Autorama

The Autorama impairment basis is assessed on a fair value basis due to the proximity of the transaction and the pre-integration phase of the business at 31 March 2023.

Goodwill amounting to £92.5m in the Autorama CGU arose on the acquisition of Autorama UK Limited in June 2022.

The acquisition will enable Auto Trader to establish itself as a leading marketplace for leasing new cars which is set to benefit from: the growth of electric cars ahead of the planned future UK ban on the sale of new petrol and diesel cars from 2030; new manufacturers entering the UK market; lower take up of company car schemes; and a shift towards new digital distribution models. Leasing provides consumers a cost-effective way to access a new car with a model that is consistent with any future move towards usership.

The consideration paid was to acquire the Autorama CGU in an arm's length transaction. There have been no significant changes identified in the Directors' assessment of fair value arising from factors since acquisition. On this basis, the Directors consider that, as at 31 March 2023, a fair value less cost to sell measurement provides the most appropriate and relevant evidence of the Autorama CGU's recoverable amount.

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions, less incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense. The valuation viewpoint is from that of a market participant and excludes synergies and matters, including taxation, specific to the current owner. An income based fair valuation approach has been used to determine fair value using discounted cash flows. The fair value measurement was categorised as Level 3 based on the valuation inputs used.

The key assumptions used in the estimation of the CGU's recoverable amount are as follows:

	2023
Forecast period	**2024 – 2032**
Annual revenue growth during the forecast period	**Between 5% and 69% p.a.**
Terminal value growth rate	**2.0%**
Discount rate post tax	**18.0%**

Assessment of the CGU's fair value reflects long-term assumptions around changing distribution models for new car sales, including new electric vehicles, and an increased proportion of vehicles being leased. The key driver of the forecast is the number of new vehicles transacted by Autorama onto lease plans, with revenues, including ancillary sales, consequent on each vehicle lease transaction completed. The forecasts do not assume a larger new car registration market than in 2019, before the disruption to supply that commenced during the COVID-19 pandemic. The key assumption is rather an increase in the current proportion of vehicles which are currently leased through brokers and the share of this market achieved by Autorama. In making these estimates, management have had regard to market data published by SMMT and BVRLA. In the nine months since the acquisition, Autorama has delivered 6,895 vehicles. Both vans and pickups were particularly impacted by supply challenges in the current year.

Revenue growth is spread over the forecast period in line with the new car market outlook. The risk arising from the duration of the forecast period and the risk of growth assumptions over new vehicles transacted in this period not being achieved are reflected in the higher level of post-tax discount rate applied.

Whilst an estimate, the comparison between the CGU's fair value less cost to sell and its book carrying value has headroom at 31 March 2023. This headroom arises because of the accounting requirement to expense £50m of the consideration paid to the former owners of Autorama as an employee share-based payment over the 12-month period after the acquisition to 22 June 2023 (see note 31). £38.8m of this charge has been expensed as at 31 March 2023.

This headroom results in no impairment charge under the following sensitivity scenarios, all of which reflect the key sources of estimation uncertainty in the calculation of fair value:

Lower number of vehicle transactions: The growth in vehicle transactions executed by Autorama, and therefore earnings before interest and tax, is at risk of growing at a level lower than the forecast. This sensitivity reduces volumes by 20% for financial year 2024 and financial year 2025 to reflect the impact of the risk of lower new vehicle supply caused by manufacturing delays; and

Delay in timing: The timing of growth in vehicle transactions may take longer to realise than the base case forecast due to a slower take up of electric vehicles and lease financing; continued disruption to new car supply; and/or a delay in the phasing out timetable of new petrol and diesel cars which is currently scheduled for 2030. This sensitivity assumes growth is deferred by one year from financial year 2024; and

Change in discount rate: The post-tax discount rate could increase to a maximum of 21% before the carrying value of the Autorama CGU exceeded its recoverable amount.