

# BCA Marketplace

Interim results

## Trading up at half-year

Interim results indicate the resilience of BCA's model in the face of still challenging UK market fundamentals. The company delivered top-line growth of 22% and adjusted EBITDA growth of 12.7% and is able to maintain its expectation that market forecasts for FY19 will be achieved. While the uncertainties in new car markets persist, largely due to supply-side constraints and the looming Brexit, we maintain our EBITDA estimates for this year and next despite some divisional mix changes. The FY20 P/E multiple of just 15.7x is undemanding in our view given BCA's investment proposition delivering healthy cash flows.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/17	2,030	97.4	9.1	6.75	23.1	3.2
03/18	2,432	120.9	11.4	8.55	18.4	4.1
03/19e	2,849	129.0	12.4	9.35	16.9	4.5
03/20e	3,084	139.1	13.4	10.15	15.7	4.8

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Strong performance delivered in the first half

BCA remained largely unaffected by the disruption in new car markets experienced during the period as a result of the introduction of the new Worldwide Harmonised Light Vehicle Test Procedure (WLTP) emission testing regime, which affected new car supply across Europe. The group increased revenues by 22%, adjusted EBITDA by 13%, adjusted PBT by 17% and fully diluted adjusted EPS by 19% in H119. The interim dividend was raised by 15% to 3.0p per share. The improvement was delivered by strong performances across the vehicle remarketing activities in the UK and across Europe, as well as continued double-digit growth of We Buy Any Car (WBAC) vehicle buying. The WLTP disruption primarily affected the Automotive Services division where activities such as storage, pre-delivery inspections, transportation and refurbishment suffered from lower vehicle supply levels. We feel the growth in volumes and EBITDA per vehicle validates the belief that BCA's model is resilient to short-term car market volatility and may in fact benefit from it.

## Challenging market conditions expected to persist

The rest of FY19 may prove to be less volatile as the WLTP supply-side impacts should diminish and Brexit looms at the year end. At present we feel it is prudent to assume the strength of the H119 performance is likely to prove hard to maintain, but we expect volume trends to continue to be positive in both vehicle remarketing and buying activities. We anticipate good progress to be maintained in FY20 despite Brexit. While we maintain our adjusted EBITDA estimates, PBT and EPS rise 1.4% in FY19e and FY20e due to lower depreciation.

## Valuation: Rating constrained by UK uncertainties

Our DCF valuation returns 251p, which compares to 237p at the time of our initiation note. The current FY20 P/E multiple is 15.7x, a c.20% discount to its remarketing peer group average, and the shares also offer an attractive dividend yield in excess of 4%.

## Industrial support services

5 December 2018

**Price** **210p**  
**Market cap** **£1,675m**

Net debt (£m) at 30 September	264
Shares in issue	797.5m
Free float	100%
Code	BCA
Primary exchange	LSE
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(1.4)	(10.2)	(1.9)
Rel (local)	(0.4)	(3.8)	2.1
52-week high/low		242.0p	149.6p

## Business description

In the UK, BCA Marketplace owns and operates the largest used vehicle exchange and is the leading provider of vehicle buying services through We Buy Any Car. BCA also provides exchange and buying services across Europe and its Automotive Services division provides transport, storage and technical expertise.

## Next events

FY results June 2019

## Analysts

Andy Chambers	+44 (0)20 3681 2525
Annabel Hewson	+44 (0)20 3077 5700

[industrials@edisongroup.com](mailto:industrials@edisongroup.com)

[Edison profile page](#)

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## Interim results

### H119 results

Results for H119 showed excellent progress, with strong growth apparent as healthy progress in vehicle remarketing and buying activities more than offset a disrupted period for the Automotive Services activities. Key financial highlights of the results were:

- Group revenues rose by 22% to £1.43bn (H118 £1.17bn) driven by higher volumes and higher average vehicle selling prices in the remarketing divisions and continued strong volume growth in vehicle buying activities. Growth of outsourced remarketing contracts, where full vehicle selling prices are recognised, also continues to inflate UK remarketing revenues.
- Group adjusted EBITDA rose 12.7% to £85.4m (H118 £75.8m).
- Group adjusted PBT was 16.7% higher at £66.5m.
- Adjusted fully diluted EPS rose by 18.5% to 6.4p (H118 5.4p).
- Interim dividend was increased by 15.4% to 3.0p (H118 2.6p).
- Net debt of £264.0m was £23.4m lower than at the same time last year. It compared to £193.5m at the start of FY19, the outflow mainly reflecting seasonal working capital demands.

