Registered number: 11624245

CAZOO LTD

UNAUDITED ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

COMPANY INFORMATION

Directors	Alex Edward Chesterman David Palmer Paul Adrian Whitehead Paul Antony Woolf
Registered number	11624245
Registered office	Cazoo Ltd 41 Chalton Street London NW1 1JD

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STRATEGIC REPORT

For the year ended 31 December 2022

The Directors present their Strategic report of Cazoo Ltd ("the Company").

The Strategic report has been prepared to provide shareholders of the Company with additional information to assess the Company's strategies and the potential for those strategies to succeed. The Strategic report contains forward-looking statements. These statements are made by the Directors in good faith based on the information available up to the time of their approval of this report and such statements should be treated with caution due to inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Principal activities

Cazoo is an online car retailer. Cazoo was founded with a mission to transform the car buying and selling experience across the UK by providing better selection, transparency and convenience. Our aim is to make buying or selling a car no different to ordering any other product online, where consumers can simply and seamlessly buy, sell and finance a car entirely online for delivery or collection.

Business model

Markets

Our focus is on the UK market, which consists of approximately seven million used car transactions annually, worth approximately £100 billion.

The Cazoo Platform

We are a highly data-driven Company and use proprietary data and algorithms to both purchase vehicles and to price them for sale. Our end-to-end digital platform offers customers in the UK a choice of used vehicles of different makes and models for acquisition, and an opportunity to sell their car without an obligation to buy a car from us. Other options available to the customer include part-exchanging their current vehicle as a form of partial payment for a Cazoo car, as well as options to finance a car purchase. Our customer proposition continues to evolve over time as we adjust to the market backdrop and needs of the customer.

Vehicle lifecycle

We purchase the cars we believe are best suited for our customers and platform. Our purchasing strategy focuses on optimizing our purchasing channels, balanced with car desirability. We use a data-driven and algorithm-based approach, derived from a mix of our first-party data (Cazoo website searches and intent to buy, sales volumes, days to sale) and third-party data sources, to determine which cars to purchase.

We acquire our used vehicle inventory from a variety of sources, including used-car auctions, corporate suppliers such as vehicle finance, leasing, and rental companies, as well as directly from consumers (including via part-exchanges). During 2022, we continued to scale purchasing cars directly from consumers outside of part-exchanges, via our direct car buying channel in the UK and in the year ended 31 December 2022 approximately 50% of retail units sold were sourced directly from consumers. Vehicles sourced directly from consumers reduce the need to source from third parties and this approach typically lowers the like-for-like cost of acquiring the vehicle.

In the fiscal year ended 31 December 2022, we purchased from different supplier sources as follows:

Channel	**% of Total**
Corporate	21%
Auction	27%
Consumer	51%
Other	1%
Total	**100%**

We partner with third-party lenders to finance the purchases of our inventory. We had £162 million drawn under stocking loans on 31 December 2022, which enables capital efficient inventory acquisition.

STRATEGIC REPORT (continued)

For the year ended 31 December 2022

Business model (continued)

Reconditioning

Each of our cars undergoes an inspection and is reconditioned to a high standard at our preparation facilities before being offered for sale. As of 31 December 2022, we operated a network of eight vehicle preparation centres across the UK, which we have consolidated to three operational retail preparation centres and one operational wholesale preparation centre as part of the Revised Business Plans. These three retail preparation centres provide us with the potential to recondition up to approximately 85,000 cars per year.

We typically own the vehicles we have reconditioned and sold, helping us to ensure the quality of our offering. We also sell a small number of vehicles where the supplier owns the vehicle up to the point of sale, but the vehicles still go through our reconditioning and logistics processes. We act as an agent and receive a fixed commission from the supplier when the vehicle is sold.

Customer Centres

As of 31 December 2022, we operated 21 customer centres around the UK, which we have consolidated to seven as part of the Revised Business Plans. We have retained customer centres in the most geographically optimal locations in order to maximize the number of customers who can come to a centre to pick up their car and to make our logistics network more efficient. We store, distribute, prepare and hand over cars for delivery at these centres. Both Cazoo car owners and customers who have not purchased a Cazoo car can take their vehicles to these centres for everything from service to MOT and repairs. We continue to operate a Customer Services site which handles customer queries and is a satellite office.

Delivery and Collection

Our logistics infrastructure is capable of operating throughout the UK (excluding Northern Ireland) and offers a high-quality delivery experience with in-house storage, distribution and car service. Customers can have their car delivered to their door or they can collect it from one of our customer centres. Cars being transported from the vehicle preparation centre or customer centre to the customer are primarily transported by our own fleet of 190 transporters and employed drivers. We use third-party providers for collection of certain wholesale cars for delivery to auctions, and in a limited number of cases we use third-party providers to assist with intra-site movements.

Vehicle Sales and Other Sales

When it comes to selling a car, our main channel is Retail (directly to retail consumers) primarily through our website www.cazoo.co.uk. The secondary channel is Wholesale where we sell vehicles through car auctions to trade buyers and other customers. We also generate revenue from walk-in servicing; subscription services and third-party reconditioning services (which are being wound down following the decision to stop offering our subscription service to new subscribers from the end of June 2022 as part of the Business Realignment Plan). Customers can return a purchased car under our Terms & Conditions and receive a refund.

During the year ended 31 December 2022, revenue generated from retail sales through our platform was £1,103.3 million, with 65,366 retail units sold; revenue generated from wholesale sales was £116.5 million; revenue generated from other sales was £17.2 million.

