MOTOR 150 REPORT 2018

CAUTION AHEAD

TIME TO GO BACK TO BASICS AND
CONTROL THE CONTROLLABLES

IDEAS | PEOPLE | TRUST

BDO

MOTOR RETAIL IS THE SHOP FLOOR OF THE UK AUTOMOTIVE INDUSTRY. THIS ESTABLISHED AND INTERDEPENDENT NETWORK OF BUSINESSES HAS CONTINUED TO BE A KEY ECONOMIC SECTOR BY EMPLOYING OVER 850,000 PEOPLE, CONTRIBUTING OVER £20 BILLION IN VALUE TO THE ECONOMY, AND ACCOUNTING FOR 12.8% OF THE UK'S TOTAL EXPORT GOODS IN 2017.*

*SOURCE: SMMT

In this light, the Motor 150 report – revealing the aggregated performance of a study group comprising the top 150 companies in the UK motor retail sector – is an important business barometer. As such, this report, which covers performance in the latest audited accounts and looks forward into the future accounting periods, does not specify or comment upon the individual performance of companies, except where it is relevant to explain a variance from the market norm or to highlight a fresh sector trend. Our aim in producing the Motor 150 is to provide a considered insight into recent economic events and sector activity, the current and future dynamics of motor retailing, and to offer our professional views and advice.

A WORD FROM MALCOLM THIXTON AND STEVE LE BAS

PARTNERS LEADING THE BDO MOTOR RETAIL TEAM

Difficult and uncertain trading conditions are currently impacting the industry, with profits in the Motor 150 group falling for the first time since 2011, this despite an overall increase in turnover. But what are the key challenges ahead?

It is without doubt that the sector has a number of challenges both in the short-term and the long-term and frustratingly not many of these are in the dealers' control.

A recent AM online poll found that 65% of dealers expect their profitability this year to be at a lower level than 2017.

These challenges include, in no particular order, supply of vehicles from the manufacturer, BREXIT, continuing cost of complying with dealer standards, regulation changes, changes in customer expectations and buying habits, and the recruitment and retention of quality staff. In this year's report we take a closer look at a number of these issues. We firmly believe that dealers need to take caution as they look ahead, but that there are actions that can be taken to help navigate this unprecedented period of change.

TIME TO GO BACK TO BASICS AND CONTROL THE CONTROLLABLES

MOTOR 150 INTRODUCTION

After eight years of growth in the sector with profits reaching a record high, as predicted in last year's report the results for the Motor 150 'group' have fallen for the first time since 2009. However, it is not all doom and gloom as the profit for the year of £840m is still the third highest the group has posted since our first report in 2008.

The underlying profit over the past six years looks impressive, however when calculated as the return on sales percentage, this year's return is 1.24% - its lowest level since 2011. The reduction from the 2016 return of 1.53% equates to around £225m of lost profit.

This reduction in profitability is not unexpected, as both manufacturers and dealers continue to chase market share and with the ongoing pressure on dealers to achieve registrations whilst delivering a first class customer experience.

Administrative expenses have continued to grow with an increase of £487m in the year, however, as a percentage of turnover it has remained static over the past four years at around 9.5%. The reduction in profitability is therefore due to the declining gross margin.

Looking forward, there is a clear focus by motor retailers to review these costs which have grown in line with turnover. Our expectation is that the cost base will reduce in 2018 and 2019 as groups start to implement a more robust cost control and review programme.

Looking at the current year and beyond, registrations have fallen by 7.5% to the end of September 2018, with a significant drop of 20% in the September sales as a result of the impact of the WLTP regulations. The overall reduction we believe is due to supply issues of the desired cars, continuing uncertainty in the economy and a correction of the record levels in previous years.

With the fall in new car registrations and profitability, groups have identified used cars as an area of growth and one where the customer can perceive they are receiving better value. A significant number of groups have either acquired or opened used car sites. This is highlighted in Chief Executive Trevor Finn's comments on the Pendragon interim results: 'We are gaining momentum as we lead the transformation to fully online used car retailing. This will give us greater self-determination and deliver more reliable, sustainable earnings.'

> “With the industry given barely a year to reapprove the entire European model line-up, it's no surprise that we've seen bottlenecks and a squeeze on supply. These are exceptional circumstances with similar declines seen in other major European markets. The good news is that, as backlogs ease, consumers and businesses can look forward to a raft of exciting high-tech cars and a market keen to recover lost momentum.”
>
> **Mike Hawes from the SMMT**

In summary, 2017 was a profitable yet tougher trading year. These trading conditions have continued into 2018 and we forecast will continue into 2019. The best-placed dealers group are those who are both agile and can make informed business decisions when required. Those dealers that have already started to face these challenges and implement changes at the end of 2017 and early part of 2018 will be best placed to ride out the current downturn.

THE MOTOR 150 GROUP
IS A SIGNIFICANT EMPLOYER IN THE UK

AVERAGE NUMBER OF EMPLOYEES IN 2017 **132,535**

A **35%** INCREASE IN SEVEN YEARS

RUNNING OUT OF TARMAC

A ROCKY ROAD

2017 was always expected to be a difficult year. Despite March being the strongest month for new vehicle registrations on record the following nine months proved the start of the long-anticipated decline from the summit that had been reached. The challenges facing dealers were not just limited to selling new cars. Manufacturers have continued to erode margins and making money has been a challenge requiring greater levels of effort, year on year, just to achieve a similar (or sometimes worse) result.

This year's Motor 150 actually saw an increase in turnover by 8% from £62.8bn to £67.8bn. Despite this, profitability fell for the first time since 2011 with profit before tax of £840m, down from a Motor 150 record of £959m in 2016. The average return on sales fell from 1.53% in 2016 to just 1.24%, however it is only upon a closer inspection of the underlying financial data from the members of the Motor 150 that the true effect of the downturn in the market can be seen.

In 2017 just over half the Motor 150 posted a worse result than in 2016. The number of dealers making a loss remained consistent which shows that profits are there to be made, but the returns are as low as they have been for a number of years.

This has been most keenly felt by the smaller groups, the average for the 75 largest groups was 1.33% whilst for the next 75 groups was just 0.56%.

A similar tale, and theme in the commentary on the Motor 150 results for the past couple of years, can be seen for turnover. The largest 75 groups saw their revenues increase by 9.2% whilst the next 75 groups only saw a rise of 0.6%. To put this into perspective this equates to growth of £5.0bn in increased sales for the larger groups and just £46m for the remainder. This £46m was just short of the increase enjoyed by the 15 groups in positions 60 to 75 alone. Larger groups still have access to greater economies of scale, the funding to continue consolidation within the sector, and are better positioned to take advantage of deals with manufacturers.

