price of vehicles implies expanding supply, indicating space for discounts on large purchase commitments (e.g. in ZenAuto) and faster growth

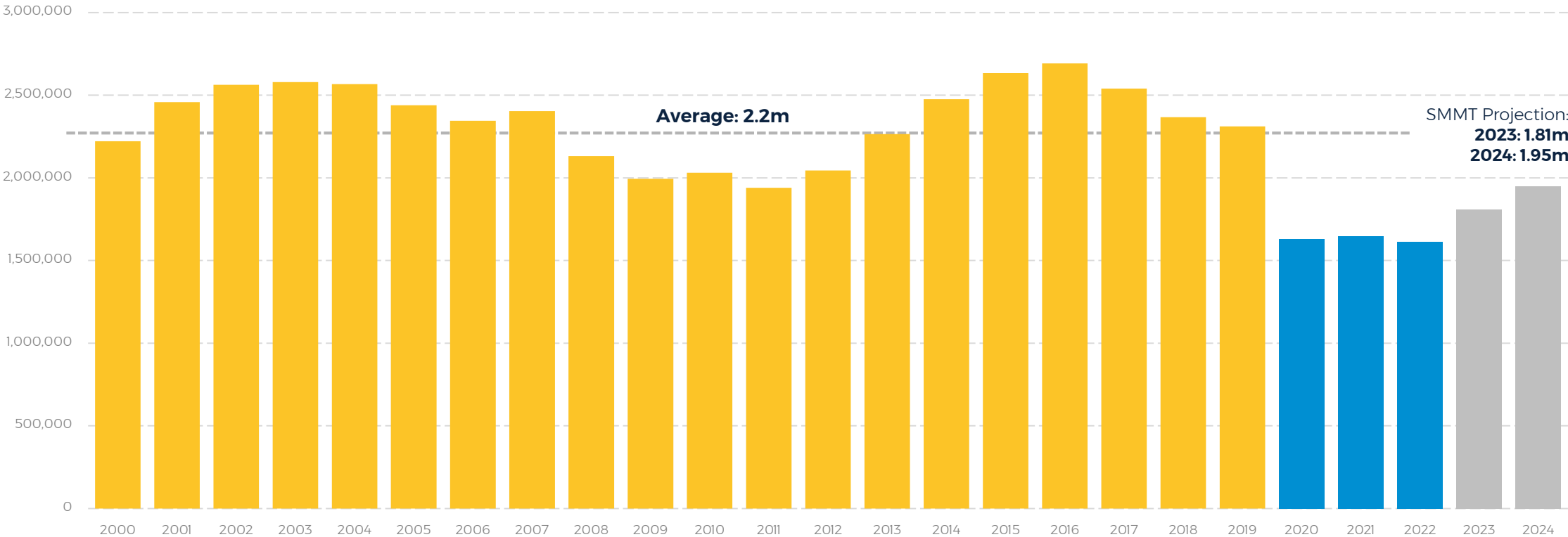
### Inflation generates growth in nominal values of other assets / incomes

Trailer and car rental prices  
Used vehicle prices (RV profits)  
New vehicle purchase prices (comments re. yield above) → higher £ margins mitigate maintenance cost and salary inflation to large extent



# INDEPENDENT FORECAST: DEFICIT IN NEW CAR REGISTRATIONS TO CONTINUE IN 2023

In 2022 UK car registrations fell to lowest level in 30 years. Forecast for mild recovery in 2023, but estimated volumes are still short versus the previous 'norm'