Financing

We work with partners including Black Horse, BNP Paribas, Santander and Evolution Funding (a broker with a panel of different lenders) to offer our customers the ability to finance their Cazoo car. As we are a credit broker, not a lender, we aim to find the most competitive deal for the customer from our finance partners.

We offer all standard forms of car financing, as well as the purchase of part-exchange (customer vehicles exchanged as partial payment for a Cazoo car) at the time of delivery or collection for added convenience. We offer Hire Purchase and Personal Contract Purchase finance plans.

STRATEGIC REPORT (continued)

For the year ended 31 December 2022

Business model (continued)

Seasonality

Vehicle sales exhibit seasonality with sales peaking late in the first calendar quarter and diminishing through the rest of the year, with the lowest relative level of industry vehicle sales expected to occur in the fourth calendar quarter. Due to our rapid growth, our sales patterns to date have not reflected the general seasonality of the used vehicle industry. Used vehicle prices also exhibit seasonality, with used vehicles depreciating at a faster rate in the last two quarters of each year and at a slower rate in the first two quarters of each year. In the future this may result in a gross profit per unit higher on average in the first half of the year than in the second half of the year but this is not currently the case for Cazoo given our early stage of development.

Business strategies

Focus on improving unit economics to continue progress towards our goal of reaching profitability

Our 2023 strategy is to focus on further improving our unit economics, reducing our fixed cost base, and maximizing our cash runway. To enable these improvements, we are moving from a high growth multinational European model to a focus on the UK market only, with higher margin and faster moving inventory, together with rationalization of our operational footprint. As part of this strategy we announced the Business Realignment Plan in June 2022, the winddown of our EU business in September 2022, and the Revised 2023 Plan in January 2023. Together these plans are defined as the "Revised Business Plans". The Revised Business Plans anticipate us executing on the following key strategies.

Improving our purchasing channel mix and stock selection

Our Revised Business Plans aim to improve the unit economics of the business. We expect that moderating our growth assumptions will allow us to be more selective with the vehicles we acquire and sell, enabling us to focus on higher margin and faster moving inventory. We plan to improve our profitability through a continued shift in our buying mix by sourcing more of our inventory directly from consumers. We believe this approach will lower the like-for-like cost of acquiring vehicles. In addition, we are rebalancing the mix of cars available for sale towards higher margin, more desirable cars. We also expect to achieve continued efficiencies from further enhancements to our products, partnerships, processes, and pricing.

Managing the fixed costs within our business

As part of our Revised Business Plans, we expect to achieve significant fixed cost savings, with the aim of making continued progress towards our goal of reaching profitability. In line with our revised unit expectations for 2023 and the current economic climate, we are making our operational and logistics network more efficient through the closure of certain of our vehicle preparation centres and customer centre facilities. We are reducing our network of operational vehicle preparation centres from eight to four (three for retail reconditioning and one for wholesale reconditioning), which is expected to result in significant fixed cost savings. The remaining three retail preparation centres provide us with the potential to recondition up to a total of approximately 85,000 cars per year. We are also consolidating the number of customer centres around the UK from 21 to seven. We expect these closures, combined with further headcount reductions across our central teams, to aid us with our goal of maximizing our cash runway and progressing towards our goal of reaching profitability.

Capture additional revenue opportunities from ancillary products and in-house financing products

We will continue to use our data and technology to launch new products and thereby increase our ancillary revenue opportunities. This includes initiatives to drive higher attachment rates for finance and other ancillary revenue products, thereby increasing customer lifetime value. In Q4 2022, we achieved a record 51.5% finance attachment rate, a testament to the strength of our offering.

STRATEGIC REPORT (continued)

For the year ended 31 December 2022

Business and finance review

Revenue for the year ended 31 December 2022 was £1,237.0 million (2021: £622.2 million). Revenue has increased by £614.8 million for the year ended 31 December 2022 compared to the year ended 31 December 2021 primarily due to increased online orders and rapid expansion of our business.

Cost of sales for the year ended 31 December 2022 were £1,217.4 million (2021: £608.6 million). Cost of sales have increased by £608.8 million for the year ended 31 December 2022 compared to the year ended 31 December 2021 due to an increase in vehicle purchases and reconditioning costs following the rapid expansion and growth of our business.

Marketing expenses for the year ended 31 December 2022 were £62.4 million (2021: £62.2 million). Marketing expenses have increased by £0.2 million for the year ended 31 December 2022 compared to the year ended 31 December 2021 primarily driven by a shift from brand to performance marketing.

Selling and distribution expenses for the year ended 31 December 2022 were £63.1 million (2021: £42.7 million). Selling and distribution expenses have increased by £20.4 million for the year ended 31 December 2022, compared to the year ended 31 December 2021, primarily due to an increase in personnel-related costs (selling and distribution staff), due to the significant increase in average headcount in the year ended 31 December 2022, to support our growth.

Administrative costs for the year ended 31 December 2022 were £168.7 million (2021: £100.4 million). The total administrative costs have increased by £68.3 million for the year ended 31 December 2022 compared to the year ended 31 December 2021 primarily due to:

- an increase in personnel-related costs due to an increase in average headcount across all administrative functions; and
- an increase in depreciation, amortisation and impairment of intangible assets reflecting an increase in subscription vehicles and software additions.

Other income for the year ended 31 December 2022 was £541.0 million (2021: £nil). Other income has increased by £541.0 million for the year ended 31 December 2022 compared to the year ended 31 December 2021 primarily due to the waiver of the intercompany payable with Cazoo Holdings Limited.

Finance income for the year ended 31 December 2022 was £0.2 million (2021: £0.1 million). Finance income has increased by £0.1 million for the year ended 31 December 2022 compared to the year ended 31 December 2021 due to an increase in average cash at bank and short-term deposits, and an increase in interest rates.