Sytner became the first motor group to surpass £5bn in turnover in 2017 and their level of business alone was the equivalent of the smaller 56 entries in this year's Motor 150. If you compare the sales of the top three of Sytner, Pendragon and Lookers then this is the same as the smallest 101 groups.

RUNNING OUT OF TARMAC

ROUGH TERRAIN

The challenges in maintaining profitability and achieving a ‘return on effort’ has still been pervasive throughout all of the Motor 150 though, and larger groups are by no means immune. In 2016 just 69 groups made a net margin of less than 1% whilst this has increased by 40% to 94, almost two thirds of the Top 150 dealer groups upon whom this report’s data in based. Worse than this, over one third (54) of the Motor 150 made a return on sales of less than 0.5%, up from 38 in 2016. When these stark statistics, based on actual financial results, are laid bare it clearly shows how important it is to capitalise on every sale to its maximum potential. Every pound of ‘additional extras’ can count as the data shows that for almost 100 groups for every £20,000 vehicle they sell they will ultimately make less than £200.

The challenges for dealers start from the initial sale. Gross margins reduced once again to 10.71%, a decline that has now continued for 8 years since 2010. The margin in 2016 was 10.95% and this fall equates to a decrease in bottom-line profits of £161m, which is well in excess of the £119m fall in profit before tax. This shows how important margin control remains and those dealers with clear and well-implemented controls and processes are best placed to be able to weather these more turbulent times.

Control over stocking levels is paramount. The level of stocks held by the Motor 150 increased by 12% in the year. Many dealers had high level of stocks and this has meant additional running costs for demonstrators, higher interest charges, and lower margins on vehicles that have been in stock for some time.

Staff costs have continued to increase with just over £500m paid out to employees. This was as a result of a 7% increase in employee numbers and additional increases in pay. The findings of the BDO Motor Salary Survey concluded much of this increase was from aftersales departments where it has proved a challenge to not only hire but also retain quality staff in this era of full employment. This has resulted in higher-than-average pay increases and more competitive starting salaries to try and attract the best talent.

IS SIZE MATTERING MORE?

Increase in turnover

+9.2%
TOP 75 GROUPS

+0.6%
BOTTOM 75 GROUPS

Return on sales

1.33%
TOP 75 GROUPS

0.56%
BOTTOM 75 GROUPS

POOR VISIBILITY

The 2017 vehicle registration data released by the SMMT showed a 5.7% fall in the new vehicle market. The used vehicle market performed more strongly though still posted a fall of 1.1%. As a result it is likely that the increased turnover in the market was driven by a consolidation of smaller motor groups and an aftersales market that is still buoyed by the last five years of strong vehicle sales. The Motor 150 will need their aftersales departments to work to capacity as the forecasts for the new vehicle markets suggest that worse is to come.

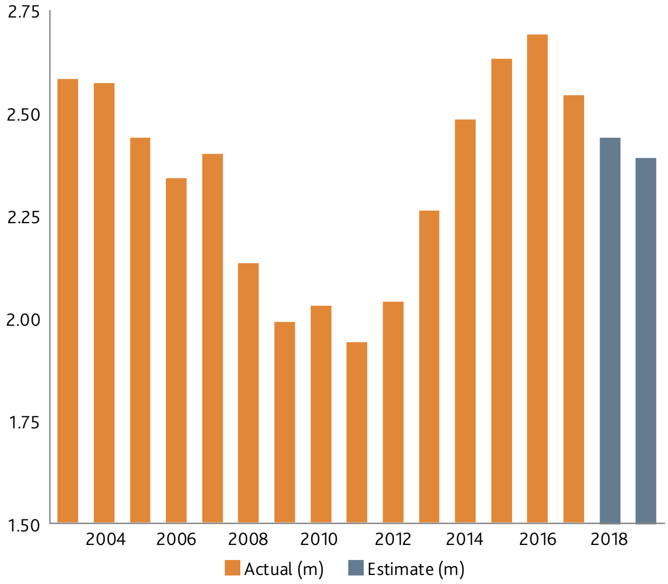
The SMMT's 2018 and 2019 forecasts are for a 3.9% contraction to 2.44m registrations in 2018 with a further fall to 2.39m units in 2019. In the year to June 2018 the used vehicle market is 2.6% lower than the same point in 2017, however expectations are high that the market will continue to perform strongly, with used car prices also holding up.

Recent WLTP changes haven't helped an environment in which the consumer is bombarded with negative press, 'fake news', and messages of further hardships to come. Diesel cars saw their share of the market plummet to just 42.0%, down from 47.7% in 2016. By September 2018 the market share had fallen to just 31.8%.

The bad press which diesel vehicles received started with the diesel-gate scandal in 2016 and has since been exacerbated by changes to vehicle taxes in early 2017. Since then there has been continued rhetoric from all sides with public perception warped as a result when compared to reality. For many car owners a diesel car remains the 'best' choice with better fuel economy and lower carbon dioxide emissions whilst other emissions affecting air quality have been dramatically reduced on previous models.

These issues have been overcome in different forms before, but against a backdrop of general economic and political uncertainty exacerbated with Brexit, this process might take longer, with hidden twists and turns to come.

NEW CAR REGISTRATIONS HAVE FALLEN AND MAY CONTINUE TO ACCORDING TO SMMT FORECASTS



IN 2016 JUST 69 GROUPS MADE A NET MARGIN OF LESS THAN <1% IN 2017 THIS INCREASED BY 40% TO 94

AND IN 2017 OVER ONE THIRD OF THE MOTOR 150 MADE (54) A RETURN ON SALES OF LESS THAN 0.5%, UP from 38 in 2016

TOP DEALS IN 2017…

Super Group Limited acquisition of Essex Auto Group Limited for an undisclosed consideration

Group 1 Automotive Inc.'s acquisition of Beadles Group Limited for an undisclosed consideration

Imperial Holdings Limited acquisition of Pentagon Motor Holdings Limited for £31m

Penske Automotive Group Inc.'s acquisition of Car Shops Limited for an undisclosed consideration

Super Group Limited acquisition of Slough Motor Company for an undisclosed consideration

…AND NOTEWORTHY DEALS ALREADY COMPLETED IN 2018

Lookers Plc acquisition of S.Jennings Limited for an undisclosed consideration

Vertu Motors Plc's acquisition of The Hughes Group for £21m

Eastern Western Motor Group Limited acquisition of Barnetts Motor Group for an undisclosed consideration

Group 1 Automotive Inc.'s acquisition of Robinsons Motor Group Limited for an undisclosed consideration

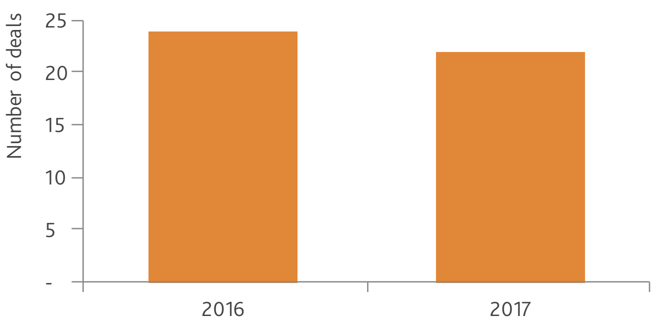
JCB Medway Limited acquisition of Hidsons Limited for an undisclosed consideration

MOTOR RETAIL AT A CROSSROADS?

