

Trust and transparency are key purchase drivers in today's consumer buying journey

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Trevor Mather
Chief Executive Officer

Auto Trader has built on the momentum generated in its first year as a listed company to deliver a good financial and operational performance. We have strived to create greater transparency and therefore trust in our marketplace, benefitting consumers, retailers and manufacturers alike. This in turn continues to increase the value we deliver, making the car buying journey a simpler, more enjoyable and trusted process.

Summary of operating performance

We have continued to deliver increased value for our retailer customers. Our audience has grown, with increases in cross platform visits, minutes spent on our marketplace and full page advert views, consolidating the position we hold of having the largest and most engaged audience, as consumers increasingly interact with content such as retailer reviews, vehicle videos and new car editorial.

The bigger audience was accompanied by greater levels of stock. Although the number of retailer forecourts was slightly down, this was predominantly in smaller and non-car related market segments. The reinforcing nature of our network effect, when coupled with our pricing initiative for the year, saw us grow Average Revenue Per Retailer ('ARPR') by £162 to £1,546 (2016: £1,384).

As a result, we have continued to grow revenue across all of our revenue streams (Trade, Consumer services and Display advertising), with growth of 9%¹ in total. This growth, combined with further cost reductions as we continue to focus on operating a simpler, leaner and more data-oriented business, resulted in an increase in Underlying operating profit of 19% to £207.2m. Operating profit was up 18% to £203.1m, representing another good year for the business.

¹ As the 2017 financial year was five days longer than the previous year, year-on-year percentages for revenue, costs and profits have been adjusted to reflect like-for-like growth. Read more in our Financial review on page 26.



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Our strategy

We remain focused on delivering our strategy to be the UK and Ireland’s leading digital automotive marketplace and help improve the processes of buying and selling vehicles for consumers, retailers and manufacturers alike. Our priorities are regularly reviewed, and in 2017 we focused on six operating priorities which we felt would help us to achieve our strategic goals, and I am particularly proud of the progress the Group has made against these priorities.

See page 16 to learn more about how we are delivering on our priorities.



To be the UK and Ireland’s leading digital automotive marketplace

We will simplify our business and integrate our assets

We will continuously improve and be brilliant at everything that is at our core

We will build a digital culture that is values-driven, customer focused and data-oriented

Operating priorities

1

Increase consumer audience, advert views and use of our valuation tools

The network effect model calls for the largest and most engaged audience in order to drive the most advert views and ultimately sales of retailers’ stock. Offering useful services that help consumers to buy and sell easily, like the valuation tool, is essential to keep our marketplace relevant.

2

Promote trust and fairness in the marketplace

A trusted, fair and effective marketplace is core to the value we deliver to consumers, retailers and manufacturers, who expect us as operator and custodian of the marketplace to ensure all participants benefit.

3

Grow ARPR in a balanced, sustainable way by creating value for our customers

ARPR is our primary driver of revenue growth so the more balanced we can be (across price rises, stock listing growth, product upsell and cross-sell), the more sustainable our revenue will be in the long term.

4

Extend the penetration of products outside of our core classified proposition

Leveraging our core business to meet the wider needs of retailers, helping them to remove inefficiencies and become more profitable, whilst providing Auto Trader with a material source of future revenue growth and a closer relationship with its customers.

5

Enhance our relevance and value to manufacturers

One third of new car buyers state that Auto Trader would be one of their first destinations when looking to buy a brand new car² therefore there is a huge opportunity to promote the relevance and value of our marketplace with manufacturers and new car buyers alike.

6

Operate a simpler, leaner and more data-oriented business

Making our processes and procedures more intuitive and streamlined whilst harnessing the data from our marketplace will benefit both our customers and employees. Creating a high-performing, continuously developing business will unlock opportunities and provide a truly digital experience for all.

2 Auto Trader Brand Tracking research (January – February 2017), conducted by Acacia Avenue, March 2017.

Progress made against our operating priorities

1 Increase consumer audience, advert views and use of our valuations tools

During the year, our audience has continued to grow: cross platform visits³ have increased to 55.4 million per month (2016: 47.9 million); minutes spent on our marketplace³ have grown by 12% to a total of 582 million minutes on average per month (2016: 521 million), and full page advert views increased to 247.4 million per month (2016: 242.8 million per month).

