



Vertu (B)(A)

General Retailers

BUY

Interim results review & upgrade to forecasts

Date 14th October 2009

Vertu is again outperforming the market and we are today upgrading our full year earnings forecast by 35% on the back of: a very strong first half, which is ahead of expectations, largely due to a highly impressive used car performance; and an encouraging September outcome, which saw the Group achieve significant new car volume bonuses.

Share Price: 48.5p
12m Price Target: 65p
Upside: 34%

We believe that Vertu is an excellent investment opportunity: it is trading on less than 9x our revised Feb10 EBITDA forecasts, and this does not take into account the massive potential uplift through utilising the cash pile and, in the future, potential leverage against close to £50m of freehold assets. After another strong set of results and upgrades we are moving our target price to 65p (from 55p) and maintain a BUY recommendation.

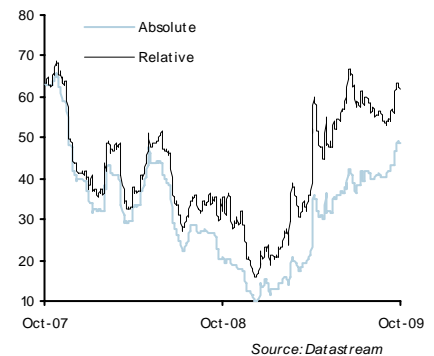
Fundamental View: Positive
Forecast Sensitivity: 4

For the six months to August 2009 adjusted EBITDA increased by over 20% to £6.3m (£5.2m) and adjusted PBT increased by 40% to £4.2m (£3.0m) versus our previous full year forecast of just £3.7m. Net cash finished at £21m after spending £15m on acquisitions (inclusive of £5m investment into stock).

Shares in Issue: 196.3m
Market Cap: £95.2m
Forecast Cash/(Debt): £19.3m
Enterprise Value: £75.9m

Looking only at the marques that Vertu represents, then Vertu has continued to outperform the market in new car sales and has gained market share. Used car margins and gross profit per unit were especially strong and were the main contributors to profit growth in the period. The fleet & commercial business saw a reduction in margins; however, this was part of a successful exercise to dispose of surplus stock. Aftersales remained resilient with some fall off in lower margin warranty work being offset by growth in higher margin retail service work.

Vertu has had a strong September and has obtained significant volume bonuses on new car sales. Used car margins also remain stable and whilst there was understandably a switch across to new in September the inflow of part-ex vehicles will help supply.



Change to forecasts

Year End	2010(E)	2010(E)	2011(E)	2011(E)
February	Revised	Old	Revised	Old
Sales £m	780.0	748.6	788.9	788.9
Adjusted PBT £m *	4.9	3.7	5.3	5.3
EPS fully diluted p	1.8	1.4	1.9	1.9
EPS change %	35%		0%	
Net cash £m	19.3	18.5	21.0	20.2

* after share based costs – Source: BDIB estimates

Reuters: VTU.L

Analyst:
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Looking forward, the Group has £21m of net cash with which to pursue further acquisitions which is not factored into our forecasts. And, with the scrappage scheme extended and used car supply loosening slightly, we are now more upbeat on volumes and margins heading into the usually difficult winter trading period. We are therefore retaining a forecast sensitivity of 4.

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However, we are not at this stage upgrading our 2011 forecasts as there remains significant uncertainty regarding the consumer, specifically in the face of higher VAT, higher income taxes and the end of the scrappage scheme. We do note however that concerns over consumer confidence is likely to yield further acquisition opportunities.

Year End	Sales	PBT*	Tax	EPS†	PE Ratio	EV/EBITDA	FCF/Share	DPS	Yield
February	£m	£m	%	p	x	x	p	p	%
2008(A)	677.2	1.6	29.0	1.2	39.0	22.0	18.7	0.0	0.0
2009(A)	760.8	3.7	28.2	2.9	16.8	12.6	19.3	0.0	0.0
2010(E)	780.0	4.9	28.0	1.8	27.0	8.5	-0.8	0.0	0.0
2011(E)	788.9	5.3	28.0	1.9	25.3	8.0	1.0	0.1	0.2

*Figures pre-exceptionals & goodwill amortisation & after share based costs, † Fully diluted, Source: Company Accounts/BD Forecasts

Interims review

Vertu has had an excellent 6 months and has comfortably exceeded our expectations.

