



Caffyns plc

Interim Report

for the six months ended 30 September 2020



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Summary

	6 months to 30 September 2020 £'000	6 months to 30 September 2019 £'000
Revenue	85,352	98,978
Underlying EBITDA (see note below)	3,218	1,719
Underlying profit before tax (see note below)	1,534	165
Profit before tax	1,414	56
	Pence	Pence
Underlying basic earnings per share	55.9	4.3
Basic earnings per share	52.3	1.0
Interim dividend per ordinary share	–	7.5

Note: Underlying results exclude items that have non-trading attributes due to their size, nature or incidence. Non-underlying items for the period totalled £0.12 million (2019: £0.11 million) and are detailed in note 4 to these condensed consolidated financial statements. Underlying EBITDA of £3.22 million (2019: £1.72 million) represents operating profit before non-underlying items of £2.23 million (2019: £0.85 million) and depreciation and amortisation of £0.99 million (2019: £0.87 million).

Financial and Operational Review

- Underlying profit before tax of £1.53 million (2019: £0.17 million)
- Profit before tax of £1.41 million (2019: £0.06 million)
- Revenue reduction for the period contained at 14%, despite the business being in covid-19 lockdown for two of the six months of the period
- Underlying basic earnings per share of 55.9 pence (2019: 4.3 pence)
- Basic earnings per share of 52.3 pence (2019: 1.0 pence)
- Net bank borrowings at 30 September of £12.2 million (2019: £13.0 million)

Simon Caffyn, Chief Executive, commented:



The underlying profit before tax of £1.53 million was a significant improvement on the £0.17 million recorded for the comparative period in 2019. Pent-up customer demand and improved operational efficiencies resulted in a strong performance for the four months to September, more than outweighing the negative impact of the lockdown of the business in April and May.



Interim Management Report

Summary

The underlying profit before tax of £1.53 million for the half-year ended 30 September 2020 ("the period") was a significant improvement on the £0.17 million recorded for the comparative period in 2019. The period has been unique with the business effectively closed in April and May due to the national covid-19 lockdown. Trading was subsequently able to restart at the beginning of June, in accordance with strict social distancing requirements. The months since trading recommenced in June were then buoyed by pent-up demand from the lockdown period, by higher levels of demand for private transport as customers sought to reduce their reliance on public transport, and by significant operational efficiencies, which resulted in a strong performance throughout the four trading months from June to September. The Company utilised the support offered by Government in the period from both Coronavirus Job Retention Scheme furlough grants, which assisted us to maintain employment, as well as the business rates holiday for retail premises. When comparing outcomes, shareholders will also recall that the second stage of the implementation of the harmonised emissions testing regime, Real Driving Emissions ("RDE"), adversely impacted new car deliveries for the September 2019 bi-annual registration plate change, on which the half-year result is always reliant.

Revenue for the period fell by 14% to £85.4 million (2019: £99.0 million). With business activity heavily restricted in two of the six months of the period, the limited 14% overall reduction in turnover for the period highlights the buoyancy of trading since it recommenced in June. Underlying basic earnings per share were 55.9 pence (2019: 4.3 pence).

The Company's defined benefit pension scheme deficit, calculated in accordance with the requirements of IAS 19 Pensions, showed a significant increase of £3.9 million from the last financial year end at 31 March 2020 to £13.3 million at 30 September 2020. Whilst the Scheme's investments performed strongly, continued reductions in the discount rate

increased the present value of the Scheme's pension liabilities, more than offsetting the investment gains and resulting in a widening of the deficit.

The Company continues to own all but two of the freeholds of the properties from which it operates, and this provides the dual strengths of a strong asset base and minimal exposure to rent reviews, which is reassuring in these uncertain times.

Profit before tax for the period was £1.41 million (2019: £0.06 million) with basic earnings per share of 52.3 pence (2019: 1.0 pence).

Given the current levels of uncertainty and in the light of the Government support made available to the Company in the period, the board is not proposing an interim dividend (2019: 7.5 pence per ordinary share).

Operating review

New and used cars

During the two-month covid-19 closure in April and May, our showrooms were classified as non-essential businesses and were required to close. This resulted in new car deliveries in the period falling by 5% from the previous year's level, although we were very pleased that this was a significantly smaller fall than the 29% national reduction in new car registrations recorded by the Society of Motor Manufacturers and Traders ("SMMT") in the retail and small business market segment in which we primarily operate. Used car unit sales for the period as a whole were also down on the comparative period, by 17%, but demand since trading recommenced in June has been extremely robust and ahead of last year, with new and used car deliveries up 41% and 17% respectively, compared to the same four-month period in 2019.

Aftersales

We continued to provide a response service for emergency and other key workers during the April and May closure period from three of our locations but, in the main, aftersales activity during lockdown was severely curtailed. Our aftersales revenues fell by 16% in the full six-month period. However, since reopening in June, our workshops have experienced high levels of throughput and trading has been 13% ahead of last year in the four months from June to September. We continue to realise improvements to our customer retention processes.

