

CEO's statement

— “This has been another year of strong financial, operational and strategic progress for Auto Trader.”



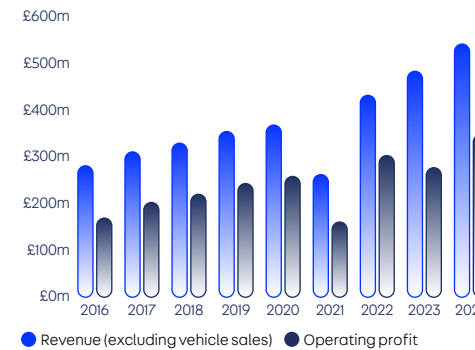
STRATEGIC AND OPERATING REVIEW

With almost 10 years since IPO in March 2015 and two years since our last investor day we thought it worthwhile to look back at our performance over this longer period. We believe many of the contributing factors are still equally relevant to our future. Historically our results statements have focused solely on what has happened in the previous financial year, which whilst important, does not always highlight the key factors shareholders might consider when thinking about our longer-term prospects. We will look to supplement the usual full year detail with this forward-looking view each year.

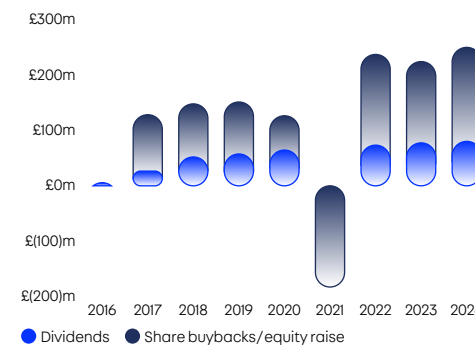
Since Auto Trader's IPO the business has delivered consistent execution and performance. During the first few years of being a public company, revenue grew steadily whilst much of the focus was on transitioning to a pure digital business and changing the cost base from a model that had remnants of our magazine heritage. This transition yielded cost efficiencies and stronger profit growth, which was largely a one-time opportunity. Since then, our performance has been characterised by higher revenue growth, with a focus on our core marketplace and product growth, coupled with investments in our platform and adjacent opportunities. These revenues have driven profit growth that is only slightly lower than the period during which margins expanded significantly.

Our profits have been consistently distributed through a combination of dividends and share buybacks, which is something we expect

Group revenue and operating profit



Cash returned to shareholders



to continue. During our history as a listed business, £1.1bn of surplus cash has been returned to shareholders (net of the equity raise during COVID-19) and we have delivered total shareholder returns of 225% versus 60% for the FTSE 350 (excluding investment trusts). We don't always expect our performance to be linear, with 2021 being a good example, but we do expect the drivers of our historic and future value creation to remain reasonably consistent. These drivers include: a growing automotive market; our market leading position; our heritage of innovation; a focused and consistent strategy; and our purpose and culture.

1. A GROWING AUTOMOTIVE MARKET

Today, most of our economics are linked to the number of used vehicle retailers who choose to advertise on Auto Trader. Used vehicle supply is determined by new vehicle sales (less scrappage) in preceding years, meaning it does not meaningfully change with economic conditions and therefore our business does not see significant cyclicality. When economic conditions or consumer demand do change it is used vehicle prices that adjust, not supply.

Over the past 20 years, the total size of the UK car parc has gradually increased, growing on average by just over 250,000 cars per year. The COVID-19 pandemic broke this consistent trend, as new car production fell to levels below even those of the Financial Crisis in 2007-09. From time to time there will be these anomalies, but over the long term we expect the used car market to grow as a result of population growth and stable trends in car usage.

At times there have been concerns about a material consolidation within our customer base, although to date this has not materialised. We do expect the biggest retailers to get bigger and we have seen consolidation in our very largest customers, but not at a level that materially changes the overall market fragmentation. At the time of our IPO, we had 13,452 retailers and today we have 13,783, despite losing c.550 retailers when we sold our business in the Republic of Ireland.

Finally, we expect the value of both new and used cars to increase over the long term. During a short window of time, used car prices will adjust due to supply and demand movements, but over longer time periods we expect used car values to increase gradually due to GDP growth, population growth, inflation, improved functionality, longer useful lives and the move towards more expensive electric vehicles. In the period from 2011 to 2024, used car prices have increased by an average of 4% per year.