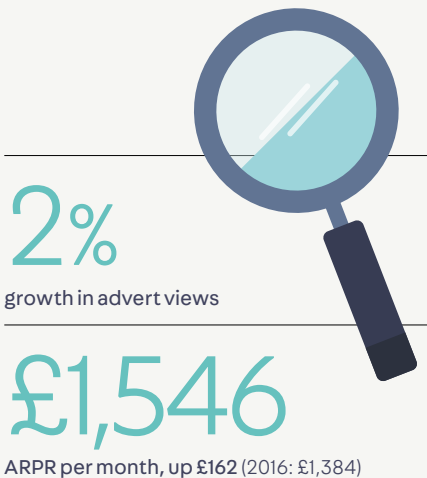
We continue to embed our valuations with the trade and consumers alike, with a focus on becoming the benchmark for the industry, and have delivered record numbers of valuations this year. The number of valuations conducted by consumers rose by 25% to a total of 17.1 million (2016: 13.7 million), being particularly buoyed by the introduction of our Part-Exchange Guide product.

2 Promote trust and fairness in the marketplace

Over the past 40 years, Auto Trader has become synonymous with buying and selling cars. This heritage has allowed us to build a trusted position which we have leveraged to become an advocate of transparency, delivering free consumer valuations, Part-Exchange Guide, Vehicle Checks, Dealer Reviews, and most recently, Price Indicator, which benefits the users of our entire marketplace.

3 Grow ARPR in a balanced, sustainable way by creating value for our customers

Through delivering increased value to our customers, we were able to successfully execute our annual pricing event in the first quarter of the financial year. The added value of more consumers and more engagement has been complemented by an increase in physical stock on site, with the average number of cars growing to c.450,000 (2016: c.437,000) underpinned by good used car transaction numbers in the year. We have seen marginally lower forecourts in the year, down 2% to 13,296 (2016: 13,514), with fewer non-car and small independent forecourts, offset partly by growth in franchise forecourts. Together with the gains made on our product lever both within and outside of our core classified packages, this enabled us to grow ARPR by £162 to £1,546.



4 Extend the penetration of products outside of our core classified proposition

We have improved the number of managing forecourts to c.2,500 (2016: c.1,900) and moved more customers up the selling package staircase. However, as expected, retailing solutions revenue declined as a result of discontinued revenue from pay-per-click ('PPC') and search engine optimisation ('SEO') products, as well as the re-platforming of our buying portal and website templates.

5 Enhance our relevance and value to manufacturers

We have continued to grow our relevance to manufacturers, reflected in higher Display advertising revenue in the year, with growth of 16% (2016: 23%) in spite of uncertainty in the lead up to the EU Referendum. We continue to believe there is a significant opportunity in display as we foresee further shift by manufacturers from traditional marketing channels to digital channels, in line with the trends seen in other retail sectors. Our priority is to become known to consumers, manufacturers and agencies as a destination for new cars, and we have taken a significant step towards this in 2017 with the addition of over 6,000 brand new cars to our marketplace, which we call 'virtual stock'.

6 Operate a simpler, leaner and more data-oriented business

Over the year, we have operated in a lean and agile way and seen continued benefits from the consolidation into two offices. Despite continued investment in new products, developers and front-line sales people, we expect to maintain our current headcount, and become increasingly more data-oriented, reaching ever higher levels of performance.

Driving a more transparent and trusted marketplace

Consumers spend around 11 hours⁴ researching their next car online, visiting on average 2.2 dealerships⁵ before they make their purchase. They buy cars now as they do any other consumer goods, demanding transparency, ease and trust in the seller. If sellers, in our case automotive retailers, don't offer a transparent, easy and trustworthy experience, a consumer may go elsewhere.

With this in mind, and to encourage retailers to operate in a more transparent and trusted manner, we took the decision to restructure our packages so that they now include products that will allow them to compete more effectively on the marketplace. Our new 'starter' package includes products such as: Dealer Reviews, Part-Exchange Guide, 100 Images and Live Chat – all tools that we see as a basic requirement for a retailer to compete effectively in today's digital marketplace. We have five levels in total, which progressively increase up to 'Advanced' and 'Premium', giving retailers the opportunity to pay more for greater prominence and stand out when consumers search for cars on a desktop. Greater prominence and appearing higher in the search results increases a retailer's ability to sell a car, faster, therefore increasing profit.

Creating price transparency

Our most recent launch, Price Indicator, directly addresses how retailers can provide a greater level of transparency in their pricing to consumers, as it labels their stock with a 'good price', 'great price' or 'priced low' indicator. These indicators are powered by our valuations algorithm which has been developed to incorporate features such as live market movements, specifications and optional extras. The market is constantly changing – there are over 12,000 price changes every day on Auto Trader and nearly 20,000 cars are added or removed – so rather than prescribe a definitive price position, we advise retailers to price to the market so they are more likely to see an indicator on their advert.