Finance expenses for the year ended 31 December 2022 were £6.6 million (2021: £2.2 million). Finance expenses have increased by £4.4 million for the year ended 31 December 2022 compared to the year ended 31 December 2021 primarily due to an increase in interest rates on loans and borrowings.

The tax charge was £0.8 million for the year ended 31 December 2022 compared to a tax credit of £0.5 million for the year ended 31 December 2021.

The Company's profit after tax for the year ended 31 December 2022 was £259.3 million (2021: loss after tax of £193.3 million).

The results of the Company are included in the financial statements from page 16 onwards. No dividends were paid during the year. The Directors do not recommend a final dividend in respect of the year.

Financial position

The Company's total assets as at 31 December 2022 were £449.0 million (2021: £515.7 million) and net assets were £191.0 million (2021: net liabilities of £89.7 million).

STRATEGIC REPORT (continued)

For the year ended 31 December 2022

Risk Management

Cazoo is committed to ensuring that the key risks and threats faced by the Company are identified and continually assessed, mitigated and monitored. The Board is accountable for the risk management practices of the Company and it recognises that, in addition to the strategic and operational risks faced, the rapid growth experienced in 2022 inherently exposes Cazoo to an additional layer of risk. As such, Cazoo is continuously working to develop and strengthen the enterprise risk management framework.

Strategic and Commercial Risk

The Company's future operating results depend on its success in implementing its strategic initiatives. Cazoo is also inherently exposed to a number of commercial risks. These risks are monitored closely by the Board and Executive team on an ongoing basis. They relate to areas such as:

- Reputation and brand image
- Competition and consumer trends
- Macroeconomic conditions
- Reliance on third-parties

Mitigations for risks in these areas are embedded within the day-to-day processes and include the close monitoring of the Company's key performance indicators, market research, sensitivity analysis and the maintenance of close relationships with key suppliers and partners.

Operational Risk

Cazoo faces a number of operational risks which are monitored by the Board and the Executive team. Example risk areas include:

- Talent, recruitment and succession
- Technology, systems and cyber security
- Health and safety
- Business disruption

To mitigate against these risk areas the Company continues to invest in its people, offering competitive employment packages and development opportunities to attract and retain the best talent. The Company is automating processes and controls wherever possible and continues to invest in the data, IT and security infrastructure, as well as in the core technology based systems used to drive and support the Company. Cazoo has implemented a number of health and safety policies to protect its staff and carries out audits at each site to ensure they are operating effectively.

Regulatory Risk

As a limited company and a consumer facing business, Cazoo is exposed to a number of regulatory areas, both directly and indirectly. These include, but are not limited to, financial conduct and reporting regulations, employment law, data protection and health and safety.

To mitigate against the risks in this area the Company is continuously reviewing its in-house capabilities as well as its processes and controls. In addition, Cazoo maintains close relationships with a number of specialist advisors.

Financial Risk

Financial risks are discussed in the Directors' Report on page 12.

STRATEGIC REPORT (continued)

For the year ended 31 December 2022

Principal risks and uncertainties

The following is a summary of certain, but not all, of the risks that could adversely affect our business, operations and financial results. Additional risks and uncertainties, including those that are not currently known or are deemed to be immaterial, may individually and/or cumulatively also have a material adverse effect on the Company.

- As part of our Revised Business Plans we have shifted our focus to improving unit economics over driving for maximum growth. No assurance can be given that we will succeed in achieving any improvement in our unit economics
- Our financial statements include a note regarding material uncertainty about our ability to continue as a going concern
- We rely, or may rely in the future, on various of forms of debt financing to operate our business, including car financing facilities, mortgage debt, capital leases and syndicated loans, and there is no guarantee that such financing will be available in the future on acceptable terms, or at all. In addition, our leverage from any such facilities could adversely impact our business, financial condition and results of operations
- We may be unable to generate sufficient cash to fulfil our obligations under our indebtedness, and we may be unable to incur additional indebtedness to fund future needs
- Continued downturns in general economic and market conditions and reductions in spending may reduce demand for our products
- We may be unable to attract a sufficient audience to our website in a cost-effective manner
- Our business is dependent upon access to suitable vehicle inventory, including the appropriate inventory mix, for resale to customers. Obstacles to acquiring suitable inventory for resale to customers, whether because of supply, competition, or other factors, could have a material adverse effect on our business, financial condition, results of operations and prospects
- The success of our business relies heavily on the effectiveness of our marketing and branding efforts, and these efforts may not be successful
- Our business is dependent upon our ability to recondition and sell inventory expeditiously and efficiently
- Our business is sensitive to changes in the prices of new and used vehicles
- If we are unable to adapt to and satisfy customer demands in a timely and cost-effective manner, our ability to improve our unit economics may suffer
- We operate in a competitive industry. Increased competition in online car sales could increase our marketing costs and affect our business, results of operations and prospects
- Loss of, or disruption to, our customer centres or vehicle preparation centres could have a material adverse effect on our business, financial condition, results of operations and prospects
- We rely on key third-party suppliers for outsourced services to us as well as for value-added products to our customers, and we cannot control the quality or fulfilment of these products
- We rely on our own logistics to transport our vehicle inventory. Thus, we are subject to business risks and costs associated with the transportation industry
- We are highly dependent on our senior management team and other highly skilled personnel, and if we are not successful in attracting or retaining highly qualified personnel, we may not be able to successfully implement our business strategy
- Cyber breaches caused by malicious hacking could jeopardize the integrity of our IT systems and the security of our data
- A significant disruption in service of our website and information technology systems could result in a disruption in our business and could have a material adverse effect on our results of operations
- Failure to safeguard our customer and other personal data may result in reputational damage, financial penalties, claims from individuals and litigation, and decrease in revenues
- Our operations may be adversely affected by legal, regulatory and other developments. Our non-compliance with applicable financial regulations could have a material impact on us
- We are subject to many hazards and operational risks, including accidents or incidents relating to health, safety and the environment at our customer centres and vehicle preparation centres, that may disrupt our business, which could have a material adverse effect on our business, financial condition and results of operations