Operations

Given the dislocation to trading in the first two months of the period, it was extremely pleasing that all six of our franchise businesses reported improved profitability in comparison to the prior year. Our Audi and Volkswagen businesses, in particular, performed very strongly. Our Motorstore used car operation also improved its profitability in the period.

During the period, we extended our representation with Volvo with the opening of a second dealership, in Worthing. The business performed ahead of expectations and was profitable, despite the adverse financial impact of the two-month closure period in April and May.

The lockdown of the business in April and May resulted in a very substantial loss despite the receipt of grants of £1.2 million under the Coronavirus Job Retention Scheme, which allowed us to maintain employment levels. In response to the adverse financial impact of covid-19, the Company implemented numerous cash preservation and cost-saving measures across many areas of the business. Approximately 80% of the Company's employees were furloughed in April, although the number of furloughed employees began to reduce from May as our after-sales operations returned to more normal activity levels, and then reduced further in June as we were given permission to reopen our showrooms. As part of our cost-savings exercise, an annual salary ceiling of £37,500 was implemented for

all active employees, including the executive directors and the chairman of the Company. The non-executive directors of the Company also agreed a significant reduction to their fees. These salary reductions were then unwound in stages, with all non-furloughed employees, including the board, being returned to their full contractual salaries from 1 July 2020. By the end of the period, less than 10% of the Company's employees remained on full-time furlough. In the period as a whole, the Company received total grants of £1.7 million from the Government's Coronavirus Job Retention Scheme.

During the period, the Company also benefited from the Government's business rates holiday scheme with savings of £0.6 million. Ongoing savings will continue until March 2021.

Property

Capital expenditure in the period was £0.2 million (2019: £0.4 million).

We continue to develop plans to upgrade our Volvo site in Eastbourne, which will allow for an expansion of our showroom facility to better represent Volvo's extended model range.

We operate primarily from freehold sites and our property portfolio provides additional stability to our business model. Annually, we obtain an independent assessment of the values of our freehold properties against their carrying value in our accounts and had an unrecognised surplus to carrying value of £11.8 million at 31 March 2020, our last financial year end.

As part of the sale of the Land Rover business in April 2016, our freehold premises in Lewes remain leased for a fixed period to April 2021. The board continues to evaluate future opportunities for the site.

Interim Management Report continued

Pensions

The Company's defined benefit pension scheme started the period with an independently assessed net deficit of £9.4 million. The board has little control over the key assumptions in the valuation calculations as required by accounting standards and was disappointed to note a further reduction in the level of the discount rate in the period, which contributed towards an £11.1 million increase in the assessed value of the gross liabilities of the Scheme. In the period, growth in the value of the Scheme's gross assets was good, increasing in value by £7.3 million. Overall, the Scheme net deficit at the end of the period was £13.3 million, a deterioration of £3.9 million. Net of deferred tax, the net deficit was £10.8 million at 30 September 2020 (2019: £7.9 million) and £7.6 million at 31 March 2020.

The pension cost under IAS 19 is recognised in the Condensed Consolidated Statement of Financial Performance and continues to be charged as a non-underlying cost, amounting to £113,000 in the period (2019: £109,000).

The Company is in the process of completing its triennial valuation of the Scheme with effect from 31 March 2020. Under the existing recovery plan, agreed with the Scheme's trustees following the 2017 triennial valuation, the Company made cash payments into the Scheme during the period of £0.26 million. These payments increase by a minimum of 2.25% per annum.

Bank and other funding facilities

The Company has banking facilities with HSBC which comprise a term loan, originally of £7.5 million, and a revolving-credit facility of £7.5 million, both of which will become renewable in March 2023. HSBC also provides an overdraft facility of £3.5 million, renewable annually. In addition, there is an overdraft facility of £7.0 million provided by Volkswagen Bank, renewable annually, together with a term loan, originally of £5.0 million, which is repayable over the ten years to November 2023.

Early in the period under review, the Company took active steps to minimise its cash outgoings. In addition to making significant operational savings, we were pleased to be granted capital repayment holidays on our term loans by HSBC, for the March and June 2020 quarters. Similar concessions were granted by Volkswagen Bank, for the months of April, May and June 2020. The term loan and revolving credit facilities provided by HSBC include certain covenant tests, which were passed at both 31 March and 30 September 2020. Early in the period, HSBC confirmed to the Company their agreement to a relaxation in the covenant tests for September 2020 (not subsequently required) and March 2021. This has provided reasonable comfort to the board that covenant tests will also be successfully passed at the March 2021 year end. The failure of a covenant test would render these facilities repayable on demand at the option of the lender.