<b>Exhibit 1: Interim results summary</b>			
<b>Six months ended September (£m)</b>	<b>H118</b>	<b>H119</b>	<b>% change</b>
<b>Revenue</b>			
UK vehicle remarketing	456.7	581.6	27.3
Vehicle remarketing international	72.1	86.4	19.8
Vehicle buying	467.8	581.6	24.3
Automotive services	175.0	180.1	2.9
<b>Group total</b>	<b>1,171.6</b>	<b>1,429.7</b>	<b>22.0</b>
<b>Adjusted EBITDA</b>			
UK vehicle remarketing	47.3	55.4	17.1
Vehicle remarketing International	12.8	15.8	23.4
Vehicle buying	11.7	12.6	7.7
Automotive services	10.9	8.4	(22.9)
Unallocated central costs	(6.9)	(6.8)	(1.4)
<b>Group total</b>	<b>75.8</b>	<b>85.4</b>	<b>12.7</b>
<b>EBITDA margin</b>			
UK vehicle remarketing	10.4%	9.5%	
Vehicle remarketing international	17.8%	18.3%	
Vehicle buying	2.5%	2.2%	
Automotive services	6.2%	4.7%	
Group total	6.5%	6.0%	
<b>Adjusted EBITDA</b>	<b>75.8</b>	<b>85.4</b>	<b>12.7</b>
<b>Adjusted operating profit</b>	<b>63.0</b>	<b>71.4</b>	<b>13.3</b>
(Loss)/profit before tax	34.9	45.7	30.9
<b>Adjusted profit before tax</b>	<b>57.00</b>	<b>66.50</b>	<b>16.7</b>
Adjusted EPS (p)	5.4	6.4	
DPS (p)	2.6	3.0	
Net debt	287.4	264.0	

Source: BCA Marketplace reports

### Excellent H1 for UK remarketing operations

Vehicle remarketing in the UK saw revenues rise by 27% with volume of vehicles sold rising by 3.1% to 528k (H118 512k). Revenue per vehicle continues to be inflated by the accounting treatment of cars flowing from outsourced remarketing contracts where the title has to be taken temporarily and the full sale price has to be reflected in revenues, compared to just agency fees and commissions in the normal auction activity. Nevertheless, average hammer prices at auction

were higher, reflecting a lower average age of vehicles sold, improved vehicle quality and strong demand which also served to improve conversion rates of cars sold first time.

Demand and pricing were in part supported by the disruption in the UK new car market resulting from the introduction of the WLTP emissions testing regime in the EU from 1 September 2018. It severely distorted new car registrations in August and September and has led to supply shortages from some manufacturers, who have had regulatory approval delays for certain models. The demand for good quality nearly new cars has thus increased and in some cases vehicle replacement or defleeting exercises have been deferred. However, from BCA's perspective the willingness of those who are selling to accept hammer prices seems to have improved during the period, which has boosted conversion rates.

The increased volumes and quality of vehicles provided operational efficiencies with increased utilisation of BCA transport and operations. The result is much stronger adjusted EBITDA per vehicle. The £105 per vehicle achieved in H119 compared to just £92 in H118. However, the margin reduced to 9.5% from 10.4% due to the inflationary aspect on revenues from the outsourced remarketing contracts.

BCA Partner Finance also continued to enhance performance by adding liquidity and buyer demand, with over £0.5bn of vehicle transactions funded during the period. The reduction in live dealers followed an audit of low use accounts, with inactive accounts being closed. Penetration of all BCA vehicles sold increased to 12.8% at the period end.

<b>Exhibit 2: BCA Partner Finance development</b>			
	<b>H118</b>	<b>H119</b>	<b>Change</b>
Number of live dealers	1,172	1,135	-3%
Live credit lines (£m)	182	234	29%
Utilisation	68%	72%	
Actual loan book (£m)	123.7	160.5	30%
Facility drawdown (£m)	74.4	114.7	54%
BCA penetration at period end	11.3%	12.8%	+150bp

Source: BCA Marketplace reports

### **International development continues apace**

The International Vehicle Remarketing operation also continued to develop strongly. The number of vehicles sold rose 8% to 189k (H118 175k) and revenue per vehicle increased by 10.9% to £457. Spain was down marginally (0.5%) but all other markets were up, with Scandinavia (+19.3%) and France (+13.0%) particularly strong. Cross-border buyers account for 18.2% of the volume sold, compared to 15.4% in the comparable period. Online sales accounted for 70.5% of volume sold, up from 69.5% in 2017.