STRATEGIC REPORT (continued)

For the year ended 31 December 2022

Section 172 statement

The Directors of Cazoo Ltd consider, in the context of a constitution of a Board, that they have acted in good faith to promote the success of the Company for the benefit of its members with specific reference to the Companies Act 2006 S172, in the decisions taken during the year ending 31 December 2022, including:

Employees

- We aim to attract, retain and develop staff with the skills, experience and potential necessary to implement our strategy.
- When selecting and onboarding new employees, we communicate our vision and core values that we expect all staff to uphold, which is underpinned by a business-wide Code of Conduct and Ethics supported by appropriate training programs.
- We believe that engagement with staff on issues affecting the business is important for our culture and success and aim to do so through regular group-wide and location-specific "all-hands" and "town hall" sessions and other engagement platforms.
- We conduct regular employee surveys to gather feedback and benchmark results against leading employers, setting clear action plans to ensure areas of focus are prioritised and progressed.

Customers

- We are pioneering the shift to online car buying and selling by providing better selection, transparency and convenience. Our aim is to make buying or selling a car no different to ordering any other product online, where consumers can simply and seamlessly buy, sell and finance a car entirely online for delivery or collection.
- We continue to focus on providing a positive customer experience measured through Cazoo's Trustpilot reviews. We have a Trustpilot rating of 4.5* as of 31 December 2022.
- We have built a strong brand identity and we achieved national brand awareness among potential used car buyers in the UK of over 80% in 2022. Our marketing strategy has been one of our key investment areas in order to raise our brand awareness and grow our customer base.
- We have retained customer centres in the most geographically optimal locations in order to maximize the number of customers who can come to a centre to pick up their car and to make our logistics network more efficient.

Suppliers

- We acquire cars for sale from used-car auctions, corporate suppliers including vehicle finance, leasing, rental companies and OEMs. We also rely on key third-party suppliers for outsourced services to us as well as for value-added products to our customers.
- We work closely with our suppliers through regular meetings and updates in order to control the quantity and fulfilment of vehicles and value-added products.

Community and environment

- We are committed to being a responsible member of the communities in which we do business.
- We recently moved all UK sites onto renewable electricity contracts and have implemented wide reaching energy efficiency policies and reduction goals. We continue to monitor and improve our delivery fleet utilisation which has increased performance of fuel efficiency and route optimisation.
- Throughout the year, our Employee Volunteer Program has completed projects across a wide range of social issues including loneliness and elderly help, homelessness, eco pollution and youth mentoring.
- The goal of our Environmental, Social and Corporate Governance Committee is to oversee and support our commitment to social, environmental, corporate social responsibility, sustainability and other public and internal policy initiatives relevant to us.

STRATEGIC REPORT (continued)

For the year ended 31 December 2022

Section 172 statement (continued)

Shareholders

- The Company's ultimate parent company, Cazoo Group Ltd, engages with shareholders through regular updates, reporting and meetings through which shareholders can hear about our performance and put questions to the Board of Directors.

This report was approved by the Board and signed on its behalf.

Paul Woolf

P Woolf
Director
[illegible] 2023

28 June 2023

DIRECTORS' REPORT

For the year ended 31 December 2022

The Directors present their report of Cazoo Limited ("the Company") for the year ended 31 December 2022.

Directors

Alex Edward Chesterman
Stephen Gavin Morana (resigned 31 October 2022)
David Palmer (appointed 15 August 2022)
Paul Adrian Whitehead
Paul Antony Woolf (appointed 1 November 2022)

Directors' indemnities

The Company maintained liability insurance, which includes indemnity for its Directors and Officers. This is a qualifying third-party indemnity provision for the purposes of the Companies Act 2006 and was in place throughout the year and up to the date of approval of the financial statements.

Results and dividends

The Company's profit after tax for the year ended 31 December 2022 was £259.3 million (2021: loss of £193.3 million). Refer to the Strategic report for further discussions of the Company's results and performance for the year.

No dividends were paid during the year. The Directors do not recommend a final dividend in respect of the 2022 financial year.

Performance and future developments

The Directors believe that Cazoo Ltd is well positioned to continue in its aim to transform the car buying and selling experience across the UK.

The Directors' have had regard for the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year.

Refer to the post balance sheet events section below.

Research and development

The Company continues to incur expenditure on research and development in order to develop new products and enhance its existing technology platform. The Company accounting policies on research and development are disclosed in Note 1 of the financial statements.

Political contributions

No political contributions were made during the year (2021: £nil).

Financial risk management

The Company's operations involve varying levels of exposure to interest rate risk, foreign currency risk, credit risk and liquidity risk.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the income and financial management of the Company. The Company is exposed to interest rate risk through its stocking loans and subscription facilities where interest is charged in reference to a base interest rate. However, the exposure to interest rate risk is minimal since the Company is in a net cash position as at 31 December 2022 and 31 December 2021 and is therefore able to reduce exposure through repayment of the facilities. The Company does not hedge against interest rate risk.