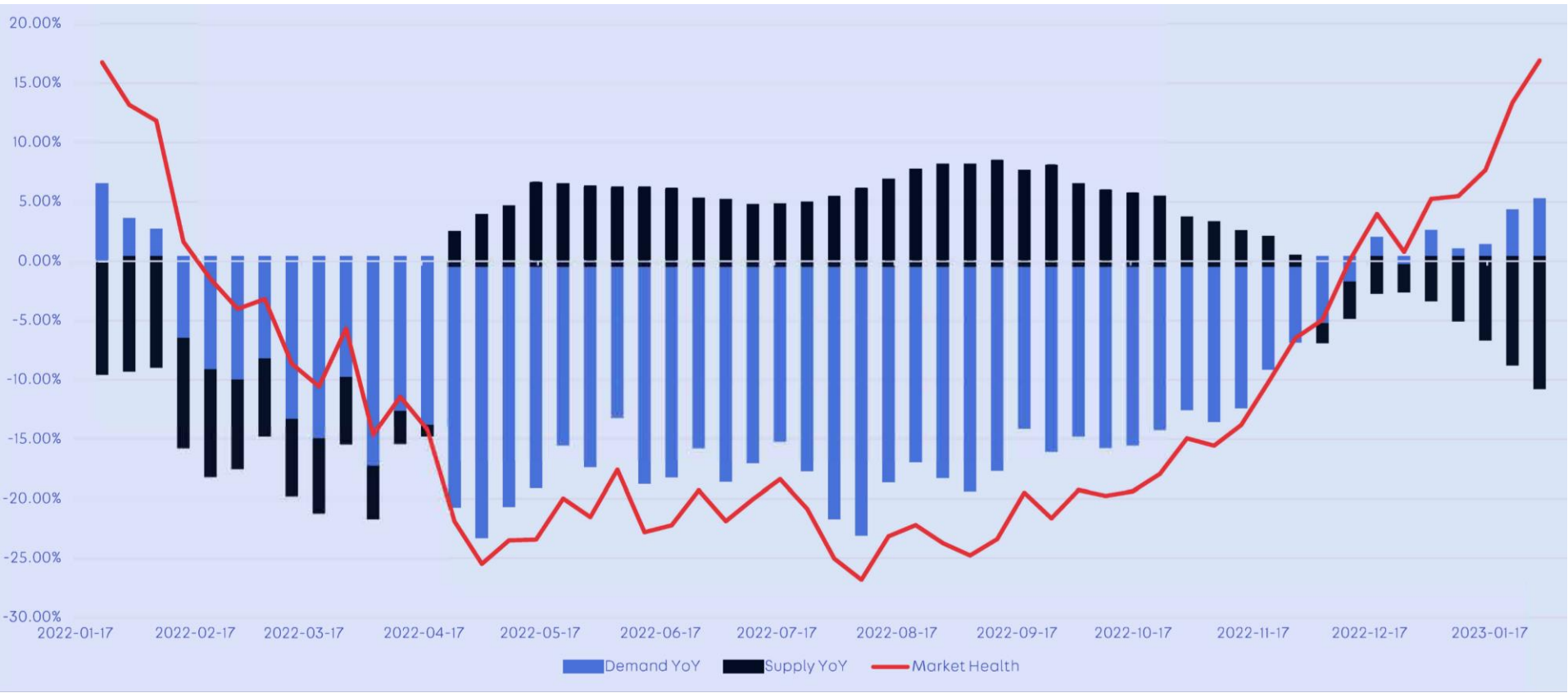


SMMT: UK new car registrations since 2000

Approx. 2.5m new vehicle registrations, equivalent to a year of supply versus pre-Covid times, is now "missing" from the second hand vehicle market

# USED VEHICLE INDICATORS: DEMAND IS INCREASING YOY AS SUPPLY STARTS TO DROP

## Market Health: Used Cars



Source: Autotrader Market Insight Data Year on Year movement

Despite the cost-of-living crisis, used vehicle demand has shown an upturn versus 2022.

The view is that 80% of consumers are at least as confident as last year about affording their next car. Marketplace visits are also up 14% versus January 2022.

The sustained reduction in new car registrations means that less used vehicles are entering the market.

UK fleets typically run on three-to-four-year cycles. Declining fleet registrations since 2020 is resulting in an undersupply of one-to-three-year-old vehicles in the used marketplace, keeping residual values high.

# AGENDA

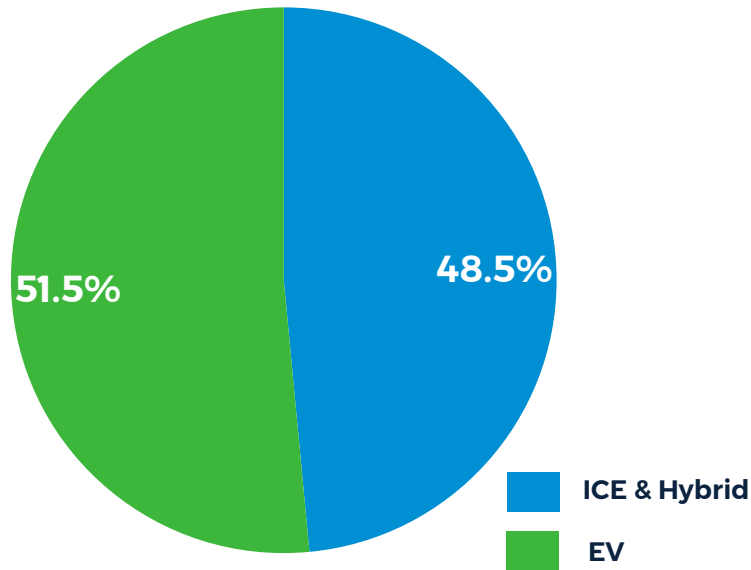
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# BEV MARKET UPDATE & BEV STRATEGY