Sales & Gross Profit analysis

	Sales		Gross Profit		GP mix	
	H1 10 £m	H1 09 £m	H1 10 £m	H1 09 £m	H1 10	H1 09
new retail	96.3	97.4	8.0	8.1	16%	17%
fleet & commercial	132.4	135.5	3.4	4.4	7%	9%
used retail	128.4	144.0	17.8	13.0	36%	28%
aftersales	44.1	46.6	20.8	21.3	42%	46%
	<u>401.3</u>	<u>423.5</u>	<u>50.0</u>	<u>46.8</u>	100%	100%

Sales and Gross Profit analysis (per unit)

	Volume			Sales per unit			GP per unit		
	H1 10 #	H1 09 #		H1 10 £	H1 09 £		H1 10 £	H1 09 £	
New Retail	8,353	9,237	-10%	11,530	10,545	9%	958	875	9%
Fleet & Commercial	9,080	9,726	-7%	14,585	13,934	5%	374	452	-17%
Used Retail	14,578	13,646	7%	8,926	10,626	-17%	1,223	960	29%

Source: BD estimates/Company

▪ **New retail**

New car volumes fell by 12.0% on a I-f-I basis against the market which was down by 11.0%. This reflects the effects of the scrappage scheme which saw the market leaders such as Ford and Vauxhall losing market share to cheaper priced competitors including Kia and Hyundai. Vertu registered 1,686 vehicles under the scrappage scheme in the 3 months to August. We estimate this will have contributed an additional £15m of sales. Excluding the effects of scrappage sales and only looking at the marques represented by Vertu, then the Company again outperformed the market.

However, there was also a corresponding increase in the sales value per unit due to product mix and with gross margins remaining consistent at around 8.3% this resulted in new cars contributing a similar level of total gross profits.

This strong trading continued into September and resulted in the Group earning significant volume bonuses.

▪ **Fleet & commercial**

Vertu saw a 7.7% I-f-I fall in new fleet and commercial vehicle sales. Both these markets have had a very hard time (down 26.8% and 42.5% respectively) and this therefore represents a significant outperformance.

As mentioned in previous notes Vertu had been paying high levels of vehicle stocking interest due to being over stocked in commercial vehicles. The strong sales figures have helped to alleviate this problem after Management sensibly took a margin cut to shift the surplus stock. This resulted in fleet and commercial gross margins falling from 3.1% to 2.4% in the period, and the Iveco commercial business made a loss.

▪ **Used cars**

The Group has once again proved to be amongst the very best players in the used car market and this operation is the major driver behind the profit growth in the first half.

Sales volumes increased on a I-f-I basis by 3.7% compared to a market that fell by 5-7% in the period.

There has been a significant scarcity of nearly new and 1-2 year old cars since the start of the recession on the back of falling new vehicle sales, reduced production and crucially less fleet replenishment. Fleet sales have been weak for some time as fleet owners have been reluctant to

replenish and also manufacturers (with lower production) have been less willing to do low margin heavily discounted fleet business. This means there are far less used vehicles coming on to the market. This has led to a shift in sales mix to older lower valued vehicles. Hence, when combined with the general reduction in residual values, there has been a marked reduction in sales value per unit.

Most importantly gross profit per unit increased strongly, on our estimates by 29%. This is a very impressive result and helped used car gross profits increase by £4.8m in the period.

Looking ahead we expect manufacturer production to remain subdued and even when it picks up there will be a lag of a few months before this stimulates second hand supply. However we do expect some easing in supply as the strength of the September market suggests there has been some pre-registering and these nearly new vehicles will come on to the market over the next few months..

▪ **Aftersales**

Aftersales again proved highly resilient. Service volumes declined by 4.6% on a I-f-I basis with lower margin warranty sales declining by 22.7% against tough comparatives which included major recalls for both Citroën and Peugeot. However, encouragingly this was offset by a greater focus on higher margin retail service work.

▪ **Acquisitions**

The Company raised £29.9m (net) in a placing at 30p in June this year. Since then it has spent £15m on acquisitions inclusive of £5m investment into stock for acquired businesses through the working capital line.

To date all acquisitions are performing well. The deals were all completed post the placing in June and therefore made only a marginal contribution to these results. Acquisitions contributed £14.1m of revenue in the period and delivered a small loss after management charges.