In addition, full use was also made of inventory stocking facilities and the Company's manufacturer partners have been, and continue to be, very supportive, offering extended new vehicle funding and reduced funding costs.

Cashflows in the period include a working capital improvement of £2.0 million (2019: £0.8 million). At 31 March 2020, the business had been forced to cease activity due to the covid-19 lockdown and cashflows in the period were boosted by the impact of trading recommencing.

Bank borrowings, net of cash balances, at 30 September 2020 were £12.2 million (2019: £13.0 million), down from £16.2 million at 31 March 2020. As a proportion of shareholders' funds, bank borrowings, net of cash balances were 50% at 30 September 2020 (2019: 49%).

Taxation

The tax charge for the period has been based on an estimation of the effective tax rate on profits for the full financial year of 22% (2019: 50%). The current year effective tax rate is higher than the standard rate of corporation tax in force for the year of 19% due to the effect of items disallowable for tax purposes. The tax charge for the period was then reduced by the reversal of an impairment provision against the carrying value of an Advanced Corporation Tax asset. This impairment was made in the year ended 31 March 2019, at which time management did not recognise an overall deferred tax asset due to the inherent uncertainty at that date. This approach remained unchanged at the previous year end, with 31 March 2020, being immediately after the start of the first covid-19 lockdown, and at the height of the accompanying economic uncertainty. Since the end of this first lockdown at the end of May 2020, the Company has experienced a strong trading performance and has benefited from operational efficiencies, implemented during and after the lockdown period. Management have prepared forecasts extending across the next five years, which reflect an improvement to the levels of profits recorded prior to both the covid-19 pandemic and to the effects of changes to emissions-testing regimes on the supply of new vehicles in the crucial September bi-annual registration plate change month. These forecasts demonstrate the asset being utilised against future taxable profits. Consequently, the previously held view has been revised and the impairment has been reversed, given management's judgement of a higher level of certainty that the available Advanced Corporation Tax and other deferred tax assets will be utilised in future years.

The effective tax rate in the prior period was significantly higher than the standard rate of corporation tax in force, also of 19%, mainly due to the impact on deferred tax from the change of tax rate, as well as to adjustments to prior year estimates of the tax liability on unrealised gains charged in the current year that would arise from the future sale of properties and goodwill.

The widening of the deficit of the Company's defined benefit pension scheme in the period resulted in the recognition of a deferred tax asset on the Statement of Financial Position at 30 September 2020 of £0.8 million (2019: £Nil).

People

The response from our employees to this crisis has been outstanding and the board would like to particularly thank those who remained active throughout the lockdown period in April and May to ensure that we were able to offer an emergency aftersales response to NHS and other key workers, and to restart the business quickly and effectively, first for aftersales in May 2020 and then for car sales in June 2020. The health and safety of our employees and customers is our paramount concern and our showroom and workshop activities continue to be undertaken in a responsible and socially distanced way. The hard work and professional application by our employees has been very much appreciated by the board and has ensured our delivery of a strong performance for the four-month period of June to September.

Dividend

Given the significant levels of uncertainty that remain over the ongoing covid-19 pandemic, and in particular its progression over the coming winter, and in light of the levels of Government support that have been made available to the Company in the period, the board has decided not to declare an interim dividend (2019: 7.5 pence per ordinary share).

Strategy

Our continuing strategy is to focus on representing premium and premium-volume franchises as well as maximising opportunities for premium used cars. We recognise that we operate in a rapidly changing environment and continue to carefully monitor the appropriateness of this strategy. We continue to seek opportunities to invest in the future growth of our businesses.

Interim Management Report continued

We are concentrating on business opportunities in stronger markets to deliver higher returns from fewer but bigger sites. We continue to seek to deliver performance improvement, in particular in our used car and aftersales operations.

Current trading and outlook

Customer demand for both sales and aftersales since the business was able to reopen from lockdown in June has been strong. However, rising national covid-19 infection rates necessitated a further four-week national lockdown, which came into effect on 5 November 2020 and will end on 2 December. So far during this lockdown, we have been able to keep our aftersales workshops fully open, as an essential business, but have had to close our showrooms. However, we continue to maintain a digital car sales offering for customers. The Coronavirus Job Retention Scheme has been extended until March 2021 and we have again made use of this scheme to furlough a number of staff. The issue of Brexit remains unresolved and may adversely impact on both our supply of new cars, and customer demand, in the final quarter of our financial year to 31 March 2021. Given these uncertainties, the board remains cautious of the outcome for the full financial year.

Our balance sheet is appropriately funded and our freehold property portfolio is a source of stability. We remain confident in the longer-term prospects for the Company and ready to exploit future business opportunities as they may arise.