## Summary of Key Messages

Residual Value by Fuel type



£'000s	ICE & Hybrid	EV	Total
Live	348,275	315,405	663,680
Order bank	76,122	135,333	211,455
<b>Total</b>	<b>424,397</b>	<b>450,738</b>	<b>875,135</b>

### BEV Strategy and Structural Market Drivers

- Our BEV strategy remains unchanged
- 27% of our corporate fleet by volume is BEV now, we expect this to transition towards BEV further over the coming years driven by favourable BIK taxation environment

### Market Update

- BEV prices have recently softened and if they stay there it will be easier for us to achieve this transition as BEVs become more affordable
- ICE and hybrid prices are still high, in line with structural supply/demand imbalance as seen in our order book, very low registrations in recent years and robust consumer demand

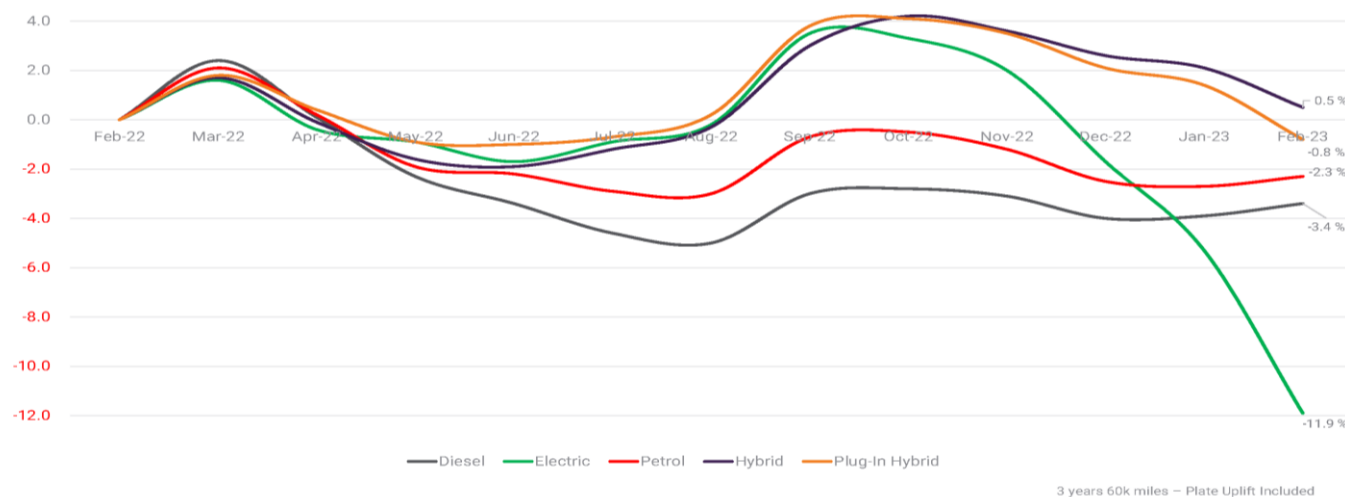
### Financial Impact

- We hold cars on average for 3-4 years, so we are not material sellers of BEVs over the next two financial years
- RV profits remain healthy in Q3 and into Q4
- We have taken a typically prudent approach to RV risk management, so under reasonable assumptions the financial impact of softened BEV pricing will be limited
- Despite the fall in EV prices our average RV profitability remains broadly in line with expectations in Q4 to date
- Non-BEVs have stayed higher for longer and these are largely offsetting lower BEV prices



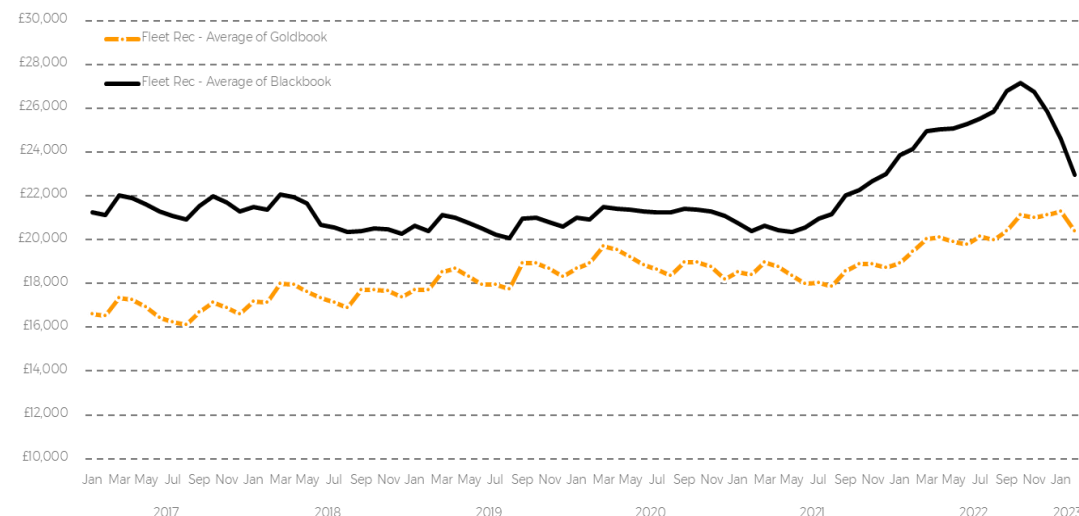
# RECENT EV PRICE MOVEMENTS AND RV POSITIONING