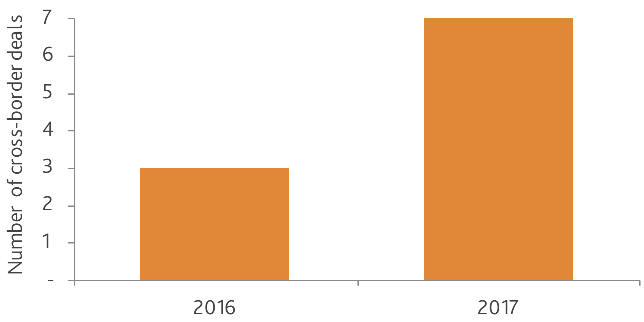
M&A activity remained strong in 2017 with 22 deals completed and a steady pattern of deal flow throughout the year. Noticeably, cross-border activity increased with overseas buyers continuing to find the UK market an attractive investment proposition after the UK's decision to leave the EU.

So why has M&A remained resilient in the face of sector head winds such as market slowdown, geopolitical uncertainties, 'diesel concerns' and varying levels of consumer confidence? Based on sector discussions and commentary, the time honoured M&A drivers of strategic and marque positioning, as well as the benefits of scale, continue to feature strongly. Put simply, M&A remains a good source of growth and potential synergies remain strong.

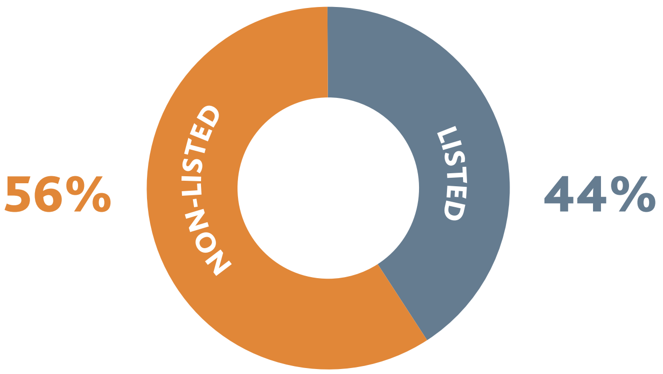
DEAL COUNT REMAINS HEALTHY AND CONSISTENT YEAR ON YEAR…



...WITH MORE CROSS-BORDER DEALS COMPLETED IN 2017 THAN THE PREVIOUS YEAR...



...AND FAMILY-OWNED DEALERSHIPS CONTINUED TO BE RESPONSIBLE FOR THE MAJORITY OF ACQUISITIONS



M&A ON TRACK

M&A continued to represent a key strategy for business growth in 2017. Many of the larger dealership groups completed acquisitions across a portfolio of brands to strengthen brand partnering and expand geographic presence. As expected, there remains a real appetite for well invested, quality dealerships.

The top four acquirers in 2017 collectively completed eight deals representing more than one third of total deals. Top acquirer was Penske Automotive Group Inc. with three deals in 2017 including the acquisition of The Car People. It was also encouraging to see acquirers such as Imperial Holdings, Johnson Cars and Eastern & Western return to the M&A market after a period of 'abstinence'. The fragmented motor retail market continues to present opportunities for all.

The level of activity across all major OEM brands suggests that there are opportunities across the brand spectrum in this highly competitive market. The UK presents a 'hotbed' of consumer choice for new and used vehicles across volume and premium brands and remains open to changes in consumer preferences and brand loyalty.

Whilst a number of market players appear to be focused on driving organic growth, M&A activity generated by the 'usual suspects' of listed companies, completed approximately 40% of deals in 2017, closely tracking the previous year.

APPLYING THE BRAKES?

Whilst there are many positives to be taken from 2017 deal activity levels, there are also warning signs. 2017 saw a slowdown in new car sales that has continued into 2018. Consumer confidence continues to show fragility and consumer behaviours are changing, the motor retail market again appears ripe for disruption and innovation creating both opportunities and threats.

Despite many positive themes, it is becoming clear that M&A is being cautiously deployed across the sector. Market players are being prudent and selective regarding capital allocation, dealership portfolio management and choice of acquisition targets.

Good deals will continue to be done but we expect reduced M&A activity in 2018.

THE FUTURE OF DEALERSHIPS – IS THE MODEL HERE TO STAY?

Based upon the ongoing requirements from manufacturers and the significant amounts of capital expenditure incurred by the Motor 150 group over the past five years, the franchise network must be hoping the existing model will continue to dominate the sector. During this time the Motor 150 group has spent a staggering £2.1bn on freehold and leasehold additions. This includes the acquisition of new sites but the overall size of the number is a sobering one and would indicate confidence in the continuation of the sector in its current form and that this is how customers will be buying cars in the future.

We are in the middle of one of the fastest periods of change the sector has seen for decades. There are a number of factors underpinning these changes:

- A wide range of affordable finance
- Large stocks of available new and demonstrator vehicles
- A shift in buying power to younger consumers who buy and interact in different ways to previous generations
- Continued advancement in technology both for the consumer and the manufacturer.

Despite the significant outlay in capital expenditure over recent years, dealer groups need to be agile and alert to potential changes on the horizon to the current model and the way of retailing.

DIGITAL RULES

Certain commentators are estimating that within the next 20 years, as much as 90% of dealership transactions will take place online. This use of digital is having a huge impact on new car research, marketing of used cars, and penetrating service bookings and parts sales.

A number of brands now advertise that you can build and buy a car over the internet and although this has not yet significantly changed the way customers purchase their car, the continued investment in the technology will only increase its use as a sales channel. There is no doubt that consumers carry out the majority of their research through the internet but currently (perhaps due to the size of the purchase and historical trading patterns) they still like to come into the showroom to touch and feel the car. This results in the sales process with the dealership becoming more transactional in nature rather than an all-encompassing retail experience.

