

# Investment thesis



Nicolas Lum

Why Vertu Motors (VTU) might be a  
good investment

How I look at companies

# Background

- Group of franchised dealerships
- New and used cars, aftersales services
- Focused on good customer service
- Efficient database
- High aftersales conversion



Bristol Street Motors originated in the early 1900's as a single Ford dealership located on Bristol Street in central Birmingham. Since those early days the business grew to become one of the largest dealer groups in the UK.



In May 2014 the Farnell brand expanded further by acquiring its first Jaguar dealership in Bolton which further developed Farnell's relationship with the Jaguar Land Rover group.



Situated in a number of locations in the East Midlands and North East, Vertu Honda specialises in the sale and aftercare of Honda vehicles including motorbikes.



FARNELL

Farnell operates five outlets within the West Yorkshire region comprising of three award winning Land Rover dealerships and one multi-franchise premium used vehicle outlet. The Farnell brand has represented Land Rover in West Yorkshire for 65 years.



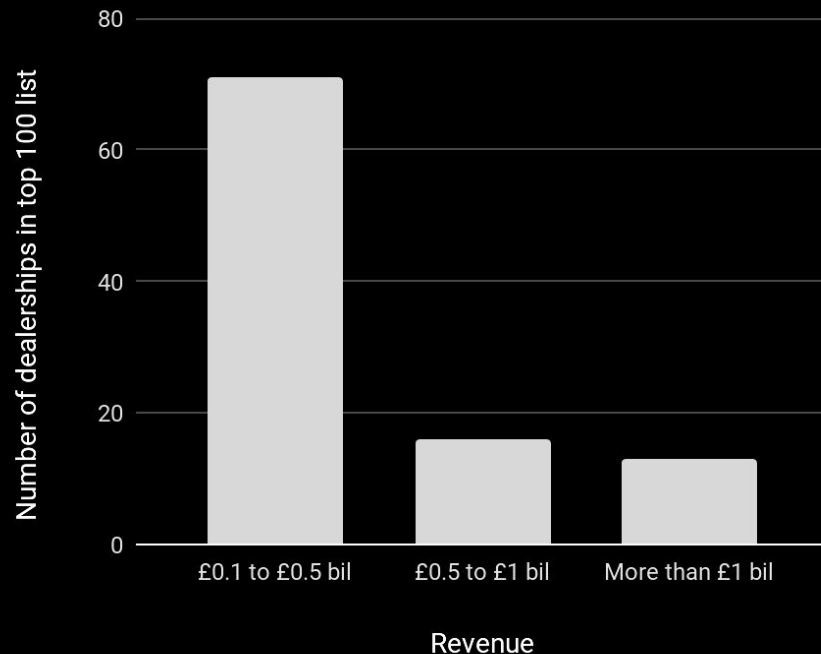
A relatively new addition to our portfolio operating only in Scotland. Macklin Motors is dedicated to making your car buying experience a happy one.



Acquired in 2013, Vertu Volkswagen delivers the excellent standards customers expect from the iconic motor manufacturer with honesty, integrity and trust.

# Background

- Fragmented industry
- Founded and IPO in 2006
- Growth from acquisitions
- 6th biggest dealership group in UK
- Revenue:     £290,000 in 2007  
                  £2.8 billion in 2018



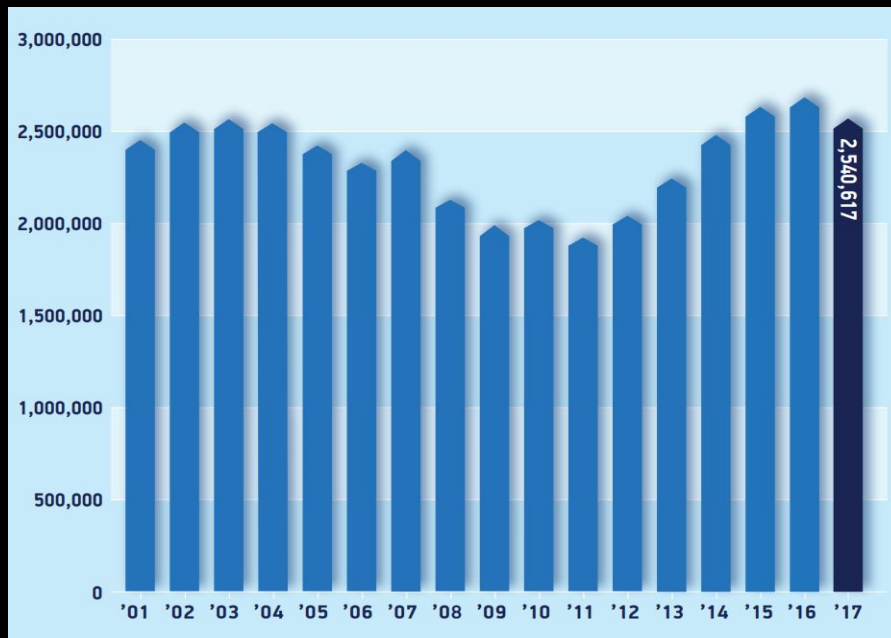
# Company facts (as of June 2018)