Cumulative & value movement by fuel type – 12-month view



Source: CAP Webinar

Zenith Price Index – EV basket only



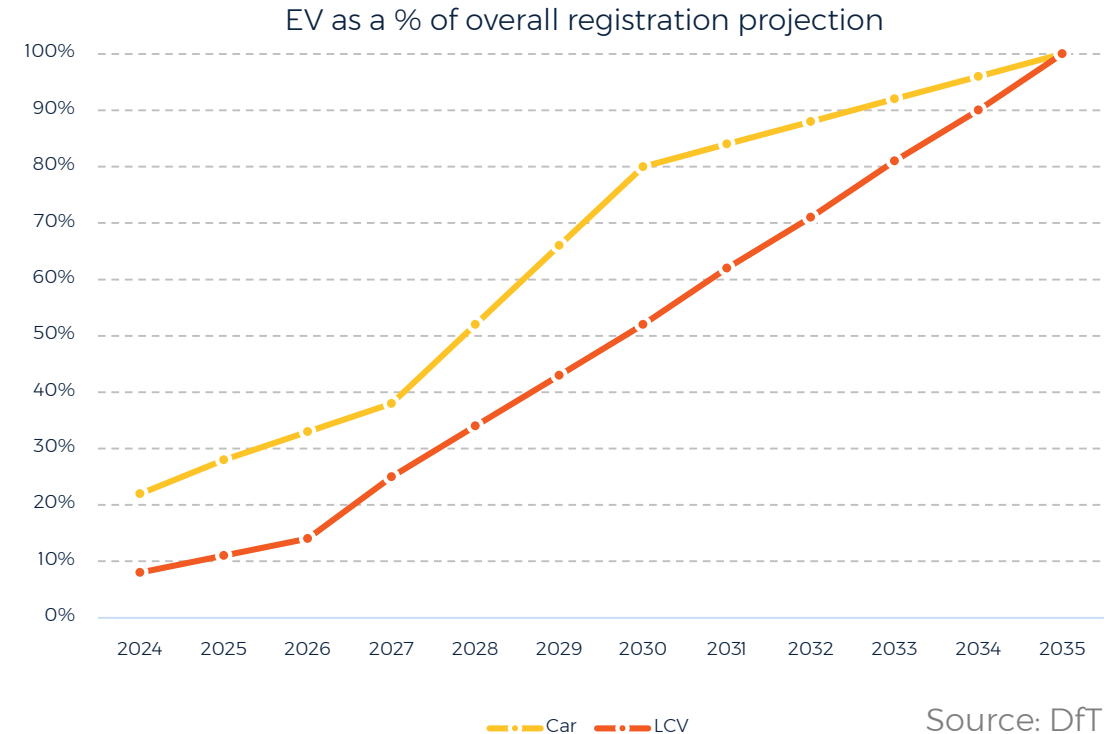
Source: Cap data and Zenith

- In the last couple of months, we have seen a fall in EV prices in the second-hand market, this has coincided with a number of manufacturers discounting new vehicles significantly in calendar Q1
- Part of this fall eliminated gains made earlier in the year, but on average EV prices ended the 12-month period to the time of writing 12% lower than they started at typical de-fleet age
- Note, these price falls are measured against current market values represented by CAP Blackbook. We use CAP Goldbook to price RVs and typically price underneath that. CAP Blackbook has been significantly higher than Goldbook for an extended period of time (see graph above)
- We continue to be prudent in our residual value risk management and residual value quoting positions are adjusted monthly to reflect changes in manufacturer volumes, prices and product desirability
- Prices on ICE vehicles have remained very strong, increasing in February, against the usual seasonal trend
- There is a requirement for the UK to transition away from ICE vehicles in the new car market by 2030, most likely to Battery Electric Vehicles (BEVs)
- Indeed, the DFT is likely to mandate increasing targets for manufacturers to hit for deliveries of zero emission vehicles (see overleaf)