A NEW MODEL?

Another potential key change is the adoption of an agency model. Daimler currently use this model in South Africa and recently Toyota have also adopted this model in New Zealand where dealerships now act as agents for the manufacturer. The vehicles remain in compounds and owned by Toyota, with the dealers drawing off stock as and when sold. The recommended retail prices have been replaced by a non-negotiable "Toyota Driveaway price". This price is significantly lower than the previous retail prices and reflects there is no longer any discounting and haggling required in the sales process. Any part exchange vehicle remains the property of the dealership and therefore the pricing of these cars is key. This model still requires physical showrooms and customers still want to interact with the dealership. However, more control has passed to the manufacturer and adds to the concern over the investment in facilities.

MANUFACTURERS ON THE MARCH

Next on the change agenda is the general restructure of networks. At the time of writing this report the VW group had just announced that it is going to restructure its dealer network from 2020 with new sales and service formats joining its dealer network across Europe. This will potentially include city showrooms, pop-up stores, used car centres, "service factories" and scalable "full-feature dealerships". City showrooms and pop-up stores have been used by some manufacturers for a number of years, but it would appear that the VW group is trying to become more agile and appeal to the changing consumer. They also note their online sales will be significantly expanded and direct sales by the manufacturer will become more of a reality. This is likely to mean the reduction in the number of fully serviced dealerships being required within the network, and more direct interaction by the manufacturer with the customer.

TECHNOLOGY AND OWNERSHIP

The fourth significant change is the developing technologies of Mobility as a Service (MaaS) and Autonomous vehicles, which will change car ownership and therefore by default the dealership model. The ownership model of cars is already changing, although we see this as a potential disruptor in major cities, we do not predict this fundamentally changing how dealers will operate. These developing technologies also result in greater reliability, longer service intervals and potentially lower crash repair work as autonomous vehicles increase.

Dealerships in the metro and urban areas will be most affected by the changes and the smaller rural dealers may well survive because of local customer relationships, but we predict that this will drive further consolidation of the large and medium sized groups.

FINAL THOUGHTS

Despite the potential changes noted above, our overall view is that that there will be no significant disruption to the existing underlying business model in the next five years and if anything there will be "quiet evolution" rather than revolution. We do foresee the manufacturers gaining further control over their networks and direct access to customers over this period. As the dealer's profits soften, it makes sense to consider more flexible and lower cost dealership facilities as the affordability of them lessens and the ROI reduces.

As a dealer group, you need to be prepared and we believe the key to success over the coming years will be the level of customer service that you provide. The consumer is only going to get more powerful and more exacting in what they want so dealers, although best placed to achieve it, will have to work ever harder at creating lasting customer relationships.

THE GENERATION GAME

THE MILLENNIAL GENERATION! You cannot seem to avoid this phrase in the workplace at the minute. Millennials are huge part of the population and by 2025 will make up more than 65% of a dealer's workforce. They will increasingly affect how you recruit and retain your staff and how you interact with your customers.

THE MILLENNIAL WORKFORCE

Staff turnover in a dealership is traditionally high with average staff turnover being around 36% (sales department being significantly higher than this). Therefore to train and retain the right people is vital. Not only will this help the profitability of the business and customer satisfaction, it will also reduce costs. In a recent study carried out in the USA, it was concluded that the average cost to replace a millennial is around 150% of their salary.

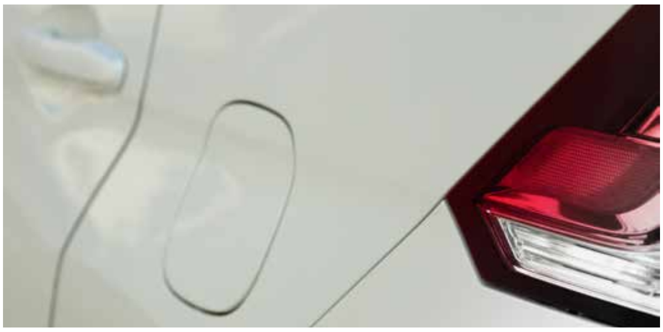
Dealers therefore need to understand and work with this generation to ensure that as an employer they are delivering what they want.

The millennial employee mindset is one of mobility. On average they are likely to stay in a job for two to three years, and almost on initial employment will be thinking of their next move. How then can dealers help to meet their goals?

As an employee, they are more demanding than their previous generations - they want to feel like they are making a difference in what they are doing. They want to have sufficient training and development opportunities to allow them to reach their potential and they want to collaborate and have a healthy and rewarding relationship with their seniors. They see working as much more of a two-way relationship, they want to leave their mark rather than it being a job for life and have more of a transactional relationship. As an employer, dealers need to embrace this challenge.

The worst thing dealers can say to a millennial is "That's how things have always been done" or "We tried it before but it did not work."

Dealers should also consider the make-up of their workforce. Statistically 85% of females help in the car buying process, however it is a significantly lower (circa 18%) proportion of females who work in a dealership. A more gender neutral workforce would help improve the customer experience and ultimately dealer profitability.



THE MILLENNIAL CUSTOMER

They are becoming an ever-important part of the market place, and although currently half of younger millennials do not own a car, 73% (Autotrader survey) stated that they intended to purchase a car in the next year, and dealers need to be able to meet the ever-changing requirements of this new consumer. More digitally minded, they want to engage with the dealership through social media and other forums. Instagram and YouTube videos are how this generation communicate, interact and learn.

Initial engagement with you will be online and dealers need a pro-active strategy to deal with this. They are time poor, their attention span is short and they get bored easily. Market research has shown once they have been in a dealership for more than 90 minutes you have lost them as a customer. Dealers therefore need to cater for this and look to move away from the more traditional style of car retailing.

Accenture have noted that "Millennials still want to see, touch and even smell their purchases" and they want their immersive in-store experience to match an immersive online one.

In light of this rapidly developing and more sophisticated customer, dealers should constantly be reviewing their sale process and really focus on customer experience. In a recent survey, 72% of customers feel that an improved buying experience would motivate them to visit dealerships more.

Traditionally dealers have spent significant sums of money on advertising, however how much of this still produces results? Dealers should carefully review their advertising as nearly half of all advertising is in a declining medium.

So, dealers need to learn from how they embrace millennials as Generation Z is not far behind…

THE LONG AND WINDING ROAD OF OUR EXIT FROM THE EU

After nearly two years of tough negotiations with the EU, we now have a draft exit deal that will prevent a cliff edge crash out of the EU, provided Mrs May can persuade her parliamentary colleagues to agree that this deal is the right one.