DIRECTORS' REPORT (continued)

For the year ended 31 December 2022

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company is exposed to foreign currency risk through certain expenses denominated in Euros and US dollars. The Company does not currently hedge against currency risk through the use of financial instruments such as foreign currency swaps.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or bank ("counterparty") fails to meet its contractual obligations resulting in a financial loss to the Company. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions.

For retail and wholesale sales, the Company's exposure to credit risk is minimal since the settlement of amounts due for the sale of a vehicle to a consumer is completed prior to the delivery of the vehicle. The trade receivables balance represents customer funds to be received from our consumer finance partners and payment gateway provider.

For subscription sales and third-party reconditioning, the expected credit losses are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Credit risk from balances with banks and financial institutions is managed in accordance with the Company's treasury policy. The Company's maximum exposure to credit risk on cash and cash equivalents is the carrying amount of cash and cash equivalents on the statement of financial position.

Liquidity risk

Liquidity risk refers to the ability of the Company to meet the obligations associated with its financial liabilities that are settled as they fall due.

The treasury strategy of the Company is to retain cash on the balance sheet by financing the purchase of inventory and to maximize interest received while maintaining liquidity and flexibility in the availability of funds.

Going concern

The financial statements for Cazoo Ltd have been prepared on a going concern basis, based on Cazoo Group Ltd and Cazoo Holdings Limited continuing to provide financial support for a period of 12 months to the end of June 2024.

The Board of Directors of the ultimate parent undertaking, Cazoo Group Ltd ("CGL Group"), have approved a budget for the financial year ended 31 December 2023 which targets a lower retail volume of 40,000-50,000 units compared to approximately 65,000 units in the year ended 31 December 2022. This budget is designed to allow the CGL Group to focus on unit economics through higher margin, faster moving inventory and rationalization of its operational footprint. In line with the lower unit expectations for 2023 and the current economic climate, the plan to achieve the budget includes the closure of certain vehicle preparation centres, customer collection centres and further headcount reductions, which are now largely complete. The plan is expected to deliver a significant reduction in the CGL Group's cash consumption and continued progress towards the CGL Group's goal of reaching profitability, without the need to raise further external funding until H2 2024.

A material uncertainty around the successful execution of the Cazoo Group Ltd plan has been identified which may cause significant doubt over Cazoo Group Ltd's, and therefore Cazoo Holdings Limited's and Cazoo Ltd's ability to continue as a going concern. Despite the existence of this material uncertainty, the Directors believe there is a reasonable prospect of Cazoo Ltd continuing as a going concern through successful implementation of the plan, described above, through to the end of the going concern period to 30 June 2024. The Directors have assessed Cazoo Group Ltd's and Cazoo Holdings Limited's ability to provide financial support as part of this assessment.

DIRECTORS' REPORT (continued)

For the year ended 31 December 2022

Going concern (continued)

As a consequence, the accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and satisfaction of liabilities in the ordinary course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of the material uncertainty described above.

Post balance sheet events

Revised 2023 Plan

On 18 January 2023, Cazoo announced its revised FY 2023 plan which aims to improve the unit economics of the business. To enable these improvements, the Company reset its 2023 top line ambitions to 40,000-50,000 UK retail units, allowing the Company to focus on higher margin and faster moving inventory and to rationalise its operational footprint.

Employees

Our success is highly dependent on human capital and a strong leadership team. We aim to attract, retain and develop staff with the skills, experience and potential necessary to implement our strategy. When selecting and onboarding new employees, we communicate our vision and core values that we expect all staff to uphold, which is underpinned by a business-wide Code of Conduct and Ethics supported by appropriate training programs. We believe that engagement with staff on issues affecting the business is important for our culture and success and aim to do so through regular group-wide and location-specific "all-hands" and "town hall" sessions and other engagement platforms.

None of our employees are represented by a labour union and there have been no work stoppages to date. We generally consider relations with our employees to be good.

Diversity and inclusion

We're proud to be an inclusive, supportive and respectful employer and we are committed to growing and nurturing our team to best represent the customers we serve and the communities in which we operate. Our diversity and inclusion strategy includes empowering employees via Employee Resource Groups, building knowledge and awareness through external speakers and accelerating hiring and progression of under-represented groups by improving recruitment processes and working with expert partners.

The Company seeks to provide equal opportunity in employment for all qualified persons and to prohibit any form of discrimination due to race, nationality, ethnic or national origin, sex or sexual orientation, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, religion/belief or age. Our equal opportunities policy is set out clearly in the Employee handbook and any employee who believes that they may have been disadvantaged is encouraged to raise the matter through the Company's grievance procedure.

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year.

DIRECTORS' REPORT (continued)

For the year ended 31 December 2022

Directors' responsibilities statement (continued)

In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs and in respect of the parent company financial statements, FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company financial position and financial performance;
- in respect of the company financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the parent company financial statements, state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the company will not continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the company and the company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Audit exemption

For the year ending 31 December 2022, the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476.

The Directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

This report was approved by the Board and signed on its behalf.

Paul Woolf

P Woolf
Director
June 2023

28 June 2023

Cazoo Ltd (Registered No. 11624245)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Revenue[1]	5	**1,237,044**	**622,151**
Cost of sales		(1,217,402)	(608,578)
Gross profit		**19,642**	**13,573**
Marketing expenses		(62,405)	(62,234)
Selling and distribution expenses		(63,069)	(42,680)
Administrative expenses		(168,729)	(100,360)
Loss from operations	6	**(274,561)**	**(191,701)**
Finance income	8	239	50
Finance expense	8	(6,627)	(2,179)
Other income	9	541,029	-
Profit/(loss) before tax		**260,080**	**(193,830)**
Tax (charge)/credit	10	(762)	501
Profit/(loss) for the year		**259,318**	**(193,329)**
Other comprehensive income		-	-
Total comprehensive profit/(loss)		**259,318**	**(193,329)**

[1] Revenue excludes £1.9 million of sales in 2022 where Cazoo sold vehicles as an agent for third parties and only the net commission received from those sales is recorded within revenue (2021: £17.4 million).

