Press release

14 November 2018

Stern: Q3-2018 trading update

Stern Groep N.V., the Dutch listed market leader in automotive retail, announces its results for the period from 1 January to 30 September 2018.

Key points

- **Net revenue until the end of Q3-2018 rose 0.1% to € 856.2 million**
- **The profit after tax until Q3-2018 was € 4.9 million (Q3-2017: € 5.8 million)**
- **The lease portfolio showed further organic growth to reach 12,379 contracts at the end of September 2018 (an increase of 12.3% compared to year-end 2017 and 16.4% over the past 12 months). Current backlog stands at approx. 1,000 units**
- **The current development of Stern Mobility Solutions is well ahead of the Fast Forward plan**
- **Increase of the securitisation of the financing facility for the lease fleet of € 21 million to € 171 million recently completed**
- **Dealergroup Stern achieved a market share for passenger cars of 5.3% (Q3-2017: 5.8%). The market share for light commercial vehicles came to 7.5% (Q3-2017: 7.7%). Brand market shares were on average stable**
- **The result of Dealergroup Stern was pressured, mainly due to lower revenue and higher costs and also due to the market transition to new emission rules**
- **Solvency at the end of September 2018 stood at 24.5% (year-end 2017: 25.5%)**
- **Net asset value per share at 30 September 2018 was € 28.19 (year-end 2017: € 28.08)**
- **Expectations are that Stern will not match the Q4-2017 profit before tax (€ 2.3 million) in Q4-2018**

Henk van der Kwast, Chief Executive Officer:

"Our lease fleet once again grew faster than the market this quarter, mainly due to the lease contracts won by our dealers. This is further evidence that Stern's integrated proposition is working. However, we are not satisfied with the overall results to the end of the third quarter. Higher wage expenses and social insurance contributions in combination with an increase in the number of FTE and the market transition to new emission rules have heavily pressured our profits this year. The initiated harmonisation of processes, realisation of smart digital solutions, cost savings and a new market balance after the introduction of WLTP will bring about a change after 2018."

State of affairs at the end of Q3-2018

Net revenue was virtually unchanged compared to 2017 at € 856.2 million. Revenue at **Dealergroup Stern** was slightly lower as a result of lower passenger car sales. Revenue from after-sales (workshops and parts) rose slightly.

The increase in the number of new passenger cars sold by Dealergroup Stern (+2.0%) was offset by a 3.2% lower average sale price excluding BPM in 2018 (Stern reports revenue excluding BPM).

Despite the lower sale price of cars excluding BPM, the average amount of BPM per car was up 4.6% compared to 2017. The effect of higher BPM will become more visible from the fourth quarter of 2018 as a result of the new WLTP (Worldwide Light Vehicles Test Procedure) system for measuring the CO_2 emissions from cars that came into effect on 1 September 2018. Studies have shown that this new system will lead to an 11% average increase in the BPM. The State Secretary has indicated that he is not proposing to adjust the BPM tables in the short term, despite the commitment made when the new BPM was introduced that this would not have any net negative effect for consumers.

Revenue at **Stern Mobility Solutions** (lease, rental and electric mobility) was up 4.0%. This revenue consists of lease and rental payments, as well as the revenue from the sale of lease and rental cars at the end of contracts. Revenue from lease and rental payments was up 9.2%, while remarketing revenue was down 7.2%, mainly due to lower outflow of rental cars.

Revenue at **Stern Car Services** (car body repairs by SternPoint and design of light commercial vehicle interiors by SternTec) was up 13.3%. 6 new branches were added to the SternPoint network in mid-2017. The branch in Geldrop was closed in Q2-2018. 3 existing branches (in Amsterdam North, West and South-East) will be closed in Q4-2018 and Q1-2019, with these operations being transferred to the existing large branch in Amstelveen and a new large branch in Amsterdam West.

As a result of a higher realised relative margin (17.1% compared to 16.7% in 2017), the **gross profit**, despite virtually unchanged revenue, was up € 3.8 million (2.7%) to € 146.7 million. The sale of the Renault branches in Amsterdam was completed with a book gain of € 0.7 million, which is recognised in the item **other operating income** in Q3-2018.
Operating expenses were slightly higher, partly due to the expansion of the number of car body repair facilities.
Employee expenses also rose slightly due to the effects of collective employment agreements and an increase in the number of mechanics. The decentralised Customer Service Center (SCS) activities of a number of brands of Dealergroup Stern were centralised in 2018. The non-recurring costs (for redundancies) of € 0.6 million are recognised under employee expenses in Q3-2018.
The profit after tax came to € 4.9 million (Q3-2017: € 5.8 million).