The final shape of the negotiated exit is still difficult to predict at the time of writing. What we do know, is that at some point in the future, whether it be 29 March 2019 or after a two year, three or more transition period, there is going to be a form of border between the UK and the remaining 27 states of the EU. What we are also expecting is that this will not be entirely frictionless, although the talk of a backstop membership of a customs union is, at least, some comfort for those transporting goods regularly between us and our near neighbours.

As far as the automotive industry is concerned, this could mean that eventually we have the risk of disruption to supply chains for components in car production facilities in the UK and EU. The infamous “Bentley Bumper” that travels back and forth between the UK and the EU as it is created, honed and finished could be a thing of the past. So, we could see a period of disruption to supply, but this is likely to be short lived as manufacturers will restructure supply chains to ensure efficiency is maintained throughout their business and customers' demands are met.

Any significant downturn in the UK economy will dent consumer confidence. That is likely to lead to reduced levels of consumer demand for new cars, particularly those in the budget and lower price range, due to the likely increased impact of such a downturn on the typical buyers of these vehicles. The length and depth of any downturn will depend on the how quickly we can return to conditions akin to the norm and trade deals with the EU and others can be secured. The OBR forecasts from the Budget suggest a single year slowdown in growth, not recession, post 29 March 2019.

In conclusion, it is likely that there could be short term downside risk for both supply and demand, although these may occur at very different times as we pass through the exit door and onto a new, un-mapped road into the economic unknown.

ACTIONS YOU CAN TAKE

1. Ensure you stay close to your manufacturer to understand their future supply plans
2. Review your workforce with regard to EU nationals and consider implications of any new rules
3. Review your forecasts and sensitivities and consider any contingency plans required.

IS GREEN BIGGER THAN BREXIT?

The two biggest macro issues currently on the horizon for retailers must surely be Brexit and the future of the car powered by the internal combustion engine. Whilst Brexit is important and as previously noted will obviously have an impact on retailers and consumer confidence, we have very little control over its outcome or the OEM's reaction to it, so can only keep a watchful eye as to how it plays out and react accordingly once the final situation is known.

More fundamental to the sector is the rise of the electric car/hybrid vehicle and the potential reality of fully autonomous ones within the next decade. It could be argued that the impact of the 'Green Agenda' is a long term issue but retailers should start to think about this as they plan for their next franchise agreement. What it might mean to them in terms of their site, their staff and the possible types of agreement that might be in place in the future?

THE BIG PICTURE

The Government is currently consulting on the 'Future of Mobility' in our society and looking at the ways in which the UK population will move around in their day to day lives. This includes the use of electric and autonomous vehicles and whether the population will continue to own and use cars in the same way as we have done in the past.

If you link this with the general increase in the use of technology in the way in which we choose, own and run our private motor cars then there is clearly a challenge for retailers to start thinking about being fit for the future and ready to take advantage of all of the possible opportunities that this may bring.

Some would say that our reliance on the internal combustion engine is coming to an end as governments seek to tax them from a pollution perspective and technological advances offer numerous different means of transport. By 2030, 15% of all new vehicles sold could be fully autonomous and by 2035 all new vehicles sold in Europe (by whatever definition you choose) will be fully electric. There has already been considerable press comment from a number of manufacturers to confirm that within a very short space of time, all of their production will either be electric or at least hybrid.

BY **2035** **ALL NEW VEHICLES** SOLD IN **EUROPE** WILL BE **FULLY ELECTRIC**

IMPACTS AND OPPORTUNITIES

Retailers need to think about the changes that this will have on their business model and how they will benefit from these changes in the future. Some of the possible impacts, actions and outcomes to consider are:

- The need to train staff on technology related matters as cars become more complicated and a different sales skill set is required. Dealership staff could then be a mix of sales and IT specialists as the level of complexity within an autonomous vehicle increases
- Will the sales process become fully digital such that customers do not need to enter a dealership to complete a sales transaction? Will everything from choice, review, negotiation and completion take place online or through VR?
- Will there be a need to own cars in larger cities if there is the predicted increase in car sharing programmes? In these areas is the opportunity then in sourcing, storing and servicing those car sharing vehicles?
- Will new entrants to the market place ie technology businesses provide partnering opportunities for motor manufacturers or retailers or will fleet operators start to make cars?
- Will a dealership become a multi-channel retailer offering services such as the development and running of car share facilities, fleet based demand for personal mobility, hubs for autonomous vehicles or becoming part of a charging point network for electric cars thereby creating a community and bringing customers on site?
- Will there then be the ability to charge a real premium on the retailing of certain makes and marques of car?

There is still some debate as to whether the creation and use of fully autonomous vehicles will actually happen due to the difficulties around liability, technology, insurance and the need to change the perception of the buying public. What is certain though is that while some new variants may well be created, if manufacturers and retailers do not adapt and change then not all of the current franchises will survive.

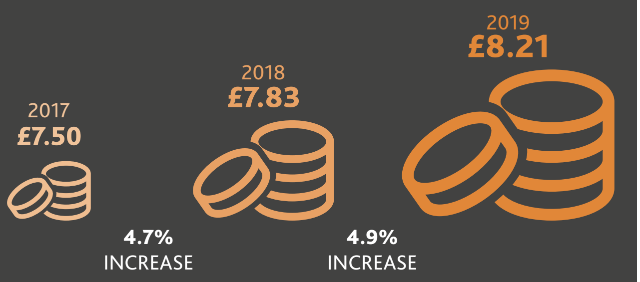
MOTOR RETAIL BACK ON THE EMPLOYMENT TAX AGENDA

NATIONAL MINIMUM WAGE (NMW)

There has been a significant increase in the number of NMW reviews being undertaken as a result of greater HMRC focus and allocation of resource to the NMW team. This is linked to the Government's wider "high pay, low tax" social agenda. The Department of Business, Energy and Industrial Strategy frequently names and shames employers found to be paying below the NMW threshold - which can damage a business' reputation. There is also a potential financial impact as penalties can be up to 200% of the underpayment.

£45m

BDO ESTIMATED COST of the increase in **MINIMUM WAGE** to the Motor 150 group in 2019.



Underpayments can arise even when employees are paid in excess of the headline rate (eg because of the composition of pay or the way in which HR policies operate). It is therefore essential for dealerships to be aware of and manage the potential areas of risk in light of the NMW regulations. There is also the impact of the National Living Wage (NLW) to consider: it is expected to rise to over £9.00 by 2020.

The best way for retailers to limit their NMW/NLW risks is to be proactive. A good starting point is to ensure all employees under contract have some sort of hours' agreement with the employer in writing. In addition, groups should also consider reviewing existing policies for signing in and out.

