

We have delivered on our guidance to reduce leverage, grow dividends and return excess cash to shareholders

"In 2017, we returned £128.7m in cash to shareholders, as well as reducing gross debt by £40m."

Sean Glithero
Chief Financial Officer



Revenue

In 2017, we saw another year of strong revenue growth at 9%, reaching £311.4m (2016: £281.6m). Growth was achieved in all three revenue streams and in total at a rate similar to that attained in 2016.

Trade revenue was the largest contributor, with revenue rising by 9% to £262.1m (2016: £236.4m). Within Trade, Retailer revenue grew 10% to £250.1m (2016: £224.5m). Home Trader saw growth of 3% to £12.0m (2016: £11.5m), with a lower growth rate largely being attributable to limited pricing initiatives in the year. Other revenue fell

→ Change from 52-week to annual accounting period

Due to the publishing heritage of the business, results have historically been reported on a 52 week (i.e. 364 days) basis with the accounting period ending on the closest Sunday to 31 March.

The Board made the decision to change the period end date to be 31 March every year, starting in financial year 2017, to better align with our customers' needs, and to the products and services we offer.

As a consequence of this change, the 2017 financial year was five days longer than the previous year and whilst there was no impact on the first half results, the second half of the year was longer and hence revenues, costs and earnings were greater due to the extra trading days.

Year-on-year percentages for revenues, costs and profits have been adjusted to reflect like-for-like growth. No other percentages have been adjusted.

For example: Operating profit (£203.1m x 364/369 divided by £169.6m - 1) x 100 = 18%.



Our business model

page 10

Key performance indicators

page 22

| Revenue | 2017 £m | 2016 £m | Days-adjusted change |
|---------------------|--------------|--------------|-------------------------|
| Retailer | 250.1 | 224.5 | 10% |
| Home Trader | 12.0 | 11.5 | 3% |
| Other | - | 0.4 | n/m |
| Trade | 262.1 | 236.4 | 9% |
| Consumer services | 31.8 | 30.3 | 4% |
| Display advertising | 17.5 | 14.9 | 16% |
| Total | 311.4 | 281.6 | 9% |

£0.4m versus 2016 due to the closure of our manufacturer websites business, 2nd Byte, in June 2015.

We delivered increased Retailer revenue as a result of growth in Average Revenue Per Retailer ('ARPR'), where there was improvement of £162 to £1,546 per month (2016: £1,384). Average retailer forecourts were down 2% to 13,296 (2016: 13,514) with losses in non-car, Republic of Ireland and smaller independent retailers partially offset by growth in franchise forecourts. This change in retailer mix led to an overall ARPR increase from the loss of smaller lower yielding retailers. With much of the decrease occurring in the first half of the year and therefore impacting the second half run rate, forecourts were largely in line with expectations for the remainder of the year. Low-level market consolidation continues to be apparent amongst smaller customers, although the drop in the total number of forecourts remains at the rate seen over the last three to four years.

ARPR growth of £162 per month was generated through three levers: stock, price, and product, where we have consolidated upsell and cross-sell.

Our marketplace saw an average number of car listings of c. 450,000 in the year, which was 3% higher than last year (2016: c. 437,000). The growth in stock comes through continued internal initiatives to help retailers understand the value of advertising all of their stock on the marketplace and focusing on the ever-increasing role of digital in the car buying journey. We also saw a good underlying used car market, benefitting from the recent growth in new car transactions. With top-level growth in the number of listings and the benefit from unwinding the last remaining historic stock discounts, the stock lever contributed £48 (2016: £58) and 30% (2016: 44%) of total ARPR growth.

With a greater number of listings, a larger audience and higher levels of engagement, we implemented a price change in the first quarter of financial year 2017. For some customers, this was in addition to a pricing initiative in the second half of the previous year. The timing benefit, where the two events compound up in the price lever, is not expected to reoccur going forward as we shift to an annual price review in April of each year, starting in financial year 2018. Of total ARPR growth, price contributed £86 (2016: £41) and 53% (2016: 31%).

Our product lever, which had previously been split between additional products taken, either within or outside of our core classified selling package (upsell & cross-sell), contributed £28 (2016: £33) and 17% (2016: 25%) of total ARPR growth. We continued to see high adoption of Level 3 of our package staircase, which includes priority listings on mobile. This acted as a catalyst for the introduction of our new prominence products in the 2018 financial year, which give customers the opportunity to achieve more advert views by upgrading to higher levels in the package staircase.