# DfT ZEV MANDATE

Expected to be delivered before Spring 2023

- The DfT is in the final stages of a consultation to produce a ZEV mandate to help support the growth of the EV market
- DfT's current proposition is to set out legally binding annual targets that manufacturers must meet out to 2035
- Car and LCV < 3 tonnes to be ZEV by 2030
- Certain other low emission vehicles (still to be defined, but hybrids) will be able to be sold to 2035
- The plan is for OEMs to gain ZEV certificates for each ZEV registered in a calendar year. The number of certificates required to be met depends on the total number of deliveries
- DfT are proposing to create a mechanism that will allow OEMs to buy and sell ZEV certs between them
- An oversupply of Certificate in one year to be banked against future years is not being considered
- Proposal is to fine manufacturers for missed targets



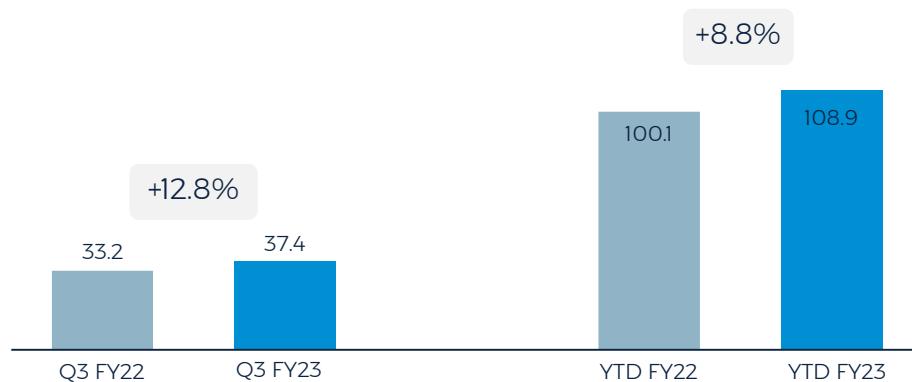
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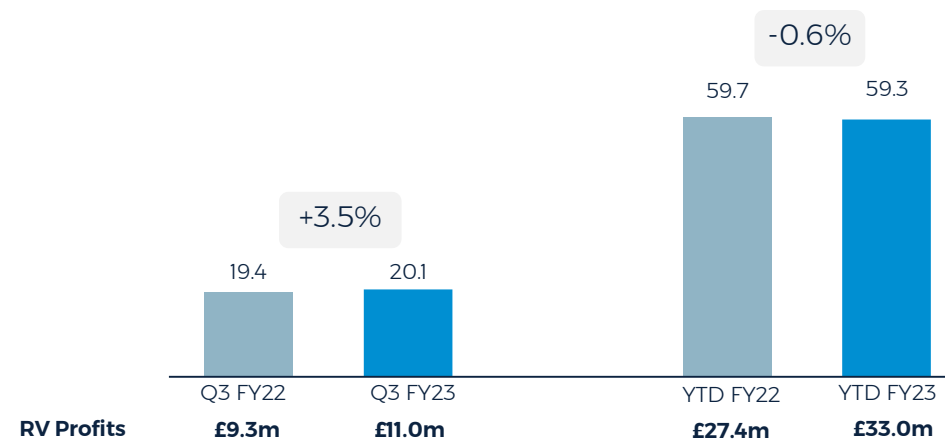


# SUMMARY FINANCIAL PERFORMANCE

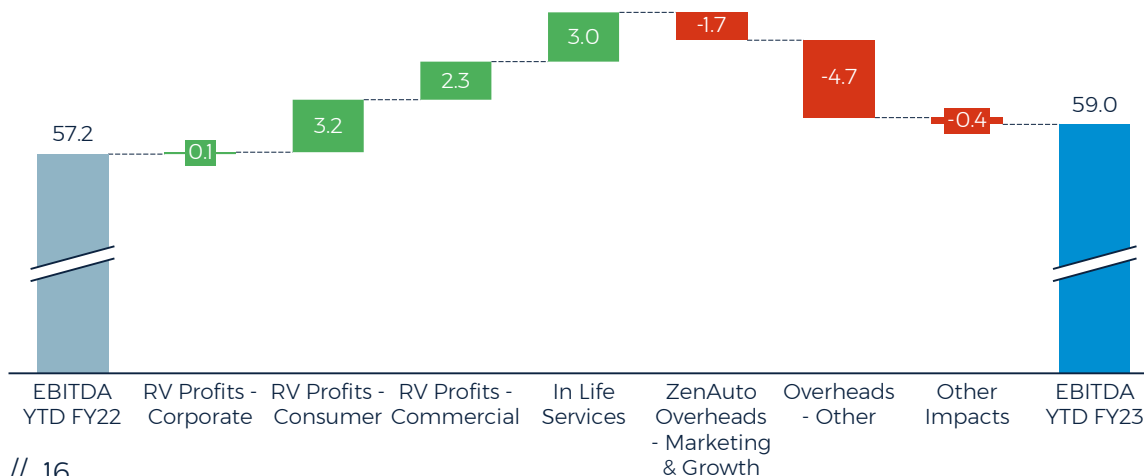
## GROSS PROFIT (£m)