If groups feel they may have inadvertently underpaid staff at some point in the last six years, we recommend that a 'self-review' is undertaken. If evidence of the review can be provided and that the outstanding amounts owed to employees has been paid, the group should not be subject to HMRC penalties even if it decides to carry out its own review.

HMRC EMPLOYER COMPLIANCE REVIEWS

HMRC has introduced a new methodology for employer compliance checks which, at first glance, may appear to be a more user-friendly approach. In the past, HMRC would typically issue a letter, agree a date and then visit to examine records concerned with the calculation of PAYE and NIC, together with the reporting of expenses and benefits. Depending on the size of the business and the officer carrying out the review, this could mean an 'on site' review of anything from a day upwards.

The new approach is based on a questionnaire to be completed by the employer which is returned to HMRC together with a package of policies and documents. HMRC may also invite the group to voluntarily, provide data in electronic format – ie downloads from ledgers and systems. A telephone interview will follow, before entering into an exchange of correspondence as issues are discussed and 'agreed'. Finally, of course, there will be the settlement of any outstanding taxes and NIC.

In the last few months, we have seen an increasing number of retailers being subject to such reviews with expense policies, car averaging and employee car ownership schemes being scrutinised in great detail.

Employer compliance checks under the new approach should not be taken lightly but rather given a great deal of attention. From our experience, those retailers that seek advice on receipt of a notification of an HMRC review invariably achieve the best possible outcomes in terms of both the duration of the reviews as well as the level of assessments raised.

A FUTURE FOCUSED HMRC GOES DIGITAL FOR VAT

For motor dealers, Making Tax Digital is likely to give rise to significant changes in the VAT return process. Firstly, they are often subject to more VAT accounting processes and record-keeping requirements than other businesses (e.g. the Second Hand Margin Scheme, Dealer Deposit Contributions, Partial Exemption, Demonstrator Car Private Use Scale charges, etc.). Secondly, their accounting systems are often not configured to handle the required VAT adjustments.

ACT NOW

MTDfV arrives next year and most motor dealers are likely to be significantly affected because of their complex VAT accounting position. We recommend that you start considering now what level of MTDfV-compliance you already have and what you will need to do in order to be MTDfV-compliant. Our free self-assessment tool can assist you with this:

www.bdo.co.uk/mtdfv-selftest

MOTOR 150 GROUP

NUMBERS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	2017	2016	2015	2014	2013
		£m	£m	£m	£m	£m
Turnover		**67,831**	**62,778**	**58,640**	**55,238**	**47,725**
Cost of sales		(60,565)	(55,904)	(52,170)	(49,070)	(42,229)
Gross profit		**7,266**	**6,874**	**6,470**	**6,168**	**5,496**
Gross profit %		10.71%	10.95%	11.03%	11.17%	11.52%
Operating expenses		(6,416)	(5,929)	(5,598)	(5,357)	(4,836)
Other operating income		182	192	238	192	154
Operating profit	1	**1,032**	**1,137**	**1,110**	**1,003**	**814**
Interest paid	4	(211)	(198)	(200)	(187)	(182)
Interest received		19	20	12	9	16
Profit before tax		**840**	**959**	**922**	**825**	**648**
Taxation		(161)	(184)	(185)	(188)	(146)
Profit after tax		**679**	**775**	**737**	**637**	**502**
Other comprehensive income		24	(12)	(6)	(5)	(2)
Net profit		**703**	**763**	**731**	**632**	**500**

CONSOLIDATED BALANCE SHEET

	Notes	2017	2016	2015	2014	2013
		£m	£m	£m	£m	£m
Fixed assets						
Intangible	6	1,270	1,196	953	839	802
Tangible	7	6,222	5,562	5,124	4,840	4,313
Investments		225	339	194	268	253
		7,717	**7,097**	**6,271**	**5,947**	**5,368**
Current assets						
Stock		11,708	10,417	10,020	8,420	7,191
Debtors	8	3,288	2,919	2,720	2,839	2,708
Deferred tax asset		32	34	11	17	18
Cash		714	709	748	524	486
Other		300	311	362	136	117
		16,042	**14,390**	**13,861**	**11,936**	**10,520**
Debtors due after more than one year		29	39	35	33	42
Total assets		**23,788**	**21,526**	**20,167**	**17,916**	**15,930**

CONSOLIDATED BALANCE SHEET (continued)

	Notes	2017	2016	2015	2014	2013
		£m	£m	£m	£m	£m
Current liabilities						
Loans and bank overdrafts	9	4,430	4,092	3,645	2,988	2,438
Trade and other payables	10	10,756	9,585	9,263	8,116	7,101
Current tax liabilities		75	105	135	158	140
		15,261	**13,782**	**13,043**	**11,262**	**9,679**
Non-current liabilities						
Loans and bank overdrafts	11	1,501	1,385	1,106	1,024	1,238
Trade and other payables	12	518	458	554	604	518
Pension liabilities		171	228	163	199	176
Provisions		66	55	40	69	55
Deferred tax		124	132	105	74	71
		2,380	**2,258**	**1,968**	**1,970**	**2,058**
Total net assets		**6,147**	**5,486**	**5,156**	**4,684**	**4,193**
Capital and reserves						
Share capital		853	778	744	751	772
Share premium		435	409	386	367	351
Profit and loss account		4,541	3,965	3,669	3,220	2,761
Revaluation reserve		156	142	164	164	152
Other reserves		135	158	167	158	140
		6,120	**5,452**	**5,130**	**4,660**	**4,176**
Minority interest		27	34	26	24	17
Total equity		**6,147**	**5,486**	**5,156**	**4,684**	**4,193**

NOTES TO THE ACCOUNTS

	2017	2016	2015	2014	2013
	£m	£m	£m	£m	£m
1. Operating profit					
Depreciation of tangible fixed assets	520	490	466	453	407
Amortisation of intangible fixed assets	55	50	40	42	32
Audit fees	8	8	8	7	8
Non-audit fees	3	5	3	2	3
Operating leases	257	207	207	212	206
2. Staff costs					
Wages and salaries	3,966	3,480	3,321	3,166	2,887
Social security costs	402	357	309	320	294
Share based payments	5	5	7	5	4
Pension costs	92	75	76	66	66
	4,465	**3,917**	**3,713**	**3,557**	**3,251**
Total number of employees	**132,535**	**124,033**	**116,180**	**113,458**	**106,861**
Average pay per employee (£000)	**34**	**32**	**32**	**31**	**30**
3. Directors emoluments					
Salaries and fees	111	136	107	102	96
Compensation for loss of office	-	-	1	1	-
Pension contributions	3	6	5	5	4
	114	**142**	**113**	**108**	**100**
Average emoluments per highest paid director (£000)	**304**	**311**	**258**	**285**	**246**
4. Interest payable					
Bank loans and overdrafts	43	37	34	36	48
Other interest payable	126	123	116	115	133
Other finance expense	42	38	50	36	1
	211	**198**	**200**	**187**	**182**
5. Dividends					
Dividends paid in the period	**160**	**212**	**210**	**190**	**165**

