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Trevor Mather
Chief Executive



7.5%

Growth in advert views

£1,384

ARPR up 10.5%
(2015: £1,252)

Even in a culture that welcomes change like Auto Trader's, this has been a truly landmark year. In our first year as a listed company, we have significantly increased both the consumer audience that visits our marketplace and their engagement on our sites. We have substantially increased the value we deliver to vehicle retailers and continued the transformation of the way in which we manage our customer relationships. Whilst doing this, we have delivered an outstanding performance, improving our revenue and Underlying operating profit to levels that exceeded initial expectations.

Summary of operating performance

Our operating results reflect an excellent year for the business. Revenue growth of 10% was achieved through the positive contribution of all three of our revenue streams: trade, consumer services and display advertising.

Trade

In trade, we increased the value delivered to our customers through a greater number of cross platform visits, and higher levels of consumer engagement, resulting in 7.5% growth in advert views – the equivalent of an extra six vehicles being viewed every second on the marketplace.

Consumers spent over 676 million minutes a month on our site (March 2016) compared to 458 million a year previously. Our share of minutes spent on automotive digital classifieds rose to 85% (2015: 76%)¹.

Beyond the increased levels of response, we have further embedded the use of data driven products which aim to improve the day-to-day operational efficiency within our retailers' businesses. Market conditions were buoyant, resulting in an increased number of transactions. This helped to increase the number of cars listed on our site as did a modest growth in average retailer forecourts to 13,514. Those contributing factors helped drive Average Revenue per Retailer ('ARPR') 10.5% higher to £1,384 per month.

Consumer services

Growth in consumer services of 4% was pleasing in light of the increasingly competitive nature of this sector, aided by our motoring services products (offered to consumers at the point of purchase) which saw growth similar to the previous year.

Display advertising

A strong display advertising performance continued the momentum from the previous year, with revenue up 23%. Improved relationships with agencies, combined with new, improved advertising formats, in particular homepage takeovers, were the main drivers of this growth.

Operating efficiencies

We seek to be as lean as possible and to enable our teams to be as productive as they can be, which generally requires fewer, but better paid people. This year we reduced our headcount (including contractors) from 915 to 859.

Our marketing spend grew to £15.7m – an increase of 2% above last year, well below our revenue growth of 10%. This moderate increase enabled us to drive all of our brand and audience initiatives, including the continuance of our 2015 brand-led campaign on TV, video on demand and online, and the introduction of a new marketing campaign focused on our online valuation tool, new part-exchange product and discovery search functionality (see overleaf for more details). Other costs and capital expenditure were in line with expectations.

Revenue growth, coupled with lower costs, delivered a 5 percentage points improvement in Underlying operating profit margin to 61%.

Our strategy

Our strategy is to provide the UK and Ireland's leading digital automotive marketplace and help improve the process of buying and selling vehicles for consumers and retailers alike. Critical to this are a smooth online experience for consumers and the provision of data driven intelligence for vehicle retailers.

¹ comScore MMX MP March 2016 data.

Investing in innovation

Over the past year we have continued to innovate, in particular through exposing the key insights from our massive data sources.

There are over 80,000 variations of make and model of cars available to buy in the UK. Even for confident buyers, this is a bewildering choice. To help consumers decide which car they want to buy, this year we introduced a new way of searching for vehicles – 'discovery search' – which allows a buyer to search for cars if they don't know the make or model they want, e.g. by the number of seats, fuel type or on price alone. Additionally we now have over 700 expert reviews of vehicles (an increase of 20%), which have received over eight million page views this year, and over 45,000 owner reviews on site, helping consumers compare and choose. These innovations have improved the value we provide to consumers.

Part-exchange is the most efficient way for retailers to acquire stock. Our research shows that 81% of consumers² said they would be more likely to consider part-exchange if they could get a trusted price online for their car before turning up at the dealership. In order for us to help our retailers win in the marketplace and ultimately make the industry more transparent and more efficient, we launched a new part-exchange tool last year. Over 60% of all classified retailer adverts now feature the part-exchange tool.

Consumers conducted 13.7 million valuations on Auto Trader during the year, an increase of 38% from the previous year, receiving a real time retail value for their car. There were also 30.1 million trade valuations conducted (2015: 23.8 million) as we focus on embedding the insight we have into valuations across the marketplace, so they become the benchmark for both consumers and retailers.

Putting data at the core

We have continued to develop our data driven products to help retailers manage their forecourts effectively in order to optimise their margin and stock turn, with over 1,900 forecourts now using them. We continue to develop these tools and believe more retailers will take advantage of these products.

Findings from Auto Trader's Annual Car Buying Report found that of those consumers looking at classified sites in the new car buying process, 85% used Auto Trader and 48% said Auto Trader was the most influential source – twice as much as the nearest website³. To capitalise on this opportunity, we launched new bespoke branded content solutions so that manufacturers could use new formats and editorial partnerships to reach these car buyers. We have also innovated the format of the advertising we offer, including native adverts on mobile platforms, and have combined these with a data driven targeting solution powered by a new data management platform, allowing vehicle manufacturers to put their brand in front of the most relevant consumers at every stage in the car buying journey. This, coupled with our new branded content solutions and advertising formats, provides a compelling proposition for manufacturers.

We focus on assisting media agencies to drive better return on investment for their clients from their marketing and on helping to improve the effectiveness of their retailer relationships.

Enhancing our organisational structure

With the transition from print to digital complete, the last year has been one of greater organisational continuity than in previous years. However, we continue to make significant changes to improve our relevance to our market.

Firstly, we brought together our audience acquisition and brand marketing functions to ensure that those who were responsible for growing our audience were also responsible for ensuring that that audience was engaged.

Secondly, we have merged our retailer and consumer product teams, who now follow an end-to-end, test and learn product development approach. Across the business, we release over 50 software updates every week.

Thirdly, we transformed our sales and service functions, integrating them together, and implemented a new 'Challenger' sales model across the organisation, which we believe will help us deliver the strategic consultancy relationship we strive for with our retailer customers.

The commitment and enthusiasm of our people are vital to our continued success, and 97% of employees have said that they would recommend Auto Trader as an employer⁴.

Outlook

The new financial year has started well. Based upon having the largest consumer audience, healthy relationships with our retailers, a robust car buying market, and a modest cost base decrease, the Board is confident of further growth in the coming year.

Trevor Mather Chief Executive

9 June 2016

² Auto Trader's Market Report research surveyed 5,000 consumers in December 2015.

³ Auto Trader's Annual Buyer Behaviour Report 2016 in conjunction with GfK.

⁴ According to Glassdoor, the UK's fastest growing jobs and recruiting site.