Cazoo Ltd (Registered No. 11624245)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	At 31 December 2022 £'000	At 31 December 2021 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	69,127	74,064
Right-of-use assets	18	20,400	15,353
Intangible assets	12	15,670	13,286
Trade and other receivables	14	6,406	6,487
		111,603	**109,190**
Current assets			
Inventory	13	231,012	282,746
Trade and other receivables	14	70,701	77,442
Cash and cash equivalents	21	35,731	46,296
		337,444	**406,484**
Total assets		**449,047**	**515,674**
Liabilities			
Current liabilities			
Trade and other payables	15	53,526	413,506
Loans and borrowings	16	169,684	161,092
Lease liabilities	18	14,963	12,937
Provisions	18	9,465	-
		247,638	**587,535**
Non-current liabilities			
Loans and borrowings	16	4,113	11,014
Lease liabilities	18	4,765	5,377
Provisions	17	1,500	1,432
		10,378	**17,823**
Total liabilities		**258,016**	**605,358**
Net assets/(liabilities)		**191,031**	**(89,684)**
Share capital	19	-	-
Share premium	19	181,250	181,250
Retained earnings		9,781	(270,934)
Total equity		**191,031**	**(89,684)**

For the year ending 31 December 2022 the Company was entitled to exemption from audit under section 479A of the Companies Act 2006. The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006. The Directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

Cazoo Ltd (Registered No. 11624245)

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2022

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf by:

Paul Woolf

P Woolf
Director
xx June 2023
28 June 2023

The notes on pages 20 to 45 form part of these financial statements.

Cazoo Ltd (Registered No. 11624245)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Notes	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
At 31 December 2020		-	**181,250**	**(106,550)**	**74,700**
Comprehensive loss for the year					
Loss for the year		-	-	(193,329)	(193,329)
Other comprehensive income		-	-	-	-
Contributions by and distributions to owners					
Share-based payments	20	-	-	28,945	28,945
At 31 December 2021		-	**181,250**	**(270,934)**	**(89,684)**
Comprehensive profit for the year					
Profit for the year		-	-	259,318	259,318
Other comprehensive income		-	-	-	-
Contributions by and distributions to owners					
Share-based payments	20	-	-	21,397	21,397
At 31 December 2022		-	**181,250**	**9,781**	**191,031**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

1. Reporting entity

Cazoo Ltd ("the Company") is a limited company incorporated and domiciled in the United Kingdom. The Company's registered office is at 41 Chalton Street, London, NW1 1JD. The Company's principal activity is the operation of an e-commerce platform for buying and selling used cars.

2. Significant accounting policies

2.1 Basis of preparation

These standalone financial statements have been prepared in accordance with Companies Act 2006 applicable to companies using Financial Reporting Standards 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company has taken advantage of the following disclosure exemptions under FRS 101 in respected of:

a) The requirement of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment, because:
   i. The share based payment arrangement concerns the instruments of another group entity; and
   ii. The equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated
b) The requirements of IFRS 7 Financial Instruments: Disclosures
c) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
d) The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
   i. Paragraph 79(a)(iv) of IAS 1
   ii. Paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
   iii. Paragraph 118(e) of IAS 38 Intangible Assets
e) The requirements of paragraphs 10(d), 10(f), 16, 38(a), 38(b), 38(c), 38(d), 40(a),40(b), 40(c), 40(d), 111 and 134-136 of IAS 1 Presentation of Financial Statements
f) The requirements of IAS 7 Statement of Cash Flows
g) The requirements of paragraphs 30 and 31 f IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
h) The requirements of paragraph 17 and 18(a) of IAS 24 Related Party Disclosures;
i) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that an subsidiary which is a part to the transaction is wholly owned by such a member; and
j) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets
k) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers

The basis for all of the above exemptions is because the equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

Details of the Company's accounting policies are included in Note 3.

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The areas where judgements and estimates have been made in preparing the financial statements and their effect are disclosed in Note 4.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2022

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis, except for financial assets, financial liabilities and share based payments that have been measured at fair value.

2.3 New and amended standards and interpretations

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2022, but do not have an impact on the financial statements of the Company.

- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- IFRS 9 Financial Instruments – Fees in the “10 per cent” test for derecognition of financial liabilities

2.4 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of the issuance of the Company's financial statements are listed below. The Company intends to adopt these new and amended standards, if applicable, when they become effective. The new standards and amendments are not expected to have a material impact on the Company.

Effective for annual reporting periods beginning on or after 1 January 2023:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current
- Definition of Accounting Estimates – Amendments to IAS 8
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

2.5 Presentational currency

These financial statements are presented in Pounds Sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2.6 Going concern

The financial statements for Cazoo Ltd have been prepared on a going concern basis, based on Cazoo Group Ltd and Cazoo Holdings Limited continuing to provide financial support for a period of 12 months to the end of June 2024.