## ADJUSTED EBITDA, i.e. PRE- ZENAUTO (£m)



## EBITDA BRIDGE YTD Vs. PRIOR YEAR (£m)



## CASH FLOW & CONVERSION (£m, %)

### Cash conversion

Adjusted EBITDA  
Adjusted Operating Cash Flow  
Adjust for VAT  
Adjusted Operating Cash Flow  
Cash conversion

	Q3 FY22	Q3 FY23
Adjusted EBITDA	57.2	59.0
Adjusted Operating Cash Flow	40.3	10.3
Adjust for VAT	(1.7)	-
Adjusted Operating Cash Flow	38.6	10.3
Cash conversion	67%	18%

VAT relates to UK Government's Covid-19 VAT deferral scheme, which was deferred from FY20 and repaid in FY22

See page 21 and 22 for explanations of P&L and cashflow movements



# PROFIT & LOSS ACCOUNT, Q3

## Financial summary: P&L Q3

GBPm	Q3 to Dec-21	Q3 to Dec-22	Change (£m)	Change (%)
<b>Turnover</b>	<b>128</b>	<b>164</b>	<b>36</b>	<b>21.7%</b>
<i>% growth</i>		<i>27.8%</i>		
<b>COGS<sup>1</sup></b>	<b>(95)</b>	<b>(126)</b>	<b>(31)</b>	
<i>% revenue</i>	<i>(74.1%)</i>	<i>(77.2%)</i>		
<b>Income / Gross Profit</b>	<b>33.2</b>	<b>37.4</b>	<b>4.3</b>	<b>11.4%</b>
<i>% margin</i>	<i>25.9%</i>	<i>22.8%</i>		<i>(3.0 pts)</i>
<b>Operating Expenses</b>	<b>(15)</b>	<b>(17)</b>	<b>(2)</b>	
<i>% revenue</i>	<i>(11.9%)</i>	<i>(10.7%)</i>		
<b>Reported EBITDA<sup>2</sup></b>	<b>17.9</b>	<b>19.9</b>	<b>2.0</b>	<b>10.0%</b>
<i>% margin</i>	<i>14.0%</i>	<i>12.2%</i>		<i>(1.8 pts)</i>
<b>ZenAuto loss</b>	<b>1.5</b>	<b>0.1</b>	<b>(2.0)</b>	
<b>Adjusted EBITDA</b>	<b>19.4</b>	<b>20.1</b>	<b>0.7</b>	<b>3.4%</b>
<i>% margin</i>	<i>15.1%</i>	<i>12.2%</i>		<i>(2.9 pts)</i>

## Comments

- Q3 has continued the pattern described in the Q2 results
- i.e. low deliveries and low terminations as a result of supply chain challenges, but higher RV profits (on a per unit basis) and higher rental incomes in Corporate (brokerage)
- Income / Gross Profit growth is driven by
  - +£3.5m up in Corporate, +£1.5m up in Consumer but -£0.7m down in Commercial
  - Fleet growth drives growth in the Consumer division, whereas Corporate is impacted positively by vehicle disposal profits per unit and growth of in-life incomes (e.g. Corporate rental). Commercial impacted by lower utilisation and high maintenance costs.
- Higher overheads reflect investment into the business to:
  - Support marketing and invest in people and platform in ZenAuto
  - Recruit and retain colleagues, particularly in areas that support the growth of our fleet (much of which is latent in the order bank, but still requires servicing of the customers / drivers)
- ZenAuto EBITDA loss of £1.5m in Q3 in prior year improved to a loss of £0.3m in Q3 of the current year
  - Given that the business is still nascent and developing its book towards maturity, we continue to remove the ZenAuto results for Adjusted EBITDA