NOTES TO THE ACCOUNTS (continued)

	2017	2016	2015	2014	2013
	£m	£m	£m	£m	£m
6. Intangible fixed assets					
Cost b/fwd	1,604	1,286	1,229	1,148	1,101
Additions	44	185	84	74	53
Acquisitions	84	169	64	9	16
Disposals	(10)	(36)	(24)	(2)	(7)
Other	-	(1)	-	-	(1)
Cost c/fwd	**1,722**	**1,603**	**1,353**	**1,229**	**1,162**
Amortisation b/fwd	401	365	367	347	327
Charge	55	50	40	42	32
Impairments	2	1	5	1	4
Disposals	(6)	(9)	(12)	-	(3)
Amortisation c/fwd	452	407	400	390	360
Net book value at year-end	**1,270**	**1,196**	**953**	**839**	**802**

	Freehold property	Leasehold property	Motor vehicles	Plant and fixtures	Total
	£m	£m	£m	£m	£m
7. Tangible fixed assets					
Cost b/fwd	3,687	1,130	1,361	1,685	7,863
Additions	380	169	871	344	1,764
Disposals	(120)	(37)	(856)	(312)	(1,325)
Acquisitions	36	6	-	10	52
Revaluations	18	1	-	-	19
Other	(50)	(1)	1	4	(46)
Cost c/fwd	**3,951**	**1,268**	**1,377**	**1,731**	**8,327**
Depreciation b/fwd	336	245	391	993	1,965
Charge	48	39	241	192	520
Disposals	(13)	(15)	(230)	(135)	(393)
Other	(14)	(1)	39	(11)	13
Depreciation c/fwd	**357**	**268**	**441**	**1,039**	**2,105**
Net book value at year-end	**3,594**	**1,000**	**936**	**692**	**6,222**

	2017	2016	2015	2014	2013
	£m	£m	£m	£m	£m
8. Debtors - current					
Trade debtors	1,635	1,498	1,329	1,210	1,070
Group and related party loans	650	497	520	859	799
Corporation tax	7	7	6	4	6
Other debtors	515	537	484	423	481
Prepayments	481	380	381	343	352
	3,288	**2,919**	**2,720**	**2,839**	**2,708**

	2017	2016	2015	2014	2013
	£m	£m	£m	£m	£m
9. Loans and overdrafts - current					
Bank loans and overdrafts	938	874	579	512	383
Stocking loans	1,979	1,887	1,499	1,200	1,286
Group loans	1,480	1,305	1,539	1,245	744
Other loans	33	26	28	31	25
	4,430	**4,092**	**3,645**	**2,988**	**2,438**
10. Trade and other payables - current					
Trade creditors	8,655	7,887	7,453	5,781	5,114
Other taxation and social security	259	217	150	193	160
Finance leases	147	175	438	583	397
Other creditors	825	628	648	580	483
Accruals	870	678	574	979	947
	10,756	**9,585**	**9,263**	**8,116**	**7,101**
11. Loans and bank overdrafts - non current					
Bank loans	855	816	603	640	633
Group loans	216	192	173	54	357
Other loans	430	377	330	330	248
	1,501	**1,385**	**1,106**	**1,024**	**1,238**
12. Trade and other payables - non current					
Accruals	168	161	80	67	19
Finance leases	74	77	322	274	414
Other creditors	276	220	152	263	85
	518	**458**	**554**	**604**	**518**
13. Net debt and gearing					
Net debt comprises:					
Loans and bank overdrafts due within one year	(938)	(874)	(579)	(512)	(383)
Loans and bank overdrafts due after more than one year	(855)	(816)	(603)	(640)	(633)
Stocking loans	(1,979)	(1,887)	(1,499)	(1,200)	(1,286)
Finance leases	(221)	(252)	(760)	(857)	(811)
Other loans	(430)	(377)	(330)	(330)	(248)
	(4,423)	**(4,206)**	**(3,771)**	**(3,539)**	**(3,361)**
Cash and cash equivalents	714	709	748	524	486
Net debt	**(3,709)**	**(3,497)**	**(3,023)**	**(3,015)**	**(2,875)**
Total equity	6,147	5,486	5,156	4,684	4,193
Debt/equity	**60%**	**64%**	**59%**	**64%**	**69%**