The Board of Directors of the ultimate parent undertaking, Cazoo Group Ltd (“CGL Group”), have approved a budget for the financial year ended 31 December 2023 which targets a lower retail volume of 40,000-50,000 units compared to approximately 65,000 units in the year ended 31 December 2022. This budget is designed to allow the CGL Group to focus on unit economics through higher margin, faster moving inventory and rationalization of its operational footprint. In line with the lower unit expectations for 2023 and the current economic climate, the plan to achieve the budget includes the closure of certain vehicle preparation centres, customer collection centres and further headcount reductions, which are largely complete. The plan is expected to deliver a significant reduction in the CGL Group's cash consumption and continued progress towards the CGL Group's goal of reaching profitability, without the need to raise further external funding until H2 2024.

A material uncertainty around the successful execution of the Cazoo Group Ltd plan has been identified which may cause significant doubt over Cazoo Group Ltd's, and therefore Cazoo Holdings Limited's and Cazoo Ltd's ability to continue as a going concern. Despite the existence of this material uncertainty, the Directors believe there is a reasonable prospect of Cazoo Ltd continuing as a going concern through successful implementation of the plan, described above, through to the end of the going concern period to 30 June 2024. The Directors have assessed Cazoo Group Ltd's and Cazoo Holdings Limited's ability to provide financial support as part of this assessment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

2.6 Going concern (continued)

As a consequence, the accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and satisfaction of liabilities in the ordinary course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of the material uncertainty described above.

3. Accounting policies

3.1 Revenue

The Company evaluates revenue from contracts with customers based on the five-step model under IFRS 15: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the separate performance obligations; and (5) recognise revenues when (or as) each performance obligation is satisfied.

Revenue is measured based on the consideration the Company expects to be entitled to in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control over a product or service to a customer.

Retail

The Company sells reconditioned vehicles directly to its customers, primarily through its online platform. The prices of vehicles are set forth in the customer contracts at stand-alone selling prices, which are agreed prior to delivery. The Company satisfies its performance obligations for vehicle sales upon delivery when the transfer of title, risks, and rewards of ownership and control pass to the customer. The Company recognises revenue at the agreed-upon purchase price stated in the contract less an estimate for returns. Estimates for returns are based on an analysis of historical experience, trends and sales data. Changes in these estimates are reflected as an adjustment to revenue in the period identified. The amount of consideration received for vehicles includes non-cash consideration representing the value of part exchange vehicles, if applicable. The value of part exchange vehicles is agreed by the customer at the time of purchase and is stated in the contract. Prior to the delivery of the vehicle, the payment is received, or financing has been arranged. Revenue is recognised net of sales tax.

Retail revenue also includes the fixed commission from the sale of a small number of vehicles where Cazoo acts as an agent. Under IFRS 15 only the net commission received from these sales is recorded within revenue, with 100% of that revenue contributing towards gross profit.

Contract liabilities relate to undelivered retail orders. Contract liabilities are recognised at the point when cash is received for the order and are derecognised into revenue upon delivery to the customer.

Retail revenue also comprises ancillary products (including financing commission, warranty commission, paint protection and any add-ons), together with delivery charges and admin fees. Ancillary revenues were previously included in "Other sales". The comparatives for 2021 have been restated for consistency.

Customers purchasing vehicles from the Company may enter into a contract for finance or enter a contract to extend their warranty after the initial 90-day inclusive period through the Company's platform. The Company acts as an agent and receives a commission for the arrangement of these contracts from the principal. The Company recognises commission revenue at the time of sale, net of a reserve for estimated contract cancellations. The reserve for cancellations is estimated based upon historical experience and recent trends and is reflected as a reduction in revenue. Changes in these estimates are reflected as an adjustment to revenue in the period identified.

Contract assets relate to commission revenue earned but not invoiced at the period end. The commission earned is conditional upon the delivery of the vehicle to the customer and no return being made by the customer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3.1 Revenue (continued)

Wholesale

The Company sells vehicles through car auctions to trade and other buyers. The vehicles sold via auction are primarily acquired from customers as part-exchanges or through our direct car buying channel that do not meet the Company's quality standards to list and sell as retail vehicles. The Company satisfies its performance obligation for wholesale sales when the purchaser obtains control of the underlying vehicle which is at the point the vehicle is sold at auction.

Other sales

Other sales comprises revenue from walk-in servicing, subscription services, third-party reconditioning and the provision of data services.

At the Company's customer centres, vehicle servicing products are offered including interim, full and major servicing, MOT tests, general repairs and one-off checks and treatments. The Company satisfies its performance obligations at the point the agreed work is completed. The Company recognises revenue at the agreed purchase price net of sales tax.

The Company provided third-party reconditioning services during the year. The Company satisfies its performance obligations at the point the agreed work is completed.

Revenue from subscription services is recognised under IFRS 16 and as such is recognised on a straight-line basis over the contract period. The subscription service allows customers to subscribe for a vehicle over a period of time for a monthly fee as an alternative to ownership. Revenue from the provision of related services such as maintenance and breakdown are recognised separately in accordance with IFRS 15 – over time, as the service is provided.

The Company also provides data services whereby customers access selected Cazoo vehicle data for a monthly fee. Revenue is recognised in accordance with IFRS 15 based on actual data usage for these contracts.

3.2 Cost of sales

Cost of sales primarily relates to vehicle acquisition costs and reconditioning costs, as well as any necessary adjustments to reflect vehicle inventory at the lower of cost and net realisable value. Vehicle reconditioning costs are the direct costs associated with preparing the vehicles for resale and typically include the cost of parts, labour and inbound transportation costs. Cost of sales also includes the cost of providing drive-away insurance, fuel, vehicle warranty, buyers fees, and other costs incurred in providing ancillary products and services. Cost of sales also includes the depreciation of cars out on subscription.