Notes: Prepared under UK GAAP

- COGS represent i) securitisation and other funding costs, and vehicle depreciation where applicable, included in Lease Margin, ii) pass-through costs of in fleet management expenses and other in life income sources (i.e. where Zenith takes commission), and iii) the direct costs of our owned workshops and depots (in Commercial division)
- Excludes impact of goodwill amortisation, amortisation of acquired intangibles and exceptional items

# PROFIT & LOSS ACCOUNT, Q3 YTD

## Financial summary: P&L Q3 YTD

GBPm	Q3 YTD to Dec-21	Q3 YTD to Dec-22	Change (£m)	Change (%)	LTM to Dec-22	LTM to Dec-21
<b>Turnover</b>	<b>403</b>	<b>483</b>	<b>80</b>	<b>16.6%</b>	<b>669</b>	<b>557</b>
<i>% growth</i>		<b>19.9%</b>				
<b>COGS<sup>1</sup></b>	<b>(302)</b>	<b>(374)</b>	<b>(71)</b>		<b>(524)</b>	<b>(428)</b>
<i>% revenue</i>	<b>(75.1%)</b>	<b>(77.4%)</b>			<b>(78.3%)</b>	<b>(76.9%)</b>
<b>Income / Gross Profit</b>	<b>100.1</b>	<b>108.9</b>	<b>8.8</b>	<b>8.0%</b>	<b>145.0</b>	<b>128.8</b>
<i>% margin</i>	<b>24.9%</b>	<b>22.6%</b>		<b>(2.3 pts)</b>	<b>21.7%</b>	<b>23.1%</b>
<b>Operating Expenses</b>	<b>(43)</b>	<b>(50)</b>	<b>(7)</b>		<b>(69)</b>	<b>(56)</b>
<i>% revenue</i>	<b>(33.5%)</b>	<b>(30.5%)</b>				
<b>Reported EBITDA<sup>2</sup></b>	<b>57.2</b>	<b>59.0</b>	<b>1.7</b>	<b>2.9%</b>	<b>76.5</b>	<b>72.6</b>
<i>% margin</i>	<b>14.2%</b>	<b>12.2%</b>		<b>(2.0 pts)</b>	<b>11.4%</b>	<b>13.0%</b>
<b>ZenAuto loss</b>	<b>2.5</b>	<b>0.4</b>	<b>(2.1)</b>		<b>1.4</b>	<b>3.5</b>
<b>Adjusted EBITDA</b>	<b>59.7</b>	<b>59.3</b>	<b>(0.4)</b>	<b>(0.6%)</b>	<b>77.9</b>	<b>76.1</b>
<i>% margin</i>	<b>14.8%</b>	<b>12.3%</b>		<b>(2.5 pts)</b>	<b>11.6%</b>	<b>13.7%</b>

Notes: Prepared under UK GAAP

1. COGS represent i) securitisation and other funding costs, and vehicle depreciation where applicable, included in Lease Margin, ii) pass-through costs of in fleet management expenses and other in life income sources (i.e. where Zenith takes commission), and iii) the direct costs of our owned workshops and depots (in Commercial division)
2. Excludes impact of goodwill amortisation, amortisation of acquired intangibles and exceptional items

## Comments

- YTD trading reflects the moderate growth profile in the key driver of earnings: Funded Fleet
  - Income / Gross Profit has grown steadily by 8% YTD
    - ▶ Funded fleet growth has tended to be at moderately lower margins than the existing fleet and the de-fleeting vehicles (driven by recent interest rates rises which impact cost of funds of assets in the period before funding is hedged), and
    - ▶ Incomes driven by vehicle turnover activity have been affected by lower volumes of deliveries and terminations (although increasing in recent months)
    - ▶ e.g. Corporate termination volumes up 10% on Q2, and up 7% on Q3 in the prior year
- These factors are offset by:
- ▶ Growing in-life incomes in Corporate Rental
  - ▶ Growth in our consumer books (both ZenAuto and White Label)
- Further investment in our platforms and people (both recruitment and retention) causes higher overheads y-o-y (refer to previous slide)
  - Net impact is that EBITDA has seen some growth (up 2.9%) in Q3 YTD, with the supply chain challenges continuing to impact earnings growth until deliveries and terminations begin to flow more freely
  - LTM Adjusted EBITDA of £77.9m is up £1.8m (+2.4%) on the £76.1m as at Dec 2021. LTM Income/GP of £145m includes £33.0m of RV Profits (23% of Income)