Also included in the product lever is the change in Retailing solutions revenue, which saw a year-on-year decline of 4% to £23.9m (2016: £24.5m), with the main driver being the discontinuation of low margin pay-per-click ('PPC') and search engine optimisation ('SEO') products which were wound down in their entirety during the first half of the year. Retailer display revenue also saw a small year-on-year decline as customers chose higher return-on-investment listings and data products rather than to promote their brand through display advertising. Our website templates and B2B classified portal products saw a number of technical changes in the year, which limited growth opportunities. Penetration of forecourts



Trade revenue

£262.1m

(2016: £236.4 million)



Underlying operating profit

£207.2m

(2016: £171.3 million)



Cash generated from operations

£212.9m

(2016: 180.1m)



Cash returned to shareholders

£128.7m

(2016: £5.0m)

using our Managing products grew well in the second half of the year and we closed the year with c.2,500 forecourts (2016: c.1,900), representing a 19% penetration of total forecourts (2016: 14%).

Consumer services revenue increased 4% in the year to £31.8m (2016: £30.3m). Private revenue, within Consumer services, grew 3% to £24.4m (2016: £23.3m), although the second half was broadly flat, as we saw increased competition and the effect of the growing impact of our own Part-Exchange Guide product. Motoring services saw a slightly better growth rate, increasing 4% to £7.4m (2016: £7.0m), with much of the growth coming through delivering greater response to our third-party partners for insurance, finance and vehicle checks.

Display advertising revenue grew 16% to £17.5m (2016: £14.9m) from a higher number of homepage takeovers and increased levels of inSearch advertising, tempered by lower growth in programmatic display revenue following the introduction of a new adserver in November, which took time to embed. We continue to deepen relationships with manufacturers and their media agencies, which will allow us to develop and monetise our virtual stock proposition.

Costs

Underlying administrative expenses continued to be well managed, seeing a 7% reduction year-on-year to £104.2m (2016: £110.3m). Total administrative expenses saw a reduction of 5%.

People costs comprise staff costs (excluding share-based payments) of £49.1m (2016: £51.1m) and third-party contractor costs of £0.4m (2016: £0.4m). Overall, people costs declined in the year by 5% to £49.5m (2016: £51.5m), due to lower full-time equivalent employees ('FTEs') (including contractors), down 35 year-on-year to an average of 824 (2016: 859) as well as a fall in redundancy and restructuring costs. The headcount reduction came as we continued to improve our way of working in a lean and agile way, although some of the saving was offset through higher salaries as we look to attract the best digital talent, particularly in technical and customer facing roles.

| Costs | 2017 £m | 2016 £m | Days-adjusted change |
|---|--------------|--------------|-------------------------|
| People costs | 49.5 | 51.5 | (5%) |
| Marketing | 16.0 | 15.7 | 1% |
| Overheads | 30.7 | 32.5 | (7%) |
| Depreciation & amortisation | 8.0 | 10.6 | (26%) |
| Underlying administrative expenses | 104.2 | 110.3 | (7%) |
| Share-based payments | 4.5 | 2.5 | 78% |
| Exceptional items | (0.4) | (0.8) | (51%) |
| Total administrative expenses | 108.3 | 112.0 | (5%) |

| | 2017 £m | 2016 £m | Days-adjusted change |
|------------------------------------|--------------|--------------|-------------------------|
| Underlying operating profit | 207.2 | 171.3 | 19% |
| Share-based payments | (4.5) | (2.5) | 78% |
| Exceptional items | 0.4 | 0.8 | (51%) |
| Operating profit | 203.1 | 169.6 | 18% |

Marketing spend increased slightly in the year to £16.0m (2016: £15.7m), although as a percentage of revenue it fell to 5.1% (2016: 5.6%). Much of the focus this year has been on product specific campaigns where we have promoted private advertising, Part-Exchange Guide and valuations. We increased PPC spend as we saw higher levels of competitor activity in this area.

Reductions were made in overheads of 7% to £30.7m (2016: £32.5m), in part through adhering to lean operating principles and a number of one-off savings including a rates rebate, and a year-on-year cost saving of c.£1.0m due to the discontinuation of the low-margin Retailing solutions products. Lower FTEs, in particular, had a benefit on employee related expenses.

Depreciation and amortisation decreased by 26% to £8.0m (2016: £10.6m) as past development costs became fully amortised in the year.

A share-based payments charge of £4.5m (2016: £2.5m) was recognised during the year, including national insurance costs ('NI') on potential employee gains where applicable. The year-on-year increase in the charge was primarily due to further awards made in June 2016 under the Performance Share Plan and the Deferred Annual Bonus Plan as well as the full-year impact of the Sharesave scheme launched in September 2015. Refer to note 26 of the consolidated financial statements for further details.

Following the completion of the office centralisation programme in 2014, the Group ran an initiative to exit a number of properties early and to secure cash discounts where possible. During the period, the Group completed this initiative and disposed of the last remaining property. As a result, an exceptional credit of £0.4m has been recognised in the income statement in respect of the profit on disposal and the release of vacant property provisions no longer required.

Underlying operating profit

Underlying operating profit increased by 19% to £207.2m (2016: £171.3m) with Underlying operating profit margin improving by 6 percentage points to 67% (2016: 61%).