Overall revenues rose 19.8% to £86.4m (H118 £72.1m) and adjusted EBITDA per vehicle rose 23.4%, with margin rising 50bps to 18.3%.

### **WBAC delivers double-digit volume growth**

Vehicle buying continued its strong growth with volumes rising in double digits once more. In the UK, WBAC saw revenues grow 20.3% to £535.2m (H118 £444.9m), with 122k vehicles sold up 14% compared to H118, and average revenue per vehicle rising 5.5%. Adjusted EBITDA rose 6.0% to £12.4m, a margin of 2.3% healthily within the targeted range for the operation. The company increased the number of branches by 9% during the period to 247 locations, reducing average customer drive time to a location to just 14 minutes. In addition, the company's pursuit of a trust-based marketing approach has increased repeat customer trading in turn supporting volume growth.

The international operations in Europe are run primarily to source vehicles and raise awareness of auction activity. They also grew strongly, more than doubling revenues to £46.4m with 75% more vehicles sold, a total of 9.1k vehicles.

### WLTP supply issues constrains Automotive Services

BCA provides services in the UK that touch vehicles throughout their lifecycle from arrival at the docks to end of life. Primary among these is the vehicle transporter fleet of BCA Automotive, which is the largest in the UK by some distance, moving over 1.1m cars in H119. However, with a lower volume of cars being imported due to WLTP, other activities such as storage, handling and inspection would also have been experiencing challenging conditions.

Revenues rose 2.9% to £180.1m (H118 £175.0m) despite this, in part due to a new operation at Southampton docks. The delay of refurbishment of vehicles coming out of corporate fleets and leasing operations, combined with the reduced requirement for technical services work on new cars also adversely affected margins. Adjusted EBITDA fell 22.9% to £8.4m (H118 £10.9m), a margin of 4.7% (H118 6.2%).

<b>Exhibit 3: BCA Marketplace half-yearly analysis</b>						
<b>Year end March (£m)</b>	<b>H118</b>	<b>H218</b>	<b>FY18</b>	<b>H119</b>	<b>H219E</b>	<b>FY19E</b>
<u>Revenue</u>						
Vehicle remarketing UK	456.7	484.7	941.4	581.6	582.3	1,163.9
Vehicle remarketing international	72.1	82.2	154.3	86.4	82.0	168.4
Vehicle buying	467.8	512.7	980.5	581.6	573.0	1,154.6
Automotive services	175.0	180.3	355.3	180.1	182.3	362.4
<b>Group total revenue</b>	<b>1,171.6</b>	<b>1,259.9</b>	<b>2,431.5</b>	<b>1,429.7</b>	<b>1,419.5</b>	<b>2,849.2</b>
<u>Adjusted EBITDA</u>						
Vehicle remarketing UK	47.3	51.5	98.8	55.4	54.5	109.9
Vehicle remarketing international	12.8	17.3	30.1	15.8	16.2	32.0
Vehicle buying	11.7	11.3	23.0	12.6	13.6	26.2
Automotive services	10.9	10.6	21.5	8.4	9.0	17.4
Unallocated central costs	(6.9)	(7.0)	(13.9)	(6.8)	-7.9	-14.7
<b>Group total adjusted EBITDA</b>	<b>75.8</b>	<b>83.7</b>	<b>159.5</b>	<b>85.4</b>	<b>85.4</b>	<b>170.8</b>
<u>Adjusted EBITDA margin</u>						
Vehicle remarketing UK	10.4%	10.6%	10.5%	9.5%	9.4%	9.4%
Vehicle remarketing international	17.8%	21.0%	19.5%	18.3%	19.8%	19.0%
Vehicle buying	2.5%	2.2%	2.3%	2.2%	2.4%	2.3%
Automotive services	6.2%	5.9%	6.1%	4.7%	4.9%	4.8%
<i>Group Total</i>	<i>6.5%</i>	<i>6.6%</i>	<i>6.6%</i>	<i>6.0%</i>	<i>6.0%</i>	<i>6.0%</i>
<b>Adjusted EBITDA</b>	<b>75.8</b>	<b>83.7</b>	<b>159.5</b>	<b>85.4</b>	<b>85.4</b>	<b>170.8</b>
D&A	(12.8)	(14.1)	(26.9)	(14.0)	(16.3)	-30.3
<b>Adjusted operating profit</b>	<b>63.0</b>	<b>69.6</b>	<b>132.6</b>	<b>71.4</b>	<b>69.0</b>	<b>140.4</b>
PPA intangible amortisation	(20.0)	-20.2	940.2)	(20.1)	(20.1)	-40.2
Exceptional items:	(2.1)	-2.7	(4.8)	(0.7)	0.0	-0.7
<b>Operating (loss)/profit</b>	<b>40.9</b>	<b>46.7</b>	<b>87.6</b>	<b>50.6</b>	<b>48.9</b>	<b>99.5</b>
Finance income	0.2	0.1	0.3	0.2	0.2	0.4
Finance costs	(6.2)	(5.8)	(12.0)	(5.1)	(6.7)	-11.8
<b>(Loss)/profit before tax</b>	<b>34.9</b>	<b>41.0</b>	<b>75.9</b>	<b>45.7</b>	<b>42.4</b>	<b>88.1</b>
<b>Adjusted Profit before tax</b>	<b>57.0</b>	<b>63.9</b>	<b>120.9</b>	<b>66.5</b>	<b>62.5</b>	<b>129.0</b>