Change to forecasts

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EPS change %	35%		0%	
Net cash £m	19.3	18.5	21.0	20.2

* after share based costs - Source: BD estimates

We have upgraded our forecasts again, following the very strong first half result especially in used, and the successful September which typically accounts for a large proportion of H2 profitability.

Looking forward, the Group has £21m of net cash with which to pursue further acquisitions which is not factored into our forecasts. And, with the scrappage scheme extended and used car supply showing signs of easing, we are now more upbeat on volumes and margins heading into the usually difficult winter trading period. We are therefore retaining a forecast sensitivity of 4.

We are not upgrading our 2011 forecasts as there remains significant uncertainty regarding consumer appetite with the prospect of a return to 17.5% VAT, higher income taxes and the end of the scrappage scheme. We do note however that concerns over consumer confidence are likely to yield further acquisition opportunities and expect to hear of more progress on acquisitions in the coming months.



FINANCIALS

Income Statement	2008(A)	2009(A)	2010(E)	2011(E)
Year End February	£m	£m	£m	£m
Sales	677.2	760.8	780.0	788.9
EBITDA	5.1	7.9	8.9	9.3
Depreciation	2.0	2.3	2.5	2.7
Operating profit	3.1	5.5	6.4	6.6
Other Income	-0.2	0.2	-0.1	-0.2
Interest	-1.2	-2.0	-1.4	-1.1
PBT (normalised)	1.6	3.7	4.9	5.3
Exceptionals	-1.4	-3.4	-1.3	0.0
Goodwill	-0.1	-0.2	-0.1	-0.1
PBT (reported)	0.1	0.1	3.5	5.2
Tax Rate (%)	29.0	28.2	28.0	28.0
Minority Int				
Pref Dividends				
Av. No. Shares	91.9	92.0	196.3	199.1
F. Dil. No. Shares	92.1	92.0	196.3	199.1
EPS(nm - F.Dil.) (p)	1.2	2.9	1.8	1.9
DPS (p)	0.0	0.0	0.0	0.1

Cash Flow	2008(A)	2009(A)	2010(E)	2011(E)
Year End February	£m	£m	£m	£m
Operating profit	3.1	5.5	6.4	6.6
Depreciation/Amortisation	2.0	2.3	2.5	2.7
Working Capital	17.6	15.2	-5.5	-2.0
Interest	-1.3	-2.5	-1.4	-1.1
Tax	-2.5	-0.2	-1.0	-1.5
Exceptionals	-1.0	-1.7	0.0	0.0
Other Operating Cashflows	0.2	-0.2	0.0	0.0
Cash flow from Ops	18.2	18.4	1.0	4.7
Net Capex	-4.7	-4.9	-3.0	-3.0
Acqs/Disposals	-78.4	0.0	-5.3	0.0
Other Investing Cashflows	0.0	0.0	0.0	0.0
Cash Flow from Investing	-83.1	-4.9	-8.3	-3.0
Ord Div	0.0	0.0	0.0	0.0
Share Issues	50.2	0.0	30.0	0.0
Other Financing Cashflows	0.0	0.0	0.0	0.0
Cash Flow from Financing	50.2	0.0	30.0	0.0
Net Inc/Dec in Cash	-14.7	13.5	22.7	1.7
Y/E Cash/(Debt)	-16.9	-3.4	19.3	21.0
Enterprise Value	112.1	98.6	75.9	74.2

Ratios	2008(A)	2009(A)	2010(E)	2011(E)
Sales Growth (%)	n/a	12.4	2.5	1.1
EBITDA Margin (%)	0.8	1.0	1.1	1.2
Op Margin (%)	0.5	0.7	0.8	0.8
Int Cover (x)	2.3	2.8	4.5	5.8
EPS Growth (%)	n/a	131.5	-37.6	6.7
DPS Growth (%)	n/a	n/a	n/a	n/a
Div Cover (x)	n/a	n/a	n/a	19.2

Balance Sheet	2008(A)	2009(A)	2010(E)	2011(E)
Intangibles	19.6	19.8	19.7	19.6
Tangibles	58.8	60.1	57.2	57.5
Net Current Assets	3.5	-11.9	-5.7	-2.2
LT Creditors & Provisions	-7.0	-7.3	-7.0	-7.0
Shareholders funds	60.2	57.2	82.7	84.2