- Revenue: £2.8 billion
- Book value: £264 million
- Free cash flow: £-5.7 million
- 5 year avg FCF: £16 million
- Almost no debt, net cash position
- Market cap: £193 million
- Share price 50p

# Industry trends

- GBP/EUR exchange rate down 20% since Brexit
- Car prices rising
- Lower consumer confidence
- Car industry is cyclical
- 2017 car sales down 6%
- 2018 forecast down 5%

New cars sold per annum



VTU.L 52.0000



52.0000

413.06k





Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue, £ mil	761	819	999	1,004	1,259	1,684	2,074	2,423	2,823	2,796
EPS, p	0.83	2.23	2.02	2.53	1.69	4.11	4.78	5.91	6.04	6.21
Equity, £ mil	57	91	98	100	107	163	180	198	246	264
Operating cash flow, £ mil	18	15	10	5	10	45	21	57	50	19
ROIC, %	2.9	5.0	4.0	5.6	3.9	8.9	9.5	10.7	10.7	9.5

CAGR to 2018	9	7	5	4	3	2	1
Equity	18.5%	15.3%	19.9%	12.8%	13.8%	15.6%	7.3%
EPS	25.1%	17.4%	29.7%	10.9%	9.1%	2.5%	2.8%
Revenue	15.6%	15.8%	17.3%	13.5%	10.5%	7.4%	-1.0%
Operating CF	0.3%	10.0%	12.9%	-19.3%	-3.3%	-42.3%	-62.2%

# Free Cash Flow

	Actual			Estimate	
	FY	FY	FY	FY	FY
	2016	2017	2018	2019	2020
	£'m	£'m	£'m	£'m	£'m
Purchase of property	6.3	5.3	4.3	1.6	-
New dealership build	1.8	10.4	4.3	4.6	2.5
Existing dealership capacity increases	4.5	5.9	8.2	13.1	4.4
Manufacturer-led refurbishment projects	3.2	2.4	3.0	9.9	4.6
IT and other ongoing capital expenditure	5.1	4.8	4.9	4.8	4.0
Movement on capital creditor	(0.4)	0.7	(0.6)	-	-
<b>Cash outflow from capital expenditure</b>	<b>20.5</b>	<b>29.5</b>	<b>24.1</b>	<b>34.0</b>	<b>15.5</b>
Proceeds from Sale and leaseback and property sales	(1.1)	(1.0)	(14.3)	(4.6)	-
<b>Net Cashflow from capital investment</b>	<b>19.4</b>	<b>28.5</b>	<b>9.8</b>	<b>29.4</b>	<b>15.5</b>

Year	2014	2015	2016	2017	2018	5 year average
FCF, £ mil	30.0	1.8	35.9	20.0	-5.7	15.9

# Free Cash Flow Valuation

- 5 year average FCF: £16 million
- Lower capex in 2020 ~ £10 million
- Assuming no growth, FCF in 2020: £26 million
- At P/FCF of 12, market cap in 2020: £312 million    £193 million in 2018
- ROI in three years: 60%
- CAGR of investment: 18% over three years

# Price Ratios

Company	P/BV	P/BV 5 year avg	P/E	P/E 5 year avg	Market cap
Pendragon	0.8	1.4	6.9	10.3	359 mil
Lookers	1.1	1.9	9.2	11.3	433 mil
Inchape	2.2	2.3	11.9	16.6	3.2 bil
Average	1.4	1.9	9.3	12.7	-
Vertu	0.7	1.1	8.1	13.4	193 mil

# Conclusion

## Risks

- Potential for negative FCF
- Car market downtrend
- Bad acquisitions

## Investment case

- Well run company
- Strong balance sheet
- Attractive valuation

# Thank you

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# Share Issuance

- Increase capital by issuing shares
- Dilutive effect on existing investors
- Good return on investment
- EPS going up even with more shares in market



<b>Year (£ million)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Working capital movement</b>	3.3	23.8	-2.9	30.5	16.0	-13.3
<b>Operating cash flow</b>	10.3	44.5	20.9	56.7	50.0	18.9
<b>Adjusted operating cash flow</b>	7.0	20.7	23.8	26.2	33.9	32.2
<b>Capital expenditures</b>	-4.8	-14.5	-19.1	-20.8	-30.0	-24.6
<b>Adjusted free cash flow</b>	2.2	6.2	4.7	5.4	3.9	7.6