MOTOR 150 COMPANY NAMES

Allen Ford (UK) Limited
Ancaster Group Limited
Aprite (GB) Limited
Arnold Clark Automobiles Limited
Barretts of Canterbury Limited
Bassett Property Holdings Limited
Baylis (Gloucester) Limited
Birchwood Motor Group Limited
Blade Motor Group Limited
Bolton Car Centre Limited
Borders Automobile Company Limited
Brayleys Cars Limited
Breeze Motor Company Limited
Bugle Inn Motor Company (Holdings) Limited
Burrows Motor Company Limited
Bussey & Sabberton Bros Limited
C.E.M. Day Limited
Caffyns plc
Cambria Automobiles plc
Cameron Group (Perth) Limited
Carco Group Limited
Cathedral Motor Company Limited
Central Garage (Uppingham) Limited
Chapel House Holdings Limited
Citygate Automotive Limited
Cotswold Motor Group Limited
Currie Motors Limited
CWC (UK Holdings) Limited
D J Cox Limited
D. M. Keith Limited
DC Management Services Limited
Decidebloom Limited
Desira Group plc
Dick Lovett Companies Limited
Donnelly Bros. Garages (Dungannon) Limited
Drift Bridge Group Holdings Limited
Drive Motor Retail Limited
Eastern Holdings Limited
Eden Automotive Investments Limited
EMG Anglia Limited
Endeavour Automotive Limited
F G Barnes and Sons Limited
Findpath Limited
Fish Brothers (Holdings) Limited
Foray Holdings Limited
Ford Retail Limited
Furrows Holdings Limited
Gates Group Limited
George Thurlow and Sons (Holdings) Limited
Glyn Hopkin Limited
Go Motor Retailing Limited
Gravell's Limited
Greenhous Group Limited
Grevan Cars Limited
Group 1 Automotive UK Limited
Guildford Portfolios Limited
H. R. Owen plc
Halliwell Jones Holdings Limited
Hartwell plc
Harwoods Limited
Hawco & Sons Limited
Hawkins Motors Limited
Helston Garages Group Limited
Hendy Automotive Limited
Heritage Automotive Limited
Howard Garages (Weston) Limited
Hughes of Beaconsfield (Holdings) Limited
Inchcape Retail Limited
Jardine Motors Group UK Limited
JCB Medway Limited
JCT600 Limited
John Clark (Holdings) Limited
John Grose Group Limited
Johnsons Cars Limited
Kent Auto Panels Limited
Knights North West Limited
L & L Inc Limited
Listers Group Limited
Lloyd Motors Limited
Lookers plc
LSH Auto UK Limited
Marriott Holdings Limited
Marsh Wall Limited
Marshall Motor Holdings plc
Marubeni Auto Investment (UK) Limited
McLean & Appleton (Holdings) Limited
Mercedes-Benz Retail Group UK Limited
Mike Pulman Holdings Limited
Mill Garages North East Limited
MJT Securities Limited
Mon Motors Limited
Motorline Holdings Limited
Now Motor Retailing Limited
Ocean Automotive (Holdings) Limited
Park Lane Limited
Parks of Hamilton (Holdings) Limited
Parkway Derby Limited
Partridge of Hampshire Limited
Pendragon plc
Pentagon Motor Holdings Limited
Peoples Limited
Perrys Group Limited
Peter Cooper Motor Group Limited
Peter Vardy Holdings Limited
Peugeot Citroen Retail UK Limited
Porsche Retail Group Limited
R. Robinson & Co. (Motor Services) Limited
Renault Retail Group UK Limited
Renrod Holdings Limited
Richmond Cars Limited
Ringways Garages (Doncaster) Limited
Riverside Motors Holdings Limited
Rybrook Holdings Limited
S Jennings Group Limited
S.G. Petch Limited
Saftdwin Limited
Sandicliffe Motor Holdings Limited
Sandown Motors Limited
Sinclair Motor Holdings Limited
Snows Business Holdings Limited
Sparshatts of Botley Limited
Specialist Cars Holdings Limited
Steven Eagell Limited
Sutton Park Motor Company Limited
Swansway Group Limited
Sytner Group Limited
T C Harrison Group Limited
T. G. Holdcroft (Holdings) Limited
Tanner Automotive Limited
The Harratts Group Limited
The Phoenix Car Company Limited
Toyota Tsusho Automobile London Holdings Limited
Trust Group UK Limited
Underwoods Garage (Tiptree) Limited
Vantage Motor Group Limited
Vertu Motors plc
Vindis Group Limited
Vospers of Plymouth Limited
VT Holdings Co., Ltd.
W Brindley (Garages) Limited
W R Davies (Motors) Limited
W.H.Bowker Limited
W.J.King (Garages) Limited
Walter E Sturgess & Sons Limited
Westover Group Limited
William Morgan Group Limited
Williams Motor Co. (Holdings) Limited
Wilson & Co. (Motor Sales) Limited
Worcester Carsales (Holdings) Limited
Yeomans Limited

COMPILATION OF THE REPORT

SOURCES OF INFORMATION

The 150 companies included in this report were selected from the "Top 200 Franchised Dealer Survey" published in Motor Trader magazine and copies of most recent financial statements were obtained from Companies House filings. The published accounts (see below for year ends), obtained from Companies House filings, were used to provide the financial information included in this report.

YEAR ENDS

The year ends included in the 'current period' financial information in this report range from 31 March 2017 to 31 March 2018 being the most recent accounts filed at Companies House at the time of the compilation of this report. For companies with December year ends (119 in the population) the 'current period' will be the year ended 31 December 2017. For January to March year ends (11) the current period is that ending in 2018. For April to November year-end companies (20), due to the restrictions of the filing deadlines at Companies House and the timescale of compilation of this report the current periods are predominantly those ending in 2017.

AGGREGATION

The published accounts of the 150 companies identified by the above processes have been combined by a simple aggregation to produce the financial information in this report. No consolidation adjustments have been made and in particular no adjustments have been made to reflect the non-coterminous year-ends of the companies.

IFRS AND UK GAAP

Of the 150 companies, eight have prepared their accounts under IFRS and the remainder under UK GAAP. However, as those companies represent 31% of total revenue and as the implementation of IFRS will increase in future, we have decided to present the financial information in a format more consistent with IFRS than UK GAAP. We have made no attempt to adjust UK GAAP numbers to comply with IFRS, we have merely represented the UK GAAP numbers in a format similar to IFRS.

Consequently a number of allocation judgements were required that may impact the comparability of the financial information.

DISCONTINUED OPERATIONS / NON OPERATING ITEMS

No distinction has been made between continuing and discontinued operations due to the variety of judgements and presentational approaches taken by relevant companies. Where it has been possible to identify such items, all 'exceptional' or similar items reflected outside operating profit have been aggregated, although we have produced a brief analysis of the main items in the notes to the accounts.

DISCLAIMER

The financial information in this report has been compiled exclusively from publicly available information under the key assumptions and limitations outlined above. It has been designed solely for illustrative purposes to highlight trends in the financial performance of a representative sample of companies in the sector. BDO has made a number of judgments in aggregating the information into a consistent format BDO does not, and cannot, warrant the completeness or accuracy of such adjustments. Furthermore in adjusting the presentation adopted in published accounts to meet the specific requirements of this report, BDO is not making any judgement nor giving any opinion on the presentation adopted in those published accounts. BDO has not carried out any verification work on the financial information in this report and gives no opinion on the financial information. The financial information was not compiled with the intention that it should be used for any purpose save for that described above. We do not accept responsibility for the financial information to any person or for any purpose other than that for which it was prepared.

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This report has been produced by members of the BDO motor retail team:

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SECTOR SPECIALISTS IN MOTOR RETAIL

You could benefit from the advice and insight of an adviser who has a real depth of knowledge of the car industry and motor dealerships. Whether it is tackling the Apprenticeship Levy, the new Corporate Criminal Office legislation or trying to refinance banking facilities, our goal is to help you make the right decision that will benefit your motor retail business.

The BDO Motor retail team represents 50 senior professionals led by a Centre of Excellence based in Southampton. Our Motor Retail Centre of Excellence ensures training and support to the other 15 BDO offices across the UK. Wherever you operate, there is a BDO partner or specialist with the knowledge and experience to make a real difference to your business.

Our clients include franchised dealerships and used-car operations and range from single to multi-franchised groups. We work with each motor retail business to address their unique needs and opportunities. This combination of breadth and depth and commitment to exceptional client service has made us one of the top advisers to motor dealerships in the UK.

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