S G M Caffyn

Chief Executive

26 November 2020

Condensed Consolidated Statement of Financial Performance

(for the half year ended 30 September 2020)

		Unaudited Half year to 30 September 2020 £'000	Unaudited Half year to 30 September 2019 £'000	Audited Year to 31 March 2020 £'000
	Note			
Revenue		85,352	98,978	197,854
Cost of sales		(73,884)	(86,515)	(172,850)
Gross profit		11,468	12,463	25,004
Operating expenses		(9,618)	(11,974)	(24,060)
Operating profit before other income		1,850	489	944
Other income (net)	3	360	347	728
Operating profit		2,210	836	1,672
Operating profit before non-underlying items		2,229	850	1,633
Non-underlying items within operating profit	4	(19)	(14)	39
Operating profit		2,210	836	1,672
Finance expense	5	(695)	(685)	(1,382)
Non-underlying net finance expense on pension scheme	4	(101)	(95)	(187)
Net finance expense		(796)	(780)	(1,569)
Profit before taxation		1,414	56	103
Profit before tax and non-underlying items		1,534	165	251
Non-underlying items within operating profit	4	(19)	(14)	39
Non-underlying net finance expense on pension scheme	4	(101)	(95)	(187)
Profit before taxation		1,414	56	103
Taxation	6	(5)	(28)	(355)
Profit/(loss) for the period		1,409	28	(252)
Earnings/(deficit) per share				
Basic	7	52.3p	1.0p	(9.4)p
Diluted	7	52.3p	1.0p	(9.4)p
Non-GAAP measure				
Underlying basic earnings/(deficit) per share	7	55.9p	4.3p	(4.9)p
Underlying diluted earnings/(deficit) per share	7	55.9p	4.3p	(4.9)p

Condensed Consolidated Statement of Comprehensive Expense

(for the half year ended 30 September 2020)

		Unaudited Half year to 30 September 2020 £'000	Unaudited Half year to 30 September 2019 £'000	Audited Year to 31 March 2020 £'000
	Note			
Profit/(loss) for the period		1,409	28	(252)
Items that will never be reclassified to profit and loss:				
Remeasurement of net pension scheme obligation	9	(4,025)	(1,111)	(1,169)
Deferred tax on remeasurement of pension scheme obligation		765	189	222
Effect of change in deferred tax rate		–	–	154
Other comprehensive expense, net of tax		(3,260)	(922)	(793)
Total comprehensive expense for the period		(1,851)	(894)	(1,045)

Condensed Consolidated Statement of Financial Position

(at 30 September 2020)

	Unaudited 30 September 2020 £'000	Unaudited 30 September 2019 £'000	Audited 31 March 2020 £'000
Note			
Non-current assets			
Right-of-use assets	768	828	925
Property, plant and equipment	38,206	38,908	38,783
Investment properties	7,994	8,110	8,052
Interest in lease	643	819	730
Goodwill	286	286	286
Deferred tax asset	1,080	–	–
Total non-current assets	48,977	48,951	48,776
Current assets			
Inventories	31,309	31,862	39,728
Trade and other receivables	8,106	5,936	4,318
Interest in lease	175	180	178
Current tax recoverable	–	–	66
Cash and cash equivalents	5,273	1,082	1,478
Total current assets	44,863	39,060	45,768
Total assets	93,840	88,011	94,544
Current liabilities			
Interest-bearing overdrafts, loans and borrowings	4,875	1,875	5,875
Trade and other payables	35,737	35,034	38,346
Lease liabilities	493	410	491
Current tax payable	320	33	–
Total current liabilities	41,425	37,352	44,712
Net current assets	3,438	1,708	1,056
Non-current liabilities			
Interest-bearing loans and borrowings	12,625	12,187	11,844
Lease liabilities	1,115	1,423	1,362
Preference shares	812	812	812
Pension scheme obligation	9 13,310	9,532	9,434
Total non-current liabilities	27,862	23,954	23,452
Total liabilities	69,287	61,306	68,164
Net assets	24,553	26,705	26,380
Shareholders' equity			
Ordinary share capital	1,439	1,439	1,439
Share premium	272	272	272
Capital redemption reserve	707	707	707
Non-distributable reserve	1,724	1,724	1,724
Retained earnings	20,411	22,563	22,238
Total equity	24,553	26,705	26,380

Condensed Consolidated Statement of Changes in Equity

for the half year ended 30 September 2020

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non-distributable reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2020	1,439	272	707	1,724	22,238	26,380
Total comprehensive income/(expense)						
Profit for the period	–	–	–	–	1,409	1,409
Other comprehensive expense	–	–	–	–	(3,260)	(3,260)
Total comprehensive expense for the period	–	–	–	–	(1,851)	(1,851)
Transactions with owners:						
Share-based payments	–	–	–	–	24	24
At 30 September 2020 (unaudited)	1,439	272	707	1,724	20,411	24,553

for the half year ended 30 September 2019

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non-distributable reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2019	1,439	272	707	1,724	23,833	27,975
Total comprehensive income/(expense)						
Profit for the period	–	–	–	–	28	28
Other comprehensive expense	–	–	–	–	(922)	(922)
Total comprehensive expense for the period					(894)	(894)
Transactions with owners:						
Dividends	–	–	–	–	(404)	(404)
Share-based payments	–	–	–	–	28	28
At 30 September 2019 (unaudited)	1,439	272	707	1,724	22,563	26,705

for the year ended 31 March 2020

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non- distributable reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2019	1,439	272	707	1,724	23,833	27,975
Total comprehensive expense						
Loss for the year	–	–	–	–	(252)	(252)
Other comprehensive expense	–	–	–	–	(793)	(793)
Total comprehensive expense for the year					(1,045)	(1,045)
Transactions with owners:						
Dividends	–	–	–	–	(606)	(606)
Share-based payments	–	–	–	–	56	56
At 31 March 2020 (audited)	1,439	272	707	1,724	22,238	26,380

Condensed Consolidated Cash Flow Statement

(for the half year ended 30 September 2020)

	Unaudited Half year to 30 September 2020 £'000	Unaudited Half year to 30 September 2019 £'000	Audited Year to 31 March 2020 £'000
Cash flows from operating activities			
Profit before taxation	1,414	56	103
Adjustments for:			
Net finance expense and pension scheme service cost	796	793	1,569
Depreciation of property, plant and equipment, investment properties and right-of-use assets	989	869	1,793
Cash payments into the defined benefit pension scheme	(262)	(263)	(523)
Loss on disposal of property, plant and equipment	1	1	2
Share-based payments	24	28	56
Decrease in inventories	1,221	2,951	646
(Increase)/decrease in receivables	(3,788)	2,844	4,479
Increase/(decrease) in payables	4,601	(4,996)	(7,422)
Cash generated from operations	4,996	2,283	703
Tax recovered/(paid)	66	(81)	(147)
Interest paid	(683)	(685)	(1,358)
Net cash generated from/(absorbed by) operating activities	4,379	1,517	(802)
Investing activities			
Proceeds generated on disposal of property, plant and equipment	–	–	–
Purchases of property, plant and equipment	(198)	(376)	(980)
Net cash used in investing activities	(198)	(376)	(980)
Financing activities			
Overdraft facility (repaid)/utilised	(1,000)	(3,000)	1,000
Secured loans utilised/(repaid)	781	(438)	(781)
Dividends paid to shareholders	–	(404)	(606)
Repayment of lease liabilities	(167)	(125)	(261)
Net cash used in financing activities	(386)	(3,967)	(648)
Net increase/(decrease) in cash and cash equivalents	3,795	(2,826)	(2,430)
Cash and cash equivalents at beginning of period	1,478	3,908	3,908
Cash and cash equivalents at end of period	5,273	1,082	1,478
Cash and cash equivalents	5,273	1,082	1,478
Bank overdraft	(4,000)	(1,000)	(5,000)
Net cash and cash equivalents	1,273	82	(3,522)

Notes to the Condensed Consolidated Financial Statements

(for the half year ended 30 September 2020)

1. General Information

Caffyns plc is a company domiciled in the United Kingdom. The address of the registered office is Meads Road, Eastbourne, East Sussex, BN20 7DR.

These condensed consolidated financial statements for the half year to 30 September 2020 and, similarly for the half year to 30 September 2019, are unaudited. They do not include all the information required for full annual financial statements and should be read in conjunction with the financial statements of the Company for the year ended 31 March 2020.

The comparative financial information for the year ended 31 March 2020 in these condensed consolidated financial statements does not constitute statutory accounts for that year. The statutory accounts for 31 March 2020 have been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

These condensed consolidated financial statements have been reviewed by the Company's auditor and a copy of their review report is set out at the end of these statements.

These consolidated interim financial statements were approved by the directors on 26 November 2020.

2. Accounting Policies

The annual financial statements of Caffyns plc are prepared in accordance with IFRSs as adopted by the European Union. The set of condensed consolidated financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union. As required by the disclosure guidance and transparency rules of the Financial Conduct Authority, this set of condensed consolidated financial statements has been prepared in accordance with the accounting policies set out in the Annual Report for the year ended 31 March 2020.

Segmental reporting

Based upon the management information reported to the Group's chief operating decision maker, the Chief Executive, in the opinion of the directors, the Group only has one reportable segment. There are no major customers amounting to 10% or more of the Group's revenue. All revenue and non-current assets derive from, or are based in, the United Kingdom.

Notes to the Condensed Consolidated Financial Statements *continued*

(for the half year ended 30 September 2020)

2. Accounting Policies (continued)

Basis of preparation: going concern

These condensed consolidated financial statements have been prepared on a going concern basis, which the directors consider appropriate for the reasons set out below.

The directors have considered the going concern basis and have undertaken a detailed review of trading and cash flow forecasts for a period in excess of one year from the date of approval of this Interim Report. This has focused primarily on the achievement of the banking covenants. In light of covid-19, during the period HSBC confirmed to the Company the relaxation in the debt service covenant test for September 2020 and March 2021. The new covenants test requires the Company to make an underlying profit before interest for the rolling twelve-month period to September 2020 and to March 2021. All bank covenants have been achieved for the period under review. The Company has modelled the periods to March and September 2021 and conclude that there is headroom that would allow for a significant reduction in expected new and used units over this period. External market commentary provided by the Society of Motor Manufacturers and Traders ("SMMT") indicate that new car registrations for November and December 2020 will be 9% lower than the same two-month period to December 2019, with a 28% rebound in new car registrations then forecast for 2021. The used car market has remained stable over the past four years and is expected to remain so into 2021. Since reopening on the 1 June 2020, demand and financial results have both been stronger than had been anticipated and the current new car order take for December and beyond is ahead of this time last year.

The directors have also considered the Company's working capital requirements. The Company meets its day-to-day working capital requirements through short-term stocking loans, bank overdrafts, medium-term revolving credit facilities and term loans. At the period end, the medium-term banking facilities included a term loan with an outstanding balance of £6.8 million and a revolving credit facility of £7.5 million from HSBC, its primary bankers, with both facilities being renewable in March 2023. HSBC also make available a short-term overdraft facility of £3.5 million, which is due for its next annual renewal in December. The Company also has a ten-year term loan from Volkswagen Bank with a balance outstanding at 31 March 2020 of £1.8 million, which is repayable to November 2023, and a short-term overdraft facility of £7.0 million, which is renewable annually. In the opinion of the directors, there is a reasonable expectation that all facilities will be renewed at their scheduled expiry dates. The failure of a covenant test would render these facilities repayable on demand at the option of the lender.

The directors have a reasonable expectation that the Company has adequate resources and headroom against the covenant test to be able to continue in operational existence for the foreseeable future and for at least twelve months from the date of approval of this Interim Report. For those reasons, they continue to adopt the going concern basis in preparing these condensed consolidated financial statements.

Non-underlying items

Non-underlying items are those items that are unusual because of their size, nature or incidence. Management considers that these items should be disclosed separately to enable a full understanding of the operating results. Profits and losses on disposal of property, plant and equipment and property impairment charges are disclosed as non-underlying, as are certain redundancy costs and costs attributable to vacant properties held pending their disposal.

The net financing return and service cost on pension obligations in respect of the defined benefit pension scheme is presented as a non-underlying item due to the inability of management to influence the underlying assumptions from which the charge is derived. The defined benefit pension scheme is closed to future accrual.

All other activities are treated as underlying.

3. Other Income (Net)

	Half year to 30 September 2020 £'000	Half year to 30 September 2019 £'000	Year to 31 March 2020 £'000
Rent receivable	361	348	708
Liquidation distribution received	–	–	22
Loss on disposal of tangible fixed assets	(1)	(1)	(2)
Total other income	360	347	728

Notes to the Condensed Consolidated Financial Statements continued

(for the half year ended 30 September 2020)

4. Non-Underlying Items

	Half year to 30 September 2020 £'000	Half year to 30 September 2019 £'000	Year to 31 March 2020 £'000
Other income:			
Net loss on disposal of property, plant and equipment	(1)	(1)	(2)
Within operating expenses:			
Service cost on pension scheme	(12)	(13)	(25)
Restructuring redundancy costs	(6)	–	–
VAT compliance provision movement	–	–	44
Liquidation distribution received	–	–	22
	(18)	(13)	41
Total non-underlying items within operating profit	(19)	(14)	39
Net finance expense on pension scheme	(101)	(95)	(187)
Total non-underlying items within profit before taxation	(120)	(109)	(148)

In the prior year, the Company received a distribution of £22,000 from the liquidators of MG Rover Group Limited.

5. Finance Expense

	Half year to 30 September 2020 £'000	Half year to 30 September 2019 £'000	Year to 31 March 2020 £'000
Interest payable on bank borrowings	227	224	440
Interest payable on inventory stocking loans	367	360	741
Interest on lease liabilities	12	13	24
Financing costs amortised	53	52	105
Preference dividends	36	36	72
Finance expense	695	685	1,382

6. Taxation

	Half year to 30 September 2020 £'000	Half year to 30 September 2019 £'000	Year to 31 March 2020 £'000
Current UK corporation tax			
Charge for the period	(320)	(12)	–
Reversal of impairment of Advanced Corporation Tax asset	302	–	–
Adjustments recognised in the period for current tax of prior periods	–	–	22
Total current tax (charge)/credit	(18)	(12)	22
Deferred tax			
Origination and reversal of timing differences	12	(16)	(356)
Adjustments recognised in the period for deferred tax of prior periods	1	–	(21)
Total deferred tax credit/(charge)	13	(16)	(377)
Total tax charged in the Income Statement	(5)	(28)	(355)

The tax charge arises as follows:

	Half year to 30 September 2020 £'000	Half year to 30 September 2019 £'000	Year to 31 March 2020 £'000
On normal trading	(27)	(48)	(383)
Non-underlying items	22	20	28
Total tax charge	(5)	(28)	(355)

Taxation of trading items for the half year has been provided at the current rate of taxation of 22% (2019: 50%) expected to apply to the full year. This effective rate is higher than the standard rate of corporation tax in force of 19% due to the effect of non-deductible expenses and non-qualifying depreciation. The tax charge for the period was then reduced by the reversal of an impairment against the carrying value of an Advanced Corporation Tax asset. This impairment was made in a prior year as has been reversed given management's judgement of a higher level of certainty that the available Advanced Corporation Tax will be utilised in future years.

Notes to the Condensed Consolidated Financial Statements continued

(for the half year ended 30 September 2020)

7. Earnings Per Share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period. Treasury shares are treated as cancelled for the purposes of this calculation.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post-tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

Reconciliations of the earnings and the weighted average number of shares used in the calculations are set out below.

	Half year to 30 September 2020 £'000	Half year to 30 September 2019 £'000	Year to 31 March 2020 £'000
Basic			
Profit/(loss) after tax for the period	1,409	28	(252)
Basic earnings/(deficit) per share	52.3p	1.0p	(9.4)p
Diluted earnings/(deficit) per share	52.3p	1.0p	(9.4)p
Underlying			
Profit before tax	1,414	56	103
Adjustment: non-underlying items (note 4)	120	109	148
Underlying profit for the period	1,534	165	251
Taxation on normal trading (note 6)	(27)	(48)	(383)
Underlying earnings/(deficit)	1,507	117	(132)
Underlying basic earnings/(deficit) per share	55.9p	4.3p	(4.9)p
Diluted earnings/(deficit) per share	55.9p	4.3p	(4.9)p

The number of fully paid ordinary shares in issue at the period end was 2,879,298 (2019: 2,879,298). Excluding the shares held for treasury, the weighted average shares in issue for the purposes of the earnings per share calculation were 2,694,790 (2019: 2,694,790). The shares granted under the Company's SAYE scheme have not been treated as dilutive as the market price at 30 September 2020 of £2.70 was less than the option price of £3.99.

The directors consider that underlying earnings per share figures provide a better measure of comparative performance.

8. Dividends

Ordinary shares of 50p each

No interim dividend has been declared in respect of the half year ended 30 September 2020. An interim dividend of 7.5 pence per share was paid on 6 January 2020 in respect of the half year ended 30 September 2019.

Preference shares

Preference dividends were paid in October 2020. The next preference dividends are payable in April 2021. The cost of the preference dividends has been included within finance costs.

9. Pensions

The pension scheme deficit reflects a defined benefit obligation that has been updated to reflect its valuation as at 30 September 2020. This has been calculated by a qualified actuary using a consistent valuation method to that which was adopted in the audited financial statements for the year ended 31 March 2020 and in the period to 30 September 2019, and which complies with the accounting requirements of IAS 19 (revised).

The net liability for defined benefit obligations has increased from £9,434,000 at 31 March 2020 to £13,310,000 at 30 September 2020. The increase of £3,876,000 comprises the net charge to the Condensed Consolidated Statement of Financial Performance of £113,000, a net remeasurement loss debited to the Condensed Consolidated Statement of Comprehensive Income of £4,025,000 and contributions of £262,000. Asset values increased significantly in the period, by £7,267,000, despite divestments to pay pension transfers and benefits in the period of £2,362,000. However, pension liabilities increased by £11,143,000, as a result of a reduction in the discount rate from 2.2% at 31 March 2020 to 1.55% at 30 September 2020, despite transfers and pensions that were paid in the period.

10. Risks and Uncertainties

There are a number of potential risks and uncertainties that could have a material impact on the Group's performance over the remaining six months of the financial year, and could cause actual results to differ materially from expected and historical results. The board believes these risks and uncertainties to be consistent with those disclosed in our latest Annual Report, including the ongoing covid-19 pandemic and general economic factors, their impact on the Group's defined benefit pension scheme, liquidity and financing, the Group's dependency on its manufacturers and their stability, used car prices and regulatory compliance. Following the UK's decision to leave the EU in 2016, a degree of uncertainty in the UK economy remains and we believe that the main risks to arise from this relate to consumer confidence and the potential impact that Sterling/Euro exchange rates and import tariffs may have on vehicle prices.

Notes to the Condensed Consolidated Financial Statements continued

(for the half year ended 30 September 2020)

11. Contingent Liabilities

In September 2015, Volkswagen Aktiengesellschaft announced that certain diesel vehicles manufactured by Volkswagen, Skoda, SEAT and Audi, which contain 1.2, 1.6 and 2.0 litre EA 189 diesel engines, were fitted with software that is thought to have operated such that when the vehicles were experiencing test conditions, the characteristics of nitrogen oxides ("NOx") were affected. The vehicles remain safe and roadworthy.

Technical measures have been approved by the German type approval authority, the Kraftfahrt-Bundesamt (the "KBA") in respect of Volkswagen and Audi branded vehicles, by the UK type approval authority, the Vehicle Certification Agency (the "VCA") in respect of Skoda branded vehicles, and by the Ministerio de Industria, Energía y Turismo (the "MDI") in respect of SEAT branded vehicles. The KBA and VCA have confirmed for all affected vehicles that the implementation of all technical measures does not adversely impact fuel consumption figures, CO₂ emissions figures, engine output, maximum torque and noise emissions. The MDI is also content that the technical measures be applied to those SEAT vehicles for which they are the relevant approval authority.

Notwithstanding the above, claims on behalf of multiple claimants, arising out of or in relation to their purchase or acquisition on finance of a Volkswagen Group vehicle affected by the NOx issue, have been brought against a number of Volkswagen entities and dealers, including Caffyns. Caffyns has been named as a Defendant on fourteen claim forms alleging fraudulent misrepresentation, breach of contract, breach of statutory duty, breach of the Consumer Credit Act 1974 and a breach of the Consumer Protection from Unfair Trading Regulations 2008. In total, there are 314 claims being jointly brought against Caffyns.

In December 2019, a hearing took place in the High Court of England and Wales on two preliminary issues:

- (i) "Is the High Court of England and Wales bound by the finding of the competent EU type approval authority that a vehicle contains a defeat device in circumstances where that finding could have been, but has not been, appealed by the manufacturer; and/or is it an abuse of process for the Defendants to seek collaterally to attack the KBA's reasoning or conclusions by denying that the affected vehicles contain defeat devices?"; and
- (ii) "Where a vehicle's engine control unit is capable of identifying the New European Driving Cycle test and operates in a different mode during the test by altering the rate of exhaust gas recirculation to reduce NOx emissions, does the vehicle contain a 'Defeat Device' within the meaning of Article 3(10) of Regulation 715/2007/EC?"

Judgment was received on 30 March 2020. On the first preliminary issue, the Court found that it was bound by the KBA's ordinance that the software was a defeat device. The same was not true in relation to the VCA. On the second preliminary issue, the Court found that the software was a prohibited defeat device. Permission to appeal this judgment has been denied by the Court of Appeal.

At present, no timetable has been set for the remainder of the case; the relevant issues of liability, loss and causation are not yet decided. It is therefore too early to assess reliably the merit of any claim and so we cannot confirm that any future outflow of resources is probable.

Volkswagen Group has agreed to indemnify the Company for the reasonable legal costs of defending the litigation and any damages and adverse legal costs that the Company may be liable to pay to the claimants as a result of the litigation and the conduct of the Volkswagen Group. The possibility, therefore, of an economic cost to the Company resulting from the defence of the litigation is remote.

Accordingly, no provision for liability has been made in these financial statements.

12. Responsibility Statement

We confirm to the best of our knowledge:

- a) these condensed consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting';
- b) these condensed consolidated financial statements include a fair review of the information required by DTR 4.2.7R of the disclosure guidance and transparency rules (indication of important events during the first six months and their impact on the set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year); and
- c) the half year report includes a fair review of the information required by DTR 4.2.8R of the disclosure and guidance transparency rules (disclosure of related parties' transactions and changes therein).

By order of the board

S G M Caffyn

Chief Executive

M Warren

Finance Director

26 November 2020

Independent Review Report to Caffyns plc

Introduction

We have been engaged by the Company to review the condensed consolidated set of financial statements in the half year report for the six months ended 30 September 2020, which comprises the Condensed Consolidated Statement of Financial Performance, the Condensed Consolidated Statement of Comprehensive Expense, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Consolidated Changes in Equity, the Condensed Consolidated Cash Flow Statement and the notes to the set of financial information.

We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of financial statements.

Directors' responsibilities

The half year report is the responsibility of and has been approved by the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed consolidated set of financial statements included in this half year report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed consolidated set of financial statements in the half year report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the half year report for the six months ended 30 September 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting its responsibilities in respect of half-yearly financial reporting in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

BDO LLP

Chartered Accountants
Southampton
26 November 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Shareholder Notes

Our Dealerships



AUDI

BRIGHTON:
EASTBOURNE:
WORTHING:

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SEAT

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SKODA

ASHFORD:
TUNBRIDGE WELLS:

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North Farm Industrial Estate, Tunbridge Wells, TN2 3EL
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VAUXHALL

ASHFORD:

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VOLKSWAGEN

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WORTHING:

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