Valuation	2008(A)	2009(A)	2010(E)	2011(E)
P/E (@current price)	39.0	16.8	27.0	25.3
P/E (@target price) (x)	52.2	22.6	36.2	33.9
EV/EBITDA (x)	22.0	12.6	8.5	8.0
EV/Sales (x)	0.2	0.1	0.1	0.1
FCF Yield (%)	18.0	18.7	-1.6	2.1
Dividend Yield (%)	0.0	0.0	0.0	0.2

Ratios	2008(A)	2009(A)	2010(E)	2011(E)
NAV (p)	65.5	62.2	42.1	42.3
Gearing (%)	28.1	6.0	-23.3	-24.9
ROCE (%)	4.0	9.1	10.1	10.4
FCF/Share (p)	18.7	19.3	-0.8	1.0
Cash Conversion (%)	746.0	414.4	53.1	110.6

Source: Company/BD Estimates

Company Description

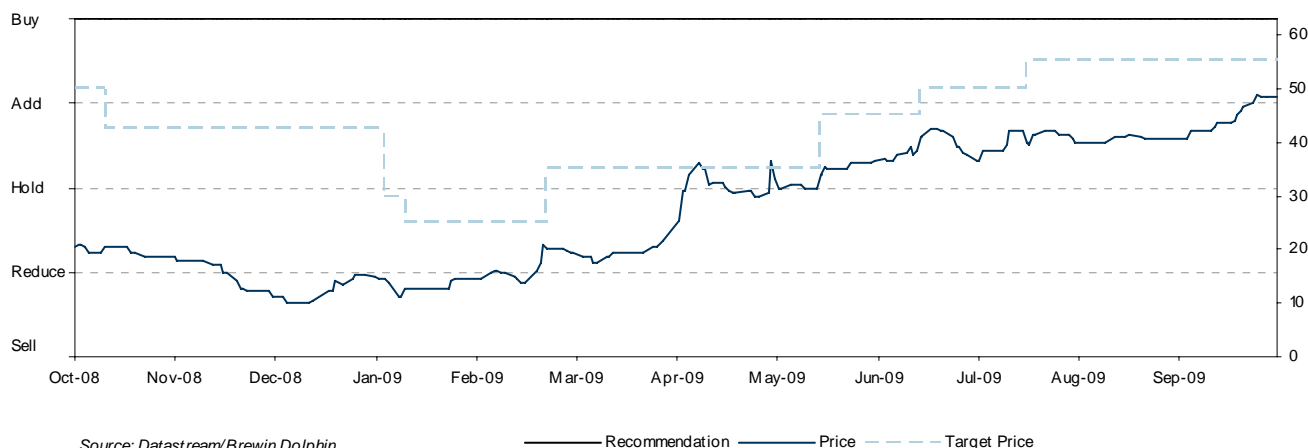
Vertu is one of the largest motor retailers in the UK. The business was set up in November 2006 and acquired Bristol Street Motors in February 2007 (effective 27 March 2007) in an EV £69m deal. The Group has made a number of bolt-on acquisitions since and now has 54 sales outlets plus 2 stand alone service operations, centred mainly around the Midlands and with a growing presence in the North East. The business focuses purely on volume franchises and is one of Fords largest partners in the UK with 16 franchised Ford dealerships. The Company raised £29.9m (net) in June 2009 to fund further acquisitive growth.

Future Newsflow

Feb 10

Pre-close update

RECOMMENDATION HISTORY - VERTU (B)(A)



(B) Denotes Brewin Dolphin acts as broker to the company

(A) Denotes AIM listing

Brewin Dolphin Research - Recommendation Definition (expects absolute performance over next 12 months).

Buy - 20%+ upside to BD 12m Price Target

Add - 10% - 20% upside to BD 12m Price Target

Hold - minus 10% to +10% to BD 12m Price Target

Reduce - minus 10% to 20% downside to BD 12m Price Target

Sell - minus 20% or more downside to BD 12m Price Target

Fundamental View:

Positive - quality company, strong management, strong fundamentals, focussed strategy.

Neutral - ambivalent over the company's strategy, market place, management.

Negative - BD believes company has fundamental flaws and is not a long term investment.

Forecast Sensitivity:

1 = highly likely downgrade
upgrade

2 = likely downgrade

3 = neutral

4 = likely upgrade

5 = highly likely

Prices of other securities mentioned: None

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