3.3 Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company classifies assets with value less than £5,000 as low-value. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2022

3.3 Leases (continued)

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Leasehold property	1 – 20 years
Fixtures and fittings	5 years
Subscription vehicles	1 – 3 years
Other motor vehicles	4 years

Depreciation of right-of-use subscription vehicles is recognised within cost of sales in the statement of profit or loss. Depreciation of other right-of-use assets is recognised within operating expenses in the statement of profit or loss.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventory) in the period in which the event or condition that triggers the payment occurs.

Interest on lease liabilities is recognised within finance expense in the statement of profit or loss.

3.4 Employee benefits

Short-term and long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the statement of comprehensive income in the period to which they relate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3.5 Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the statement of profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the retained earnings.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value.

Save As You Earn ("SAYE") scheme

The SAYE scheme is accounted for as an equity-settled share-based payment scheme. The fair value determined at the grant date of the SAYE scheme is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. The fair value is determined using a Black-Scholes option pricing model.

3.6 Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received, and the Company will comply with all attached conditions.

In the prior years, the Company received funds in connection to the Job Retention Scheme launched as part of the UK Government's response to the COVID-19 pandemic. Amounts received were recognised net within the statement of profit or loss as income or a reduction to expenses.

3.7 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from "profit before tax" as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3.7 Taxation (continued)

Deferred tax

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax assets are recovered.

Current and deferred tax

Current and deferred tax are recognised in the statement of profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3.8 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprises cash at banks and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to insignificant risk of change in value.

3.9 Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment is recognised in the statement of profit or loss. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

Subscription vehicles are transferred from property, plant and equipment to inventory at their carrying amount when existing subscription contracts come to an end.

Depreciation is provided on all items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following range:

Leasehold improvements	5 – 50 years
Fixtures and fittings	3 – 15 years
Computer equipment	1 – 5 years
Subscription vehicles	1 – 13 years
Other motor vehicles	1 – 5 years
Plant and machinery	3 – 15 years

The residual values and economic lives of assets are reviewed on an annual basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3.10 Intangible assets

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. Amortisation is recognised within operating expenses in the statement of profit or loss. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Domain names	1 – 5 years
Development costs and software	3 – 10 years

Internally-generated intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Expenditure includes both employees of the Company and external contractors contributing to the development projects. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in the statement of profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3.11 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3.11 Impairment of tangible and intangible assets other than goodwill (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of profit or loss.

3.12 Inventory

Inventory consists of vehicles purchased, direct and indirect vehicle reconditioning costs, including parts and labour and inbound transportation costs.

Inventory is stated at the lower of cost and net realisable value. The costs of inventory are determined by specific identification. Net realisable value is the estimated selling price less costs to complete and transport the vehicles. Selling prices are derived from historical data and trends, such as sales price and inventory turn times of similar vehicles, as well as independent market data. Each reporting period the Company recognises any necessary adjustments to reflect vehicle inventory at the lower of cost or net realisable value through cost of sales.

3.13 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

3.14 Financial instruments

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value are recognised immediately in the statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3.14 Financial instruments (continued)

Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost and effective interest method

Interest income is recognised using the effective interest method for financial assets measured at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset. Interest income is recognised in the statement of profit or loss within finance income.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on trade receivables, other receivables, and accrued income. The amount of expected credit loss is updated at each reporting date to reflect changes in credit risk since the initial recognition of the respective financial instrument.

The Company recognises lifetime expected credit losses ("ECL") for trade receivables, other receivables, and amounts due from customers under contracts. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

Significant increase in credit risk

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial assets as at the reporting date with the risk of a default occurring on the financial asset as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

3.14 Financial instruments (continued)

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at fair value through profit or loss ("FVTPL").

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in the statement of profit or loss.

Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

4. Accounting judgements and estimates

4.1 Judgements

Revenue recognition – Principal / agent arrangements

The process of determining whether Cazoo acts as a principal or agent in certain transactions requires detailed analysis of the specific facts and circumstances of the transaction concerned. Management judgement is applied in the assessment of the transaction against the three indicators in IFRS 15:

- Assessment of whether Cazoo is primarily responsible for fulfilling the promise to provide the specified good or service.
- Assessment of whether Cazoo has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer.
- Assessment of whether Cazoo has discretion in establishing the price for the specified good or service.

Revenue includes the fixed commission from the sale of a small number of vehicles where Cazoo acts as an agent.

Capitalisation of development time

Time spent by the Company's employees, and external contractors under the direction of the Company's employees, in software development is capitalised as an internally generated intangible asset when the requirements of IAS 38 and of Company policy are both met. Management judgement is applied in the assessment of the project against the development criteria of IAS 38 in the following areas:

- Assessment of whether the project meets the six requirements of IAS 38 to be considered an internally generated asset, as set out in Note 3.11.
- Assessment of the point in time when the project moved from an exploratory phase into a development phase.
- Assessment of the proportion of employee and contractor output that is directly attributable to developmental activities.

4.2 Estimates

Net realisable value of inventory

Vehicles held in inventory are stated at the lower of cost and net realizable value. The calculation of net realizable value requires an estimate of the expected selling price of each vehicle held in inventory. This estimate is made using a combination of historical data of the Company and independent market data. Independent market data provides a view to recent market activity for vehicles with similar attributes to those held in stock. This, combined with recent sales data of the Company, is used to estimate the expected selling prices of inventory. At each reporting period the Company recognises any necessary adjustments to reflect vehicle inventory at the lower of cost or net realisable value through cost of sales. See Note 13 for further details of the inventory provision, including a sensitivity analysis.