These factors combine to provide an underlying market that is resilient and likely to grow in both volume and value over the long term.

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2. OUR MARKET LEADING POSITION

As the automotive market increasingly embraces digital channels, technology and data we are uniquely placed to help. In financial year 2016 Auto Trader had visits of 47.9 million per month, last year that number had increased to 77.5 million. This past year we accounted for over 75% of all minutes spent on automotive classified sites and were 10x larger than our nearest classified competitor (2023: 7x). Over time we have seen 21 million downloads of our app and currently see 89% prompted brand awareness with UK consumers. In addition to this, third-party data suggests that more than 8 in 10 car buyers use Auto Trader during their shopping journey, and two thirds of buyers only use Auto Trader. In order to ensure this position is maintained, we will continue to invest in improving our site experience, maintaining high levels of trust, evolving our brand, building our content and marketing capabilities, launching new tools and functionality for retailers, and deepening our partnership with customers.

Many of the changes we are currently developing are as significant as any in our history in terms of deepening the experience we provide to car buyers. These will improve our marketplace, enable our customers to power their businesses with our technology and data platform, whilst moving us towards digital retailing.

3. OUR HERITAGE OF INNOVATION

Almost every retail category has been impacted by the growing role of the internet in how we purchase goods, and the car market is no exception. New cars are still at a much earlier stage, but researching and shopping for used cars online has been commonplace for many years. Today over 90% of car buyers use the internet for some part of their car buying process. However, the physical part of the shopping experience is and will remain important due to the value and unique characteristics and condition of every used car.



Most car buyers will use the internet to find a used car, ensure they're getting a good deal and to check the reputation of the retailer. This is because the choice available is significant and platforms like Auto Trader make navigating the car buying process much simpler than it otherwise would be. Our trusted position and brand heritage in this area is significant, from initially operating as a magazine to the fully digital business we are today, leveraging technology to support more of the buying and selling journey. On Auto Trader buyers are now using retailer reviews, seeing professionally produced video content, benefitting from enriched data about the specification and performance of the car, checking the history of the vehicle and whether it has outstanding finance, seamlessly using artificial intelligence ('AI') to get a market value for the car they're buying or selling, applying for finance and reserving cars online. This continuous improvement in the way buyers use Auto Trader

has underpinned much of our past success and we know there are significant opportunities to further enhance the consumer experience.

The shift to digital has also brought real benefits to retailers. It has meant they can advertise their vehicles as quickly as it takes to photograph and upload an advert. The insight they have on vehicle performance and what they get for their advertising is detailed, real-time, and can be acted upon at the click of a button. Over time retailers have also accessed our AI models for pricing and demand metrics that use almost one million vehicle observations a day. This helps customers decide which vehicles they should be buying for their local area, what prices they can expect at retail and how long it is likely to take to sell. These products might otherwise have been unattainable or have required significant investment by our customers, and we have every intention of continuing to use our brand, data and technology to enable any retailer to access the very best tools and achieve their business goals.

Over time we will continue improving and building on these areas, strengthening the partnership we have with customers and increasing their use of our software products, and unlocking new revenue streams for the business.

All this innovation is delivered through our well-invested technology platforms, built by Auto Trader people who have many years of experience enabling infrastructure and products for our customers. This year we delivered 65,000 software releases (2023: 51,000) and saw 22.1 million API calls a week (2023: 10.2 million).

4. A FOCUSED AND CONSISTENT STRATEGY

Our strategy as set out at our investor day in September 2022 outlined three strategic focus areas: our marketplace; our platform; and digital retailing. These areas are closely interconnected, as our platform and digital retailing capabilities build on the strengths of our marketplace whilst also deepening our relationships with customers and car buyers. These have all been multi-year investments which have progressed over the past 12 months and are covered in more detail in Catherine's update on our strategic progress.

5. OUR PURPOSE AND CULTURE

Our purpose is Driving Change Together. Responsibly, which encompasses our ways of working and our culture. Culture has been a fundamental part of the changes we've made and the results we've achieved for at least 10 years. As an organisation we aim to be purpose driven, principled, and values led. Whilst it lacks precision, our culture is often described internally as 'doing the right thing', described as 'Responsibly' in our purpose. Within this we're looking to achieve a balance between investing in the future, performing today and ensuring our customers and other stakeholders see the benefits of working with us.