Balance sheet and solvency

The balance sheet total stood at € 652.9 million at the end of September 2018, up € 27.8 million on year-end 2017. This change includes:

- The effect of IFRS 15 (bringing cars sold with repurchase commitments onto the balance sheet) of € 11.2 million;
- The increase in the lease portfolio of € 24.5 million;
- Car inventory decreased by € 31.5 million;
- The increase in debtor receivables of € 15.1 million. Deliveries to lease companies are traditionally lower at the end of the calendar year compared to other quarter ends.

Compared to 30 September 2017, the **inventory of cars** at 30 September 2018 was slightly higher, up € 8.5 million, or 5.0%.

Group equity increased by € 0.6 million to € 160.0 million at the end of September 2018. The increase compared to year-end 2017 included an addition of € 4.9 million from profit and a reduction of € 4.3 million due to distribution of the final dividend for 2017 in June 2018.

The solvency ratio of Stern Group at the end of September 2018 stood at 24.5% (year-end 2017: 25.5%). Based on a standard solvency ratio for the car leasing operations of 12.5% and for car rental operations of 20.0%, the solvency of the other activities at the end of September 2018 came to 34.4%, compared to 34.0% at year-end 2017. The excess solvency at the end of September 2018 stood at € 3.9 million positive. The minimum solvency ratio requirements in the loan covenants with the banks were thus comfortably met.

Due to the continuing growth of the lease portfolio, at the beginning of November agreement was reached with the banks on increasing the securitisation facility for the lease fleet by € 21 million to € 171 million.

Fast Forward

The aim of the current strategic projects is to achieve the potential improvement of EBITDA of Stern Group in 2020. The improvements at the workshops and at SternPoint are becoming visible and tangible. The growth of Stern Mobility Solutions is actually ahead of schedule, so that the increase in the number of contracts to 20,000 in 2020 can be upwardly adjusted. We are encountering delays mainly in the realisation of the central Customer Service Center and the new sales and after-sales approach on the basis of digital IT, so that the benefits of this will take longer to materialise. The Fast Forward plan will be substantially adjusted in certain aspects under the name of Fast Forward Reloaded. One important issue is the study of the best strategic options for Stern Mobility Solutions, which includes SternLease. The wave of consolidation ongoing in the lease market in combination with the rapid growth of private lease means that the organic growth of SternLease (which has outpaced the market for years) will not be sufficient to continue as a relevant market party in the future. The Fast Forward Reloaded plan will highlight the strategic options for SternLease and other significant organisational changes will be proposed.
Fast Forward Reloaded and the associated significant organisational changes will be explained in detail at a investor and analyst session to be held on 20 December 2018.

Outlook

Revenue from cars for the whole of 2018 will be lower than anticipated at the time of publication of the semi-annual figures, partly due to the issues that some brands are experiencing with timely availability of WLTP homologated cars. Although we are seeing a gradual improvement of the margins at Dealergroup Stern, the development of costs combined with lower-than-expected car sales is putting further pressure on the profits of Dealergroup Stern.

As a result of the continuing growth at Stern Mobility Solutions, the improvements at Stern Car Services and the implemented cost savings, the profit before tax in 2018 from these segments will be higher than the profit realised in 2017.

Overall, we do not expect Stern to match the Q4-2017 profit before tax (€ 2.3 million) in Q4-2018.

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Profile of Stern Groep N.V.

Stern is a large Dutch mobility group that has been listed on Euronext Amsterdam since 2000. Since then, the intended significant growth has been realised in the major car-intensive regions of the country: North and South Holland, Utrecht and North Brabant. The network has more than 100 branches with approximately 2,200 employees, and collectively realises net annual revenue (excluding BPM) in excess of € 1 billion.

Stern believes in individual mobility, sustainability and diversity. For this reason, it offers a wide variety of car brands and additional mobility services. For those preferring a means of transport other than a car, through Mango Mobility Stern offers electric 2, 3 and 4 wheel transport solutions with speeds of up to 45 kilometres an hour.

With Stern Mobility Solutions, Stern is engaged in services including leasing (SternLease), rental (SternRent), fleet management (SternPartners), insurance (SternPolis), finance (SternCredit) and extended guarantees (SternGarant). Stern Mobility Solutions manages over 14,000 vehicles and more than 60,000 contracts.

With a growing network of currently 17 branches, the Stern Car Services division offers services in the area of (brand-certified) repairs, multi-brand after-sales and the intake and provision of rental cars (SternPoint).

Dealergroup Stern has five clusters representing several leading brands such as 1) Mercedes-Benz, 2) Renault and Nissan, 3) Ford, 4) Volvo, Land Rover and Fiat, 5) Volkswagen, Audi, Kia and Opel. Dealergroup Stern has a total of approximately 85 branches.