# CASH FLOW, YTD

## Financial summary: CASH FLOW YTD

GBPm	FY22 YTD	FY23 YTD	Change (£m)
<b>Reported EBITDA</b>	<b>57.2</b>	<b>59.0</b>	<b>1.7</b>
Movements in WC excluding credit enhancement <sup>1</sup>	(6)	(25)	(19)
Credit enhancement	(4)	(24)	(20)
<b>Change in working capital</b>	<b>(9)</b>	<b>(49)</b>	<b>(39)</b>
<b>Capex</b>	<b>(8)</b>	<b>(12)</b>	<b>(4)</b>
<b>% revenue</b>	<b>1.9%</b>	<b>2.4%</b>	<b>0.5%</b>
<b>Cash flow from operations</b>	<b>40</b>	<b>(1)</b>	<b>(41)</b>
<b>One-off credit enhancement</b>	<b>29</b>	<b>-</b>	<b>(29)</b>
<b>Tax</b>	<b>(1)</b>	<b>(3)</b>	<b>(3)</b>
<b>Refinancing costs (senior debt / SSNs / securitisation)</b>	<b>(8)</b>	<b>(3)</b>	<b>5</b>
<b>VAT deferral scheme (COVID-19)</b>	<b>(8)</b>	<b>-</b>	<b>8</b>
<b>Free cash flow</b>	<b>53</b>	<b>(8)</b>	<b>(61)</b>
RCF repayments	(20)	-	20
Cash interest	(27)	(30)	(3)
<b>Net cash flow</b>	<b>6</b>	<b>(38)</b>	<b>(39)</b>
<b>Net senior debt* (£m)</b>		<b>444</b>	

Notes: Prepared under UK GAAP  
1. Largely discretionary stock purchase

## Comments

- Core cash flow in Q3 YTD is impacted by significant credit enhancement and unfunded stock vehicles in ZenAuto. Unfunded stock balance has reversed in Q4
- The key items were:
  - Discretionary purchase of £23m of stock for consumer division which remained unfunded at end of Q3. Due in part to £6m of Stellantis stock which should have been delivered to customers by end of Dec, but was marooned at dealerships due to a software error in the Stellantis system preventing delivery of the order bank (not just Zenith specific, impacting all their customers). The remaining unfunded stock is expected to be funded through securitisation once we have set up a forward flow facility, which we are presently working with the banks to set up. We have reduced stock levels pending delivering these facilities and this has more or less fully reversed by the end of February.
  - £16.3m margin erosion arising from the effect of rising swap rates over order lead times over the last few months arises on affected deliveries made until the end of December. Whilst the P&L impact is spread over the life of the lease it manifests itself on day one as a cash hit in the form of additional credit enhancement requirement when funded through the securitisations facilities. This is temporary working capital that will run off when these vehicles run off the fleet. There will be another £6m-£8m of this to run through the books over next few months assuming swap rates stay relatively stable
  - In the prior year, the repayment of VAT that was deferred under the government's Covid-19 VAT scheme

In the current year to-date, fees and expenses relating to the refinancing of Jan 2022, but paid in the current year

## Funding / liquidity

- Net debt at Dec 2022 was £458m, excluding £13.9m of cash held in the securitisation SPVs. RCF undrawn
- Securitisation: £656m drawn at Dec 2022 (vs. £975m facilities)
- Freely available cash resources at December 31, 2022, of £8.2 million in addition to the undrawn capacity on £65.0 million revolving credit facility

# AGENDA

1. Q3 business update
2. Q3 market reporting : electric vehicles & residual values
3. Financial performance
4. Closing remarks, Q&A





# CLOSING REMARKS

## PERFORMANCE

- Growth in fleet in Q3
- EBITDA remains stable this year
- Significant order book underpinning meaningful future growth as supply chains unlock
- Supply chain conditions are improving
- Delivering on decarbonisation
- Increased and extended the securitisations to fund our prospective fleet growth and order bank deliveries
- Low cash flow in the quarter, but improved in the following quarter
- Credit defaults and delinquencies across all divisions remain negligible

## OUTLOOK

- Consumer confidence: deferral of major purchases impacts discrete channels of the group
- However, natural hedges and diversification counteract the “macro” effects
- Positive news from Autumn statement on BiK rates on BEVs to 2028 – certainty for our customers / drivers beyond the previous 2025, at low BiK rates (1-5% tax)
- We will have c£4m of one-off exceptional costs in Q4, £2.8m of stock write down in ZA given surplus aged stock following slow demand in Q3 and £1.2m of acquisition deal abort fees and market diligence fees
- Approx. 2.4m of “lost registrations” over 2019-2022 will support demand for used cars into the medium term
- Structural drivers of long-term growth endure

**INNOVATIVE**  
**PASSIONATE**  
**AGILE**  
**PROUD**  
**DRIVEN**  
**HONEST**