'Driving Change' runs deep within the organisation. We are restless, self-critical and comfortable embracing new and disruptive technology, which is something the organisation has done for decades. We launched our website

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back in 1996, which went on to completely replace the magazines that were the business for much of our 47-year history. When the mobile internet arrived, we were quick to launch mobile sites and apps some 15 years ago. We embraced server virtualisation, then private cloud, then public cloud which we completed our full transition to last year. We invested in building out a new data platform and data science capability 10 years ago, making artificial intelligence available to the automotive industry. This history of innovation is a core part of our culture and our results. These initiatives take a long time to build at scale, but once operational they enable us to act fast without the constraints of legacy systems and significant technical debt.

'Together' points to three aspects of our culture. The first is being 'One' Auto Trader. This refers to working as a single team, not in silos, with trust and collaboration over hierarchy and bureaucracy. We are one organisation which means tech is tech for all of Auto Trader, finance is finance for all of Auto Trader, product is product for all of Auto Trader, marketing is marketing for all of Auto Trader. Therefore to progress any piece of work or initiative, our people have to talk, be aligned with our priorities, listen to each other, and collaborate authentically.

The second important aspect of 'Together' is the way in which we work with customers, retailers, manufacturers, leasing companies, finance companies and other players in the automotive ecosystem. We aim for partnership. We believe that there is a lot more we can bring to our customers than just the products we sell. With our data, brand, people and technology we can help our customers achieve their business goals, which makes them much more likely to understand and use our products, advice, insight and services. We believe this will lead to a much bigger and more influential business, not least because to be successful in areas adjacent to our core we often need the advice and support of customers.

The third aspect of 'Together' is an ownership mindset amongst our people which strongly reinforces the two points above. In September 2023 we announced our One Auto Trader all-employee share scheme that provides employees with an extra 10% of their salary in shares each year, vesting over a three-year period. This builds on an already strong ownership culture, aligns our people with our shareholders and can be accommodated within our long-term Auto Trader margin target of above 70%.

Finally, a big part of our culture and 'Responsibly' is creating an environment that attracts diverse groups of people and enables them to fulfil their potential for both the business and themselves. This requires long-term commitment to structural changes that take years to come to fruition, but we are making progress. As an example, like all technology companies we would like more women engineers, but it is a career still under-represented by women. To address this, we have a range of initiatives including outreach programmes with universities and schools, graduate and apprenticeship schemes (not requiring a computer science degree) and retraining. This is just one example, but we apply the same thinking to other groups such as the neurodivergent, those from ethnically diverse backgrounds, the LGBT+ community, those with disabilities and those that are later in their careers. Our employee-driven networks have been instrumental in supporting these efforts which represent women, ethnicity, LGBT+, early careers, disability and neurodiversity, social mobility, parents and age.

This is by no means a complete view of our culture, but hopefully gives some sense of how we work at Auto Trader and more importantly how it contributes to both execution and the results we have achieved this year, this decade, and that we aspire to in the years ahead.



OUTLOOK

The new financial year has started well.

We anticipate another good year of average revenue per retailer ('ARPR') growth across all three levers. In FY24 there was some positive ARPR benefit from the Webzone disposal, as on average their retailers were lower yielding, which won't be replicated in FY25. We expect ARPR price growth of £90-£100, product growth of £120-£130 and stock growth of £20-£40, with average retailer forecourts likely to be marginally down year-on-year, as market conditions continue to return to normal levels. Consumer Services and Manufacturer and Agency are expected to grow at a rate of mid-to-high single digits.

We expect Autorama operating losses to reduce year-on-year, despite tight supply conditions in the leasing channel for new vehicles continuing. Group central costs, which relate to the amortisation of Autorama acquired intangibles, will be c.£13m for the year.

As mentioned at our last results, in FY25 we will exceed the threshold for the UK's digital services tax ('DST') which will be taken as an operating expense in the core Auto Trader segment. We therefore expect FY25 operating profit margins within this segment to be 69%, or 71% when excluding DST. However, at a Group level we expect to see modest margin expansion.

Our capital policy remains unchanged, with most surplus cash generated by the business being returned to shareholders through dividends and share buybacks.

Nathan Coe
CEO
30 May 2024

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