Source: BCA Marketplace reports, Edison Investment Research estimates

### Outlook

The effects of WLTP are expected to diminish as BCA's financial year progresses, which may mean reduced H219 volume volatility, especially in new cars. Volume growth in remarketing is expected to be similar to H119. Q4 is normally the most significant for the UK vehicles remarketing operations, but the mixture of WLTP and Brexit looming at the end of March leads us to err on the cautious side for H219. However, the refurbished site at Nottingham has come on stream, which should provide a fillip, with an increased capacity of 100k vehicles. The strong growth of WBAC is expected to

continue, with a new advertising campaign over the festive season likely to continue to build trustworthy brand status. Automotive Services should benefit from any return to normality in new vehicle supply, but is still likely to make a reduced adjusted EBITDA contribution in H219 compared to H218.

Our adjusted EBITDA remains unchanged for FY19e and FY20e despite a change in divisional mix. However, we have reduced our depreciation charge forecast, leaving both adjusted PBT and adjusted EPS 1.4% higher in each year. Our dividend expectations remain unchanged. We feel we are reflecting an element of caution, with second-half performance showing more modest year-on-year progression than H119.

<b>Exhibit 4: BCA Marketplace earnings estimates revisions</b>						
Year to March (£m)	2019e			2020e		
	Old	New	% change	Old	New	% change
Vehicle remarketing UK	1,008.5	1,163.9	15.4	1,069.8	1,215.6	13.6
Vehicle remarketing international	165.5	168.4	1.7	177.6	180.7	1.7
Vehicle buying	1,108.4	1,154.6	4.2	1,252.4	1,303.4	4.1
Automotive services	380.2	362.4	(4.7)	403.0	384.2	(4.7)
<b>Total group revenue</b>	<b>2,662.5</b>	<b>2,849.2</b>	<b>7.0</b>	<b>2,902.8</b>	<b>3,083.9</b>	<b>6.2</b>
Vehicle remarketing UK	105.8	109.9	3.9%	112.2	112.6	0.3%
Vehicle remarketing international	31.4	32.0	1.7%	33.8	34.3	1.7%
Vehicle buying	26.0	26.2	0.6%	29.4	30.0	1.9%
Automotive services	23.6	17.4	-26.2%	25.0	23.0	-7.7%
HQ (other and intersegment)	-16.0	-14.7	-8.1%	-16.5	-16.0	-3.0%
<b>Adjusted EBITDA</b>	<b>170.8</b>	<b>170.8</b>	<b>0.0%</b>	<b>183.9</b>	<b>183.9</b>	<b>0.0%</b>
<b>Underlying PTP</b>	<b>127.2</b>	<b>129.0</b>	<b>1.4%</b>	<b>137.1</b>	<b>139.1</b>	<b>1.4%</b>
<b>EPS - underlying continuing (p)</b>	<b>12.3</b>	<b>12.4</b>	<b>1.4%</b>	<b>13.2</b>	<b>13.4</b>	<b>1.4%</b>
DPS (p)	9.35	9.35	0.0%	10.15	10.15	0.0%
Net cash / (debt)	(186.6)	(210.9)	13.0%	(160.0)	(196.7)	23.0%