The Group has previously reported non-underlying items in the income statement to highlight the impact of one-off and other discrete items and to allow better interpretation of the underlying performance of the business. These include exceptional items, share-based payment charges (and associated NI) and costs related to management incentive schemes linked to the previous private ownership of the Group. From next year, i.e. for 2018 and beyond, the Group will no longer report Underlying operating profit and will instead focus on the statutory measure of Operating profit, as it is expected that going forward the year-on-year change in share-based payments charges will be less distorting than in the past.

In the year, Operating profit grew 18% to £203.1m (2016: £169.6m), with Operating profit margin increasing 5 percentage points to 65% (2016: 60%).

Profit before tax

Profit before tax increased to £193.4m (2016: £155.0m), which followed the Operating profit performance and a reduction in net finance costs to £9.7m (2016: £14.6m). Net finance costs fell through a combination of paying the lowest level of margin on the debt facility from June 2016 onwards, and from lower gross debt, which was reduced in the year.

Taxation

The Group tax charge of £38.7m represents an effective tax rate of 20% (2016: 18%) which is in line with the average standard UK rate and a reflection of our taxation policy to act in a responsible and transparent manner in all tax matters.

The 2016 rate was lower than the standard rate due to a one-off release of a tax provision.

Earnings per share

Basic earnings per share rose by 22% to 15.64 pence (2016: 12.67 pence) and was based on a weighted average number of ordinary shares in issue of 989,278,991 (2016: 1,000,002,803). Diluted earnings per share of 15.60 pence (2016: 12.65 pence) also increased by 22%, based on 991,812,212 shares (2016: 1,001,394,111) which takes into account the dilutive impact of outstanding share awards.

Cash flow and net external debt

Cash generated from operations increased to £212.9m (2016: £180.1m) and was achieved as a result of strong Operating profit combined with low working capital and capital expenditure requirements. This enabled us to deliver on our guidance to reduce leverage, grow dividends and return excess cash to shareholders.

Corporation tax payments totalled £34.8m (2016: £16.0m), as tax paid in 2016 benefitted from the previous year's lower earnings; the result of higher interest and exceptional costs. Cash generated from operating activities was £178.1m (2016: £164.1m).

Capital expenditure increased in the year to £3.7m (2016: £3.1m) as we made further investments in our working environment as well as residual spend on the new billing system, Singleview.

Interest paid on financing arrangements fell to £7.6m (2016: £12.6m) through the combination of a lower margin payable and lower gross debt, as £40.0m (2016: £147.0m) was repaid in the year taking gross debt to £363.0m (2016: £403.0m). Net external debt reduced to £355.0m (2016: £392.6m), as lower levels of cash were held at the 2017 year end compared to the previous year. Leverage, defined as the ratio of net external debt to Adjusted underlying EBITDA, decreased to 1.6x (2016: 2.2x).

During 2017, we commenced a share buyback scheme which saw £102.1m invested in the repurchase of 26.3 million shares, incurring fees of £0.5m. A further £26.6m was paid in dividends, giving a total of £128.7m (2016: £5.0m) in cash returned to shareholders.

Dividends and returns to shareholders

The Directors are recommending a final dividend for the year of 3.5 pence per share, which together with the interim dividend makes a total dividend of 5.2 pence per share, amounting to £50.8m, in line with our policy of distributing approximately one third of net income. Subject to shareholders' approval at the Annual General Meeting ('AGM') on 21 September 2017, the final dividend will be paid on 29 September 2017 to shareholders on the register of members at the close of business on 1 September 2017.

The policy of distributing approximately one third of net income remains unchanged. The capital allocation policy that sees the majority of surplus cash, after dividends, used to buy back shares remains unchanged and gross indebtedness is expected to fall steadily through debt repayments.

At the 2016 AGM, the Company's shareholders generally authorised the Company to make market purchases of up to 99,905,974 of its ordinary shares, subject to minimum and maximum price restrictions. This authority will expire at the conclusion of the 2017 AGM and the Directors intend to seek a similar general authority from shareholders at the 2017 AGM. The programme will be ongoing and any purchases of its shares made by the Company under the programme will be effected in accordance with the Company's general authority to repurchase shares, Chapter 12 of the UKLA Listing Rules and relevant conditions for trading restrictions regarding time and volume, disclosure and reporting obligations and price conditions.

Post balance sheet event

Since the year end, the Group has acquired Motor Trader Delivery Limited ('MTD') for an undisclosed sum. MTD revenues and profits for their last financial year were less than 1% of the revenue and profits of the Group. As at the date of this report, we have not yet concluded the accounting for this acquisition.

Appointment of auditors

At the 2016 AGM shareholders approved the appointment of KPMG LLP as the Group's new external auditors.

Sean Glithero

Chief Financial Officer
8 June 2017