3 Monthly visits and monthly minutes as measured by comScore.

4 Auto Trader Car Buyer Report, conducted by GfK, May 2016.

5 Auto Trader Market Tracking Study 2017.



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Promoting finance solutions for our retailers

Since gaining FCA authorisation, which enables us to show the monthly borrowing cost of a specific vehicle based on a retailer's preferred lender, over 1,300 retailers are benefitting from our finance product, initially on a free of charge basis. Finance is a key revenue stream for our customers, with over 86% of new cars sold on finance and growth of 11% in the total value of finance agreements for used cars in the year⁶, so this is a valuable proposition for retailers. It is also an added benefit for consumers as they will be able to work out how to finance a specific car with the vehicle retailer rather than seeking finance elsewhere.

Stocking and pricing to the market

In addition to driving trust and transparency in the marketplace, we advocate the power of using data to stock and price vehicles correctly. At year end, approximately 2,500 retailer forecourts (2016: c.1,900), listing 34% of trade stock, were using our data intelligence Managing products, i-Control or Retail Check. These products allow retailers to utilise data that is relevant to them to help them buy the most desirable stock, at the right price, so they can optimise stock turn and therefore profit – helping them do business more efficiently.

Generating value for manufacturers

When looking to buy a new car, Auto Trader is spontaneously front of mind for almost a quarter of consumers. Coupled with an increase of over 6,000 brand new 'virtual stock' cars onto our marketplace, this has increased sales leads and amplified the value we now offer to manufacturers and their networks. We have also continued to build key relationships with manufacturers and their media agencies and we are working with them to leverage our data and insight to target buyers at the right time in their car buying journey.

Acquisition of Motor Trade Delivery

In April 2017, we acquired Motor Trade Delivery Limited ('MTD'), an online real-time marketplace for the trade delivery of vehicles across the UK, and welcomed its nine employees to the Group. This acquisition is an extension of our overall strategy of using digital technology to improve efficiencies for our retailer customers.

Culture and people

As part of the Group's digital culture, incorporating an agile and lean working ethos, we have continued to find ways of operating more efficiently whilst ensuring that teams are truly data-oriented. We therefore took the decision to assign every team their own dedicated data analyst, embedding data practices fully across the organisation.

The Group's most valuable resource is our employees, and the success of the Group is to their credit. And it's having a truly diverse employee base that allows for a more rounded, creative and innovative organisation. We respect and appreciate diversity and have made a conscious effort to educate and challenge attitudes. Every one of our employees has participated in a one-day workshop focusing on creating common understanding of the concepts as well as exploring their unconscious biases. We have created networks for women, those with families as well as common interest groups, to ensure employees feel supported by a network of like-minded individuals. It is our ambition to become one of the most diverse and inclusive employers in the UK.

12,000

price changes every day on Auto Trader

20,000

cars are added or removed daily

2,500

retailer forecourts currently use our data-driven Managing products, i-Control or Retail Check (2016: 1,900)

Outlook for 2018

After a number of years of near uninterrupted growth, the industry expects new car registrations to plateau or decline in calendar 2017, but anticipates greater used car transaction volumes as past observations suggest that the recent strong growth in new car sales will continue to stimulate demand for used cars.

Retailer forecourt numbers are set to be flat to marginally down, with overall stock levels expected to continue to grow. ARPR improvement is expected to return to 2016 growth levels at or above £130 per month, with the majority of growth from the product lever. This reflects the recent bundling of products into our new selling package levels as well as upselling of the new Advanced and Premium levels. MTD will be reported as a component of Trade revenue, but outside of Retailer revenue, and therefore will not impact ARPR.

Consumer services revenue momentum is expected to remain at low single digit, whilst Display advertising growth (to be renamed Manufacturer & Agency) is expected to slow slightly from recent levels but remain double digit.

Costs, taking into account MTD and share-based payments, are expected to increase at the rate of mid single digit with headcount remaining flat and salary inflation set to rise in an increasingly competitive market. Spend on marketing as a percentage of revenue is expected to remain broadly constant, with slightly higher overheads being offset by further, albeit smaller, savings in depreciation and amortisation.

Operating profit will replace Underlying operating profit as our key performance measure from financial year 2018, with operating margins set to rise further.

The Board is confident of delivering its growth expectations in the coming year, despite wider economic uncertainty fuelled by the result of last year's EU Referendum. We believe our strong market position, and continued ability to add value to consumers, retailers and manufacturers will position us well to deliver growth.

Trevor Mather

Chief Executive Officer
8 June 2017

⁶ The Finance & Leasing Association data for the 12 months to March 2017.