Source: Edison Investment Research estimates

**Exhibit 5: Financial summary**

	£m	2016	2017	2018	2019e	2020e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
Revenue		1,153.1	2,029.7	2,431.5	2,849.2	3,083.9
Cost of Sales		(844.5)	(1,624.5)	(1,983.4)	(2,324.2)	(2,515.5)
Gross Profit		308.6	405.2	448.1	525.1	568.3
EBITDA		98.5	135.6	159.5	170.8	183.9
Operating Profit (before amort. and except.)		90.7	121.3	143.0	150.8	160.8
Intangible Amortisation		(9.2)	(10.9)	(10.4)	(10.4)	(10.4)
Exceptionals		(65.2)	(36.1)	(45.0)	(40.9)	(40.2)
Other		0.0	4.9	0.0	0.0	0.0
Operating Profit		16.3	79.2	87.6	99.5	110.2
Net Interest		(12.4)	(17.9)	(11.7)	(11.5)	(11.3)
Other financial costs		0.0	4.9	0.0	0.0	0.0
Profit Before Tax (norm)		69.1	97.4	120.9	129.0	139.1
Profit Before Tax (FRS 3)		3.9	56.4	75.9	88.1	98.9
Tax		3.8	(15.3)	(18.9)	(20.3)	(22.7)
Profit After Tax (norm)		55.2	72.4	92.9	99.3	107.1
Profit After Tax (FRS 3)		7.7	41.1	57.0	67.8	76.1
Average Number of Shares Outstanding (m)		630.2	780.2	786.2	797.5	797.5
EPS - fully diluted (p)		8.6	9.1	11.4	12.4	13.4
EPS - normalised (p)		8.8	9.3	11.8	12.4	13.4
EPS - (IFRS) (p)		1.2	5.2	7.2	8.5	9.5
Dividend per share (p)		6.0	6.8	8.6	9.4	10.2
Gross Margin (%)		26.8	20.0	18.4	18.4	18.4
EBITDA Margin (%)		8.5	6.7	6.6	6.0	6.0
Operating Margin (before GW and except.) (%)		7.9	6.0	5.9	5.3	5.2
<b>BALANCE SHEET</b>						
Fixed Assets		1,565.0	1,692.8	1,660.0	1,623.2	1,591.3
Intangible Assets		1,449.5	1,559.5	1,528.6	1,489.0	1,449.4
Tangible Assets		115.5	133.3	131.4	134.2	141.9
Investments		0.0	0.0	0.0	0.0	0.0
Current Assets		347.9	491.6	596.1	675.3	721.1
Stocks		19.3	58.3	59.1	71.3	79.5
Debtors		210.0	337.1	389.7	456.7	494.3
Cash		102.4	84.4	135.3	135.3	135.3
Other		16.2	11.8	12.0	12.0	12.0
Current Liabilities		(266.4)	(523.2)	(620.4)	(474.6)	(507.4)
Creditors		(226.2)	(364.2)	(444.9)	(474.6)	(507.4)
Short term borrowings		(40.2)	(159.0)	(175.5)	0.0	0.0
Long Term Liabilities		(525.0)	(299.8)	(276.1)	(469.8)	(455.8)
Long term borrowings		(273.1)	(254.9)	(256.9)	(451.7)	(437.5)
Other long term liabilities		(251.9)	(44.9)	(19.2)	(18.1)	(18.3)
Net Assets		1,121.5	1,361.4	1,359.6	1,354.1	1,349.1
<b>CASH FLOW</b>						
Operating Cash Flow		6.9	86.6	171.2	122.2	164.7
Net Interest		(5.8)	(8.8)	(8.3)	(8.5)	(8.3)
Tax		(3.7)	(13.3)	(21.4)	(20.3)	(22.7)
Capex		(37.9)	(64.7)	(69.7)	(53.7)	(41.8)
Acquisitions/disposals		(1,184.7)	(109.5)	(15.8)	0.0	0.0
Financing		1,001.1	39.5	32.2	10.0	(0.0)
Dividends		(15.6)	(48.4)	(55.8)	(69.1)	(77.6)
Net Cash Flow		(239.7)	(118.6)	32.4	(19.3)	14.2
Opening net debt/(cash)		(28.8)	170.7	260.5	191.6	210.9
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		40.2	28.8	36.5	(0.0)	0.0
Closing net debt/(cash)		170.7	260.5	191.6	210.9	196.7

Source: BCA Marketplace reports, Edison Investment Research estimates

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Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
295 Madison Avenue, 18th Floor  
10017, New York  
US

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia