UHY Hacker Young
Chartered Accountants

Automotive Outlook 2024

Predictions for the year ahead from our specialist automotive team

Helping you prosper

Our eighth annual Automotive Outlook combines research with our own insights to take a look back at 2023 performance and share our predictions for 2024 and beyond

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For the automotive retail sector, 2023 painted a diverse picture - marked by triumphs and challenges.

Welcome to our 2024 Automotive Outlook

It has been quite a year since we released our 2023 Automotive Outlook. From the crowning of our new King to remarkable strides in Artificial Intelligence, amidst the backdrop of the ongoing cost-of-living crisis and devastating global conflicts, 2023 was anything but quiet.

While the country has shown signs of economic resilience and strength, making a faster recovery from the pandemic than initially anticipated, forecasts around the likely end of the cost-of-living crisis still vary and some predictions suggest we will not return to pre-crisis levels until at least 2027.

For the automotive retail sector, 2023 painted a diverse picture - marked by triumphs and challenges. In this eighth edition of our Automotive Outlook, we reflect on the year's performance and offer insights and predictions for what lies ahead in 2024 and beyond.

We begin this year's Outlook with a market review from UHY automotive partner Paul Daly, on page 3, where he explores some of the significant moments of 2023 and anticipates challenges dealers may encounter in the coming year.

We also hear from David Kendrick, UHY's head of automotive, who, with over 220 transactions under his belt, has incomparable sector insight and expertise. David shines a light on the 2023 transactions market on page 5 and offers his industry predictions for the next twelve months.

As the international marketplace continues to buzz with activity and global automotive groups make their mark in the UK, this year we have expanded our perspective overseas. Andy Church, Vice President at North America's leading automotive intelligence and M&A firm, DSMA, shares his insights about the market on page 7.

Focusing our attention back to the UK, towards the end of 2023 we partnered with Car Dealer Magazine to produce the Top 100 dealer index based on EBITDA as a performance measure. UHY automotive partner Ian McMahon, who reviewed hundreds of accounts to compile the research, discusses his findings on page 9. We also hear from guest contributor John Hogan, CEO at RWA Automotive, who shares practical advice on enhancing EBITDA performance on page 13.

We go on to shine a spotlight on a fantastic client, SLM Group, on page 15. Following a successful management buy-in by four of its directors during 2023, we sat down with Managing Director, Mark Phillips, and Finance Director, Will Woods, to discuss their shared vision and aspirations for a prosperous future.

In other articles, our experts share compelling views on critical topics, including practical guidance on navigating the Senior Accounting Officer regime on page 19, and the implications of the zero-emissions mandate on page 21.

Lastly, we once again asked a panel of automotive experts, comprising UHY's David Kendrick, Paul Daly and Ian McMahon, JCB Group's Managing Director, Jonathan Bischoff, and Cambria Private Capital Managing Director, Mike Allen, to share their perspectives on the industry's trajectory through 2024 and beyond. Read our experts debate on page 23.

We hope this eighth edition of our Automotive Outlook provides a valuable insight into the sector and prompts meaningful reflection. Should any topics stimulate any questions, you will find our contact details on page 30 – our specialists will be more than happy to assist you, and we look forward to hearing from you.

With the automotive landscape undergoing a profound transformation, we asked a panel of industry experts for their insight on the outlook for the sector through 2024.

David Kendrick
Partner and Head of Automotive
UHY Hacker Young

State of the nation: navigating the shifts of 2023

2023 commenced on a positive note, with improved new vehicle supply and the fulfilment of 2022 order books. Bodyshops proved to be a real highlight, with supply constraints stemming from capacity reduction which led to substantial improvements in Gross Profit Percentage. With stability in the used car market and thriving aftersales services, the year began with a positive outlook.

Winds of change

The winds of change swept in from May onwards, with a substantial correction in used vehicle prices dominating results. Some dealers opted for early clearance, taking the pain upfront, only to make significant purchases later in Q4 at seemingly attractive prices.

July brought upheaval with Stellantis' end-of-contract period causing disquiet, with several reported cases of dealers and the OEM parting ways. The OEM giant came under fire and the situation caused a lot of noise in the network. By September, a raft of management changes were announced and Maria Grazia Davino stepped in as Stellantis UK's new Group Managing Director. Acknowledging "major operational problems", Davino embarked on a nationwide tour of dealer partners, apologising for late payments of bonuses and promising to delay agency until at least 2026. The campaign appears to be working and has sparked positive discussions signalling that 2024 could be a turning point for Stellantis.

Dealers felt the pressure to push electric vehicles (EVs) from government and OEMs, despite limited demand from the retail consumer. The inevitable retail challenge resulted in many EVs ending up in corporate/motability channels. Despite Rishi Sunak announcing a delay in the ban on ICE cars to 2035, the government's zero emission vehicle (ZEV) mandate published at the end of September set a challenging target of 80% of all cars being zero emission by 2030. The 2024 target is set at 22%, which is likely to pose a real challenge for many brands.

As the year drew to a close, our discussions with clients during the year-end audit process highlighted various issues persist. These are heightened by the perception it remains difficult to buy vehicles at their CAP value, leading some to consider alternative valuation strategies, including CAP retail. Cost pressures have also emerged as a real problem, with employment costs and National Minimum Wage increases continuing to put a strain on this area. It therefore came as a relief to learn that the Retail, Hospitality and Leisure Business Rates Relief Scheme will continue for 2024/25, providing eligible, occupied, retail properties with a 75% relief, up to a cash cap limit of £110,000 per business.

Entering 2024, the used car correction appears to be over, with stabilised prices and good demand reported through sites like Autotrader. However, depleted order books, especially for certain segments, signal a need for OEMs to be more generous in their offers to get stock moving. As we move through 2024, resilience, adaptation and proactive strategic decision-making are likely to emerge as key themes amongst the successful dealerships.

Compliance and legalities

In the realm of compliance and legalities, the introduction of consumer duty over the summer has settled well, with few reported issues. And whilst HMRC continues to focus on familiar themes, including employment taxes and VAT, no new trends had been identified at the time of writing.

However, the FCA's announcement in January 2024, signalling their intent to review historical commissions received on motor finance, raises concern. The decision could open the floodgates for millions of consumers to lodge complaints and seek compensation from motor finance houses, with three-quarters of the loan agreements between 2007 and 2021 said to have had some form of discretionary commission model.

> **2023 set the stage for continued evolution, where dealers must remain agile and proactive to thrive in the shifting tides of automotive retail.**

Agency teething troubles

We couldn't write a review of the year without mentioning agency, which continues to take centre stage. With Mercedes and Volvo launching their agency model during 2023, and a number of other major brands confirming they too plan to adopt the fixed-price, no-haggle agency sales agreements, the winds of change are undeniably sweeping through the industry.

The transition has brought various teething troubles, including challenges around systems issues, a lack of marketing expertise and various transitional issues, such as a dealer's existing stock effectively competing for sale with OEM agent stock. The main benefit for 'agents' lies in avoiding high stocking charges, eliminating demo depreciation and de-risking the new vehicle business - allowing increased focus to be placed on other areas, such as used cars and other new franchises. Whilst dealers and OEMs work through the teething troubles, it is abundantly clear that the viability of the agency arrangement hinges on the level of commission.

A bumpy road ahead?

The industry undoubtedly faces challenges, but it also holds promise, with stability returning to the used car market and opportunities for OEMs to redefine their approach. Resilience will hinge on effectively navigating the complexities of supply chain issues, evolving market demands and managing the push towards EVs. 2023 set the stage for continued evolution, where dealers must remain agile and proactive to thrive in the shifting tides of automotive retail.

For more of our predictions, turn to page 23, to hear from our panel of experts who share their thoughts on many of these key issues, delving into detail on the challenges and opportunities that lie ahead.

Paul Daly
Automotive Partner
UHY Hacker Young

The current and prospective transactions market

It's fair to say 2023 will be a one-off for the automotive M&A market. With Pendragon and Lookers being taken private during the year, only Vertu and Inchcape remain as the listed franchise automotive groups on the stock exchange. Many may have predicted this, but how many believed it would happen?

Entering 2023 hot on the heels of another very strong performance for most in 2022, there was a prevailing expectation that transactional activity would remain buoyant. Still enjoying strong profits and cash balances, many businesses wanted to further consolidate their market area or expand with new brands. Although there were forecasts of a YoY downturn in profitability, returns were anticipated to be strong compared with pre-Covid times.

2023 saw agency become a reality with the launch of models within the Volvo and Mercedes networks. The latter encountered well-publicised issues, including system issues and customer pushback, which is expected to lead to disappointing 2023 results. This has prompted reflection across the industry, with several OEMs contemplating a delay to the introduction of agency. Could some even be considering abandoning the model altogether?

THE HEADLINES

2023 at a glance

- **Transactional activity was lower than 2022,** however a number of much larger transactions took place and there has been a serious shake-up across many OEM networks.
- **Three headline-grabbing deals completed,** with Lookers being taken private by Canadian-based Global Auto Holdings and US-based Lithia Motors acquiring Jardine Motors, followed by Arden BMW. News of Litha's plans to buy Pendragon followed, with the deal completing in early 2024.
- **BMW were hot property** with several BMW transactions attracting strong valuations. Given the brand's strong performance and positive outlook, further transactions are likely in 2024.
- **Strong international interest remained** with Lithia, Hedin and Global Auto Holdings entering the UK market during the year.
- **Goodwill levels started to soften** as the market experienced a much tougher H2, with the correction in used car prices impacting the profitability of many businesses. However, strong valuations remained for the right business in the right location.

Outlook for 2024

- **Network changes are expected,** with VWG taking a more aggressive stance with their Ideal Network Plan.
- **The end for Cazoo?** With the used market facing challenges in late 2023, it is hard to see any light at the end of the tunnel for this model. Speculation suggests the brand will be bought by one of the larger groups and consolidated in-house.
- **Increased M&A deal numbers** are expected as the market toughens and those businesses that have performed very strongly post-Covid consider their options and a potential exit.
- **More international entrants?** Whilst 2023 saw an influx of new entrants into the UK market, there could be further interest and transactions in 2024 with market influences remaining the same. Will Vertu remain as a PLC is the big question?

Deal volumes and trends

Following consistent deal numbers in 2021 and 2022, increased activity was expected for 2023. This was not the case. Although the number of dealership locations changing hands will be record-breaking, with Lookers, Pendragon and Jardine Motors all changing ownership across an estimated 360 locations, the number of individual transactions was slightly down, from 32 to 28.

Valuations remained consistent over the period, with premium businesses and well-positioned, profitable regional groups with good franchise mixes, such as Kia, Toyota, Hyundai, Suzuki and Renault, attracting a premium.

As we entered the back quarter of 2023, sentiment began to shift due to the rapid adjustment in the used car market and increasing cost pressures on businesses. However, this is expected to be a temporary momentum shift and we envisage continued transactional activity in 2024, with plenty of good opportunities remaining.

The outlook for 2024

Further consolidation

The theme of sector consolidations, ongoing since Covid-19, is expected to intensify. Certain OEMs are expected to implement plans consolidating market areas under common ownership, such as VWG, who are looking to implement their Ideal Network Plan. Some brands may also seek to reduce network points, with certain OEMs terminating all partners and re-issuing agreements over the next couple of years.

General economic outlook

While 2023 presented some challenges, profitability is expected to revert to YoY levels for most and we shouldn't lose sight that the overall results remain positive compared to pre-Covid levels. Profitability has been artificially high for a period and would always correct itself when supply issues began to ease and OEMs force the market. With interest rates stabilising and likely to reduce in 2024, coupled with lower inflation forecasts, we expect 2024 will deliver a good return for well-run dealerships, with transactions continuing to play a pivotal role as the year evolves.

Distressed opportunities

We may see some distressed opportunities as we head through 2024, with rumours circulating regarding certain businesses losing money. Those that haven't had tight controls in place and adjusted their businesses to deal with the reduced margins and increased supply may encounter challenges. Vigilance over the all-important cashflow, which hasn't been an area of concern for some time now, along with a focus on cost control, will become key areas for dealers.

In conclusion, what is to come in 2024?

With numerous deals in progress and market rumours circulating, 2024 will no doubt be another busy year for the sector. While challenges will arise, well-managed businesses with good controls will continue to succeed and will be in a position to take advantage of the opportunities around them.

Some big questions remain, such as will Cazoo make it to the half year point? Will Inchcape remain in the UK? Will Vertu remain listed? And what level of involvement will certain OEMs take to influence change?

As ever, it is never a dull day in the UK automotive market and, after some astonishing moves in 2023, we remain intrigued as to what is in-store for 2024.

David Kendrick
Partner and Head of Automotive
UHY Hacker Young

After some astonishing moves in 2023, we remain intrigued as to what is in-store for 2024.

Insights into the North American M&A market

The international marketplace has been hugely active over the past decade with many global automotive groups entering the UK market, as well as European and Middle Eastern investors considering opportunities in the US and Canada alike.

With so many opportunities afoot, we asked Andy Church, Vice President of DSMA (Dealer Solutions Mergers and Acquisitions), North America's leading automotive intelligence and M&A firm, to share his insights into the North American market and his predictions for 2024. Following a record-breaking 178 transactions completed by DSMA in 2023, we asked Andy whether he thought 2024 would follow suit.

Record activity, but for how long?

There is no doubt that 2023 will be known as a year of change in the North American automotive market with inventory and profitability returning to historically normal levels. However, the M&A market continued to be robust throughout 2023 and, while no one has a crystal ball, 2024 is already shaping up to be another record year being driven by existing dealer groups expanding and private capital continuing to enter the market.

One of the main questions one should ask is what are the factors creating this market? And how long will it continue? The North American market is in a unique place at this time, coming off record profitability for dealers (and OEMs alike) and a dealer network of 16,839 new vehicle dealerships, of which 92.2% are owned by individuals or small groups of one to five sites. That means that the vast majority are still small hometown dealers, not the mega dealer groups that we hear about in the news all the time.

In the graph below you can see the main reasons that dealers give when selling a store.

Continued market consolidation

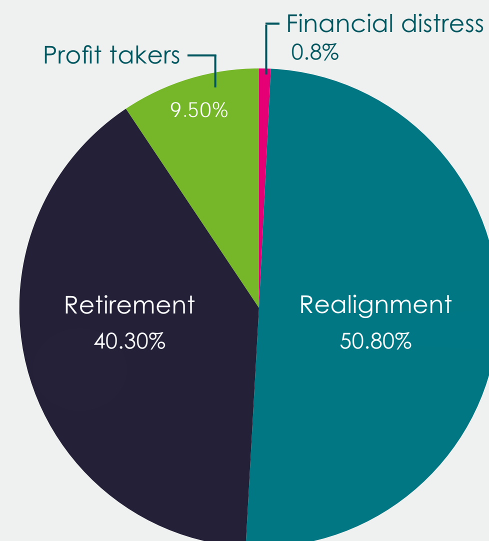
Combine this information with the fact that the average age of a dealer owner in North America is currently 70.9 years of age and you have a recipe for continued consolidation in the market. This equates to many great opportunities for dealers that are in acquisition mode to expand their portfolio, with a variety of dealerships from large Metro top-tier brands to smaller towns with a variety of domestic brands available for purchase.

At DSMA, we only represent one side of a transaction and, in 2023, we worked with more buyers than ever to identify acquisition opportunities, build a relationship with the owner and ultimately acquire the business. We expect this type of buyer activity to continue to grow in 2024 and beyond.

Portfolio realignment

You can see in the graph that realignment is currently the number one reason for dealership sales in North America. These are not just small town dealerships, but also larger dealer groups that are refining their portfolios to align with their goals and objectives. This creates great opportunities for other dealers and groups, that have different goals and objectives, where acquisition may better align and thus complete the acquisition.

Reasons given to DSMA by sellers 2020-2023



42% of retirement dealership sales are driven by a **reactionary succession plan**. An unexpected internal or external event that drove the decision to sell.

Maintaining a robust M&A market

We can clearly see the two main factors of retirement and realignment mean the conditions exist to maintain a robust M&A market in North America for at least the next several years, if not a decade or more. If you would like to learn more about the North American market, DSMA has the experience, team and tools to provide you with the knowledge to act with confidence and information.

Andy Church
Vice President - South East
DSMA

Andy Church is Vice President of the South East USA operations of DSMA. He has spent the last 20 years working within senior roles in the automotive Industry from CEO to '20 Group Moderator'. Andy has become a recognised thought leader in the industry and a featured speaker at NADA, Digital Dealer, Driving Sales, IDS, as well as a contributor to CBT News, Fixed Ops Magazine, Auto World, and Automotive News. Andy's passion is working with dealers to drive their success. He has worked with dealers in all areas of improving their value through profitability, operations, financial training and business planning.

Read more about DSMA at www.dsma.com.

UHY's partnership with DSMA

Our UK automotive team have expanded our automotive footprint with a strategic partnership with DSMA.

Complementing the strong presence we already have in North America through our UHY international offices in the United States and Canada, the strategic partnership with DSMA represents an opportunity to further support our clients in this growing area of the market. To date, DSMA has completed over 1700+ valuations and 425+ transactions across North America.

The partnership follows a notable increase in cross-Atlantic acquisitions involving UK dealerships. It will allow UHY and DSMA clients greater access to international opportunities, opening up both the North American and European markets.

The partnership will allow DSMA clients to gain access to confidential dealership acquisition opportunities in the UK and European market through UHY. Our UK clients will similarly be able to explore and engage in dealership transactions in North America, leveraging DSMA's experience and presence there.

Pictured below are members of the UHY and DSMA leadership team. From left to right Paul Daly (UHY), Andy Church (DSMA), Ian McMahon (UHY), Farid Ahmad (DMSA), Maxime Theoret (DSMA), John Chisholm (DSMA) and David Kendrick (UHY).

The Top 100 car dealers: our market insights

Towards the end of 2023, we partnered with Car Dealer Magazine to compile a list of the Top 100 dealers based on earnings before interest, taxation, depreciation and amortisation (EBITDA) as a performance measure. This is typically a good cash-generative indicator for businesses as it is based on their ability to trade and turn that trade into profit, which then turns into cash. EBITDA offers a great way of measuring this and has formed the basis of our rankings.

Through our research, we considered hundreds of car dealers' 2022 accounts to produce a league table of the most profitable. We reviewed financial statement after financial statement with a keen eye on any industry trends that cropped up.

The experience was fascinating; seldom do we have the opportunity to take a step back and review these accounts in such detail. It allowed us to take a deep dive in and reflect on our findings. This overview will discuss what became apparent to us while conducting this market research.

The big are getting bigger

As a starting point, if we consider the ten businesses who generated the largest EBITDA performances over the last twelve months, it gives us a startling insight into the automotive industry. Notably:

- the top 100 dealers deliver sales of £73.7bn and £2.8bn in EBITDA (a 3.8% return on sales)
- combined, the top ten deliver sales of £32.3bn and £1.5bn of EBITDA (4.7% on sales). That is nearly 44% and exactly 54% of these respective indexes in total.

It goes without saying that the automotive franchised retail business is asset intensive and so the ability for some of these larger, more profitable companies to reinvest into facilities and training must be an advantage for not only themselves, but their teams working as part of the business.

Is there a sweet spot to aim for? Potentially, yes; but this depends on the directors'/shareholders' appetite for risk and, to an extent, the strength and longevity of their brand relationships. Something to consider here is that there are, as expected, some very large and successful dealer groups who made it into our Top 100 table: however, these companies are also bearing the brunt of the turnaround in fortunes, as apparent in the results published in the public domain.

The top automotive retailers possess similar characteristics that contribute to their overall success. They are nearly all large, multi-franchise dealers with an impressive range of vehicle choice available, as well as strong consumer brand awareness and trust.

Auto dealer or property investor?

Another key takeaway from our research is the huge impact a property transaction can have on the overall performance of a business.

We have seen some exceptional gains from disposals either for alternative use or as part of a sale and lease back. Similarly, there are several dealer groups with prominent positions in our league table with a remarkable property portfolio. An example of this is Car Giant, whose balance sheet contains investment property of a staggering £348m (excluding trading sites, which are shown separately). This goes on to generate the group £20m in rental income, as disclosed within their 2022 statements, in addition to the gain on revaluation of £18.6m in the year.

It could be suggested that automotive retail businesses are often simply 'occupying' the property until the opportunity to cash in on the freehold investment occurs.

Measure of success

EBITDA has long been considered the benchmark indicator for the automotive sector; it is a measure that looks beyond some of the accounting adjustments that do not typically reflect the cash-generative ability (eg. excluding the impact of depreciation and amortisation) of the business.

Corporate tax is often seen as a macro-economic impact and, as such, the performance before tax (whether EBITDA or net profit before tax) is seen as a purer measure of performance.

Finally, it is worth identifying that in the automotive industry, the 'interest' is about genuine third party financing, rather than vehicle inventory funding for example, which is more a cost of operating than a finance decision cost. However, this is open to interpretation where some of the larger groups have a central treasury function.

Additional considerations are required when we compare UK GAAP (typically FRS102) and IFRS. In the UK, the majority of dealers report in line with FRS102. The exception to this is where a business is listed (an increasingly rare occurrence) or where there may be an overseas controlling parent entity that prefers IFRS for comparability.

One of the key points to compare and contrast is the treatment under IFRS (in line with IFRS16) whereby the 'Right of Use' asset (property or significant leased asset) aims to match the 'asset value' with a corresponding 'future lease liability' on the balance sheet. Although exposure drafts have been issued to the accountancy profession, we are not expecting FRS102 to come into line with IFRS until at least 2026.

So, in the hypothetical instance where a UK business reports in line with FRS102 and leases a property for £200k per annum, which has a market value of (say) £3.3m, EBITDA will be stated after the rental cost of £200k but no asset or liability appears on the Balance Sheet of the entity.

Compared to the same business under IFRS, it will have an asset and a lease liability on the balance sheet and will suffer a 'depreciation charge on the right of use asset' and potentially an interest on lease liabilities. In the strictest sense of the measure, both would be added back to net profit to arrive at EBITDA.

Comparing these two businesses, the IFRS-reported entity would be at a clear advantage if a blinkered view was taken that EBITDA is the only measure of success. To provide comparability, the right of use asset depreciation and the interest on lease liabilities would need to be substituted for the actual 'monetary' value of rent that is paid to the landlord.

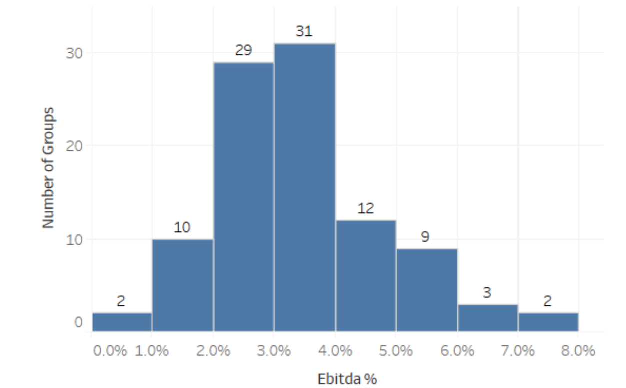
The devil is in the detail

Agency has now been introduced to a handful of brands in the UK, including Mercedes-Benz, Volvo and certain Volkswagen Group EV derivatives. Certainly, where traditional measures of Turnover or Return on Sales as a percentage are measured, then the transactional 'skew' of agency will have a significant impact on the comparability of performance between dealer groups.

For example, a £50,000 (excluding VAT) vehicle would have sold attracting a 6% gross profit margin and will now be potentially replaced with an agency handling fee of simply £3,000. The agency 'handling' fee will typically be presented as a line of income with minimal cost of sale, a very different transaction to a £50,000 sale with a cost of sale of £47,000. Or is it? Would the comparison of a Mercedes-Benz dealership and a BMW one even be possible from the published financial statements in the future?

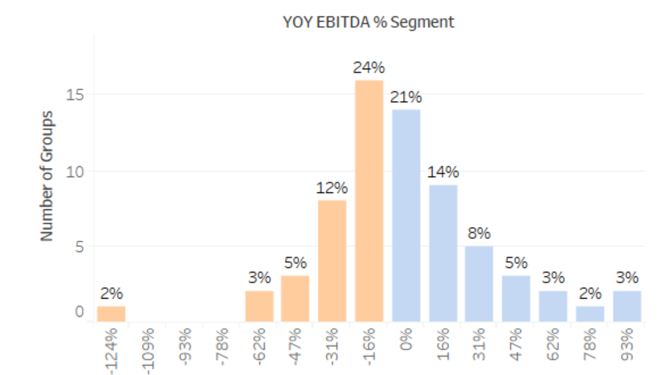
2-4% EBITDA is the norm

As the graph below shows, the strong correlation in the 2% - 4% EBITDA on sales covers 60% of the Top 100. Although in absolute terms that will represent a significant amount of profit, it is worth remembering that the retail motor industry is still a low margin business when considering the retained profits.



YoY market trends

Often when working with a large data set (such as the Top 100 dealers) it is challenging to identify the underlying trends in the market. The graph below offers an insightful representation of where the market may be heading.



Despite the expectation that 2022 would be a year that would be a natural decline on 2021, the reality is that a higher percentage of dealers in the Top 100 achieved the same, or an enhanced, EBITDA performance vs the prior year. Moving on to 2023 with the impact of used car values realigning, the predicted EBITDA will surely be significantly down year on year.

2024 and beyond

The transition from 2023 into 2024 has seen new vehicle supply quickly switch from a pull to a push sales model; discounts have reappeared on a few brands and finance subsidies are also starting to be seen in the retail arena, potentially in a bid to convince customers that the cost to change from their current car is affordable.

With the increased burden of interest costs (both from financing and stock funding), it is likely that the reported profits will not be at the level seen in 2022 or 2023.

Will the bigger groups get bigger? Quite possibly, and there is certainly a significant amount of M&A activity, which you can read about on page 5 of this Outlook. But, on the whole, early indicators for 2024 suggest that it is more the dealers who are high rankers in the Top 100 index that are acquisitive and looking to grow, rather than the biggest getting bigger.

What we are seeing more of is the opportunity for dealers to multi-brand at existing points of representation, which we expect will allow a greater level of resilience to the increases in costs and interest and potential decline in vehicle sales profitability.

The trading terms of agency continue to evolve, although many brands seem ever more reluctant to commit to the change, whether this has any bearing on the sudden changes in the fortune of new car supply is obviously to be seen.

Ian McMahon
Automotive Partner
UHY Hacker Young

We would like to thank the experts at Real World Analytics (RWA) for their help creating the graphics that appear in this article. You can read more from them on the following page.

You can view the full Top 100 list on **Car Dealer's website**.

We have seen some exceptional gains from disposals either for alternative use or as part of a sale and lease back.

Similarly, there are several dealer groups with prominent positions in our league table with a remarkable property portfolio.

Navigate your route to a strong EBITDA

Whilst 2021 was the most bountiful year from an EBITDA point of view due to stock appreciation on used cars, 2022 also turned out a super performance with EBITDA coming in a little less. However, 2023 was more challenging.

2024 looks set to be a continuation of the same, with steady volumes, a little more margin pressure and increased cost pressures between cost-of-living increases and interest rates. Being progressively more efficient and not leaving opportunities behind is going to be the continued theme for this year.

With this in mind, we asked RWA Automotive, the leading provider of Management Information (BI) systems to dealer groups in the UK, to share their tips to help you navigate your route to a strong EBITDA. CEO, John Hogan, shares his predictions and gives practical advice and actions for navigating the year from a profit protection and opportunity point of view.

RWA Automotive's 2024 market forecasts

The new car market

Most commentators, including ourselves, are forecasting a modest growth (c5%) in new cars in 2024. In 2023, we saw 20% year-on-year growth overall, entirely due to fleet deals, whilst retail sales remained static. The OEMs will have to push EVs against a backdrop of reducing consumer demand in order to satisfy their new ZEV mandate target. In addition, the agency model has further complicated predictions with many of the OEMs adoption plans postponed until the results of the early adopters are better known. Add in the potential of the new Chinese brands and there is much to think about in terms of your positioning and strategy. All of this means that the return to the push model will most likely see continued discounts and customer-friendly finance deals in 2024.

Suggested actions

- ✓ ensure that your customer journey is working efficiently and consistently at every step in every site
- ✓ track your discounts and option upsells, get consistent results on Finance and Insurance (F&I), track and maximise your rebates
- ✓ review your estate to ensure that your brand mix makes sense for the next five years
- ✓ can you take a leading role in EVs in order to maximise potential OEM inventives?
- ✓ prioritise fully paid or soon to be paid stock as interest rates will bite into net profits.

The used car market

Overall, sales volumes are expected to be the same in 2024 as they were for 2023. For Quarter 4 2023 onwards, we've had not just regular depreciation on cars, but accelerated depreciation as used car valuations decline. For 2024, it is expected that this will balance out with used cars generally holding their values as there are approximately 3 million new cars missing from the parc for 2020-2023. Electric vehicles are likely to be an exception to this, with values expected to drop even further.

It is worth mentioning that there is a financial opportunity in the market now with trade prices falling faster than retail values. This means savvy dealers will have good margin opportunities in Q1 at least. However, the cost of financing forecourt stock is also more expensive because of interest rates. This means stockturn is the first and foremost measure.

Suggested actions - selling

- ✓ prepare to sell poorly rated cars below market valuations to drive stockturn, because a falling market will burn off the margin quickly. However, hold out for higher margins on highly-rated stock
- ✓ review pricing policies (EV separate to ICE) at least monthly, and exceptions daily, based on retail rather than trade valuations
- ✓ look for appropriate F&I upsells to protect the overall margin
- ✓ look at salesperson processes to see how more volumes and margins can be achieved via technology or training.

Suggested actions - buying

- ✓ look at demand from Autotrader, enquiries, web and your own sales history and compile a shopping list from this
- ✓ have a good working model that gives viable purchase prices, taking into account own sales history, CAP and Autotrader expected movements between buying and expected sell date
- ✓ track trade-in % as this is the best source of used cars
- ✓ track and improve on the number of days from purchase to on-sale by streamlining prep times.

The aftersales market

From a car parc point of view, there are 30% fewer under five-year-old cars in the parc in 2023 vs. 2019, entirely due to the lower new sales volumes in 2020-2023. Having said this, 2024 will be a slight improvement on 2023 and then better in future years, though aftersales revenues will be curtailed by a rising EV parc.

Suggested actions

- ✓ track service retention and incentivise retention on older cars
- ✓ drive workshop efficiency with proactive management of staff and full workshop calendars
- ✓ Vehicle Health Check (VHC) execution is one of the best ways to make up for lost volume
- ✓ execute strategies on other upsells, especially tyres
- ✓ tightly manage parts stock and staff
- ✓ consider if there are opportunities for profitable Trade Parts wholesaling.

In summary

Whilst we think 2024 will be similar to 2023, with perhaps a little less drama on used cars, cost pressures will continue which will require a drive towards greater efficiencies and higher performance levels. We find that building a culture of performance, together with fact based management information to back it up, have been the key ingredients to driving consistently good EBITDAs in 2022 and 2023 and no doubt into 2024.

John Hogan
Co-Founder & CEO
Real World Analytics

John Hogan has spent 20 years in retail finance senior roles with French Connection, Martin McColl & Sports Direct. In 2013 he co-founded Real World Analytics (RWA) to provide actionable Business Intelligence dashboards to entrepreneurial retail groups. Much of the disciplines and learnings from fast moving and high volume retail have been baked into the RWA Automotive system to focus on what is important and drive the EBITDA each and every month. RWA helps dealer groups become more efficient with actionable drillable dashboards and reports, visit:

www.realworldanalytics.com/automotive/en-gb/our-solutions/

In the spotlight: SLM Group

We recently sat down with SLM Group's Managing Director, Mark Phillips, and Will Woods, the organisation's Finance Director, for an insightful interview, where we delved into the core of their business, discussing their motivations, their resilient strategies in overcoming sector challenges and how they keep people at the heart of everything they do.

Mark Phillips
Managing Director
SLM Group

Will Woods
Finance Director
SLM Group

Will, you joined SLM following a purchase of Dingles Motor Group by SLM in 2017. Looking back on that event, how did you manage to find your feet in the new combined business?

Will: I was FD at Dingles Motor Group for almost 12 years, so I was already an integral part of the organisation when SLM began the purchase processes and, thankfully, I was involved in all aspects of the deal and established a positive relationship with the team at SLM from the outset of the integration of the businesses.

On a personal level, it was an ideal time for me to take a small step back, as my wife and I had just welcomed our first child together. The transition meant I could focus more time on our family. However, Jason (SLM's Brand Director for Toyota & Vauxhall) and I had already built a strong rapport, and it quickly became apparent that we worked well as a team and really benefitted from sharing our opinions and maintaining a collaborative approach to the business.

In all honesty, it happened organically; the board recognised my commitment and hard work and knew it was the right fit for both parties.

Mark, you've now got the role of taking a long-established family business into its next phase of growth. That must be quite daunting. How do you approach a key decision with the board to ensure it is the 'right' next move for the group?

Mark: It is daunting but, equally, it is exciting because one of our greatest strengths is our ability to communicate. We are always talking and hashing through ideas, strategies and plans, and only move forward on something if the decision is unanimous and feels right. Every decision we make takes us one step closer to our unified goals. We have created business plan after business plan to ensure our operations run efficiently and effectively and guarantee that our strategic plan is robust and helps us push forward into the next phase of our growth.

Given Gus has a family legacy within the SLM business, how do you manage key shareholder and stakeholder relationships?

Mark: I've been in this business straight from school. It is all I've ever known, and after 44 years, I feel like I am already part of the family, so fostering and managing relationships comes naturally.

However, it is worth noting that I am the first non-family MD, so we have worked to maintain constant transparency and implemented decision-making processes. It also helps that I am in regular contact with SLM's founder, Brian Wakeford (Gus' father), so the family feel is still very much integral to our culture.

In April 2023, with the backing and blessing of our trustees and key stakeholders, the senior team was involved in a management buy-in, which allowed us to secure our future within the business and instilled great confidence in our commitment to helping it grow.

Will: The management buy-in cemented what we already knew as a collective; we are here for the long haul and driven by our desire to accelerate and enhance SLM. We're custodians for the present and future of the business.

Every journey has its challenges. What were some of the major obstacles you encountered, and how did you overcome them in the process of growing SLM?

Mark: An obstacle we have faced is the market area for manufacturers and their plans with their partners. For example, it can be difficult to partner with new brands if they already have a partner within a certain area and, therefore, expect that partner to buy into the business. We have lost out on a couple of opportunities because even though they may say, "Yes, we like you SLM", they already have a partner in a particular area. How do we overcome this? We remain true to our professional values and promote the successes of a collaborative partnership where we are united in our culture and show how we can help them stay true to their family feel while accelerating their business progression.

How have you adapted to changes in the industry over the years?

Mark: One thing I've learned over the years is you can't fight against change; it's coming whether you like it or not. You've just got to keep an open mind on how you approach it.

As a whole, the automotive industry is adaptable and, as an organisation, we do well changing direction when we need to. We know that we have to embrace the changes that are heading our way and view any problems as opportunities. In recent years, we have made sure our IT infrastructure is fit for purpose, which in the post-pandemic world of more remote working is essential for us to manage the business as we need to from near or far.

Will: Unfortunately, it is becoming more and more apparent that too many good operators in the sector are disappearing because they aren't part of the manufacturer's plan. We are doing everything we can to build a sustainable future for the business and ensure it continues to grow, as well as welcoming small, family-run organisations into our SLM family, who share our strong company culture and values in everything they do.

Parts of SLM's success has no doubt been the senior leadership's ability to integrate businesses into the SLM family and, conversely, divest when the time is right. What are your 'must-do's' when acquiring a business?

Will: The first thing we do upon acquiring a business is to welcome everybody into the SLM family, to go around and shake everybody's hands and to show them that we are here to grow the business together. We want to take the right time to observe, identify key people and retain their talent. We're not a company that charges in and bulldozes everything in our path, yet there are things we will need to consider straight away, like ensuring they have a fit-for-purpose IT structure and the correct DMS.

Mark: Sometimes, existing employees can feel an awful lot of anxiety at the thought of another business taking over, so we want to get to know each other, discover each other's strengths and weaknesses and, as Will mentioned, prevent good people from leaving. We want to bring these people along with us on the journey of integration.

Once we have taken the time to observe, we are happy to make changes if required. Within the first six months, we will have everything in place to take the business forward.

How have you maintained a customer-centric approach throughout your business expansion?

Mark: We look to acquire businesses that match our people-first approach to business. Our customer-centric focus and ensuring employee morale remains at the highest standards, revolves around our employees which is essential for customer satisfaction. We focus on our employees, their concerns and any challenges they are facing to give them a happy and healthy work environment, which in turn guarantees an incomparable service is delivered to our customers.

Will: When we take over a business, we look at every part of its customer journey and identify any areas of improvement. We do have a set of customer-focused guidelines and behaviours we promote, but we also encourage our general managers to run their sites as they have previously, in a welcoming manner that aligns with our values.

What do you believe are the key success factors that have contributed to the growth and sustainability of SLM?

Mark: Company culture is integral to our success and sustainability; when you're a smaller, family run business of just a few sites, it is much easier to oversee and manage your culture and values, ensuring they are aligned across the group. However, when you start growing and have 400+ employees, it can be difficult to have everybody operating in unison. However, our ability to maintain this culture across the group has been a major factor in our success. We do this by maintaining strong communication links at all times. It may sound cliché but taking the time to check in with your people and have regular, open and honest conversations makes a real difference. Transparency is key.

Will: Again, having the right people in the right roles. Making sure we have the right management teams in place and keeping them engaged. We want to motivate our general managers and teams, so we give them targets that are achievable and within their grasp.

How important have your networks and partnerships been in the growth of the business? Are there any specific collaborations that have played a significant role?

Mark: Our networks are integral to our growth. If we look back at all of our acquisitions, each and every one of them are a result of our contacts and partnerships. It is the relationships we have established within the sector that have helped us to expand. Our purchase of Quest Motors Group, for example, was born from my professional relationship with the owners; one day we were chatting and the opportunity to purchase the company arose. It was that simple. We knew how the other worked and operated, and the values alignment, so the rest was history.

Will: Another great partnership we have established is with Ian McMahon of UHY Hacker Young. It's great to know that I can literally pick up the phone and we can chew the fat about anything and everything. He is a fantastic asset and sounding board to have. He has done a great job for us as an auditor and has been a really good adviser, along with the rest of the automotive team within the company. UHY's Dave Kendrick, in particular, has been instrumental in another acquisition of ours, which highlights just how vital our networks and partnerships are with individuals and businesses alike.

What advice would you give to aspiring dealers who are looking to establish and grow their own businesses in the industry?

Mark: The main advice I'd give is to build a strong network of contacts. Get yourself out there and have a strategic mind on how you're going to target businesses in the right manner. Another thing, you really have to nail down your business plan, keep planning and keep tweaking it to move with the sector.

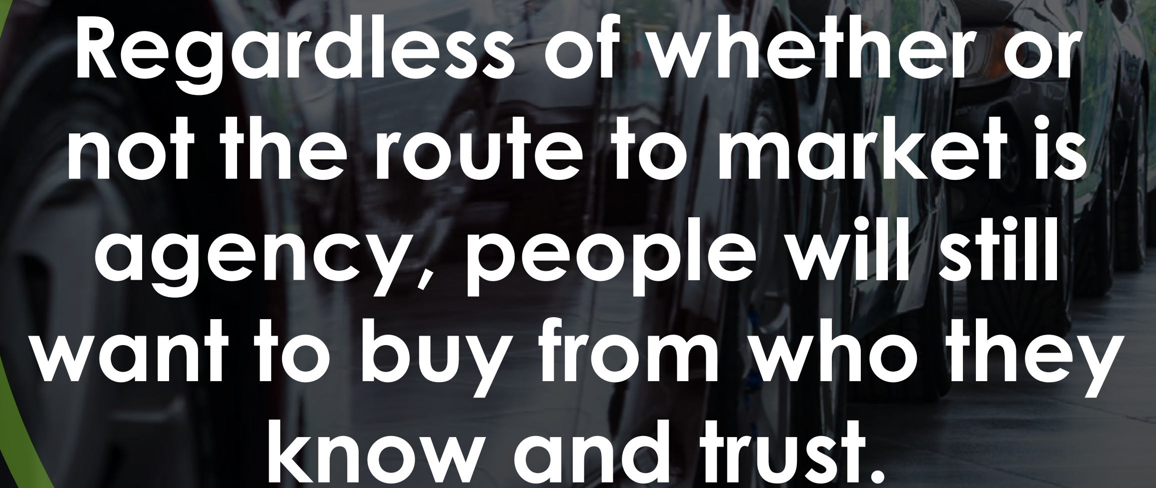
Will: Regularly communicate with your main financial backers to ensure trust is built. Also, realise this is not a 9-5 job, so there will be plenty of early morning starts and plenty of miles to travel, but you will reap what you sow.

If agency becomes more prevalent, do you think the importance of a 'family dealer groups name' will diminish?

Mark: Regardless of whether or not the route to market is agency, people will still want to buy from who they know and trust. The problem with agency is that it takes away the control of the individual, but I do think that family groups, regardless of agency or not, will have to embrace the future or they won't survive.

Will: Even if agency becomes more prevalent, it is still vitally important to have that family feel in terms of after sales, which is a big part of our business. So no, I don't think it will diminish form this perspective. As long as we embrace it like Mark said.

To read more about SLM, visit their website at **www.slm.co.uk**.



Senior Accounting Officer - is your dealership compliant?

The Senior Accounting Officer (SAO) regime was introduced in 2009, with a view to ensuring that large companies take reasonable steps to ensure that 'appropriate tax accounting arrangements' are in place. The legislation mandates that qualifying companies appoint an SAO who is personally responsible for overseeing the establishment and maintenance of appropriate tax frameworks.

SAOs can incur personal fines if they fail to comply with their obligations. With many of our automotive clients nearing or exceeding the SAO threshold, and given the personal liability that can apply, we asked UHY tax partner, Nick Donohue, to provide an overview of the legislation and address some of the key points of which you should be aware.

What is the criteria?

The SAO regime applies to large companies incorporated in the UK, which have a turnover of more than £200m and/or a balance sheet total of more than £2bn in the preceding financial year. For group companies, the thresholds apply to the total turnover and balance sheet of all the UK incorporated companies in the group (excluding any non-UK entities).

If you meet this criteria, the appointment of an SAO is mandatory, and you will be expected to allocate substantial resources to accounting processes and governance to ensure the correct taxes are paid. There is no 'one-size fits all' approach, however, so it is crucial to assess your tax operating model and instil practices encompassing effective governance and well-documented processes and controls.

Who should be your SAO?

The SAO must be a director or officer of the company with overall responsibility for financial accounting arrangements. In cases where a group of companies is involved, the SAO role can be filled by a different person for each company, a single individual overseeing all group companies, or multiple individuals acting for different parts of the group. Importantly, as the SAO must hold the position of director or officer within the company, this responsibility cannot be delegated to an agent or adviser.

While only one person can serve as a company's SAO at any given time, it is possible to have different individuals take on the role throughout a financial year. However, it is in your best interest to identify the SAO early in the financial year to allow the designated individual to promptly assume responsibilities outlined in the SAO provisions.

When do I notify HMRC?

HMRC must be notified with the name(s) of the person who has, or persons who have, been the SAO during a financial year. You can only supply one notification for a financial year so must wait until the year end before making a notification to HMRC. Public limited companies have a six-month window post the accounting period, whereas others have nine months to make this notification.

The qualification criteria test must be applied on an annual basis. There is no requirement to tell HMRC if you do not qualify for a financial year, even if you had qualified in a preceding financial year.

What must the SAO do?

The primary responsibility of an SAO is to take reasonable steps to establish and uphold suitable tax accounting arrangements. They must be able to demonstrate that in-year governance and the process underpinning the post-year-end assessment of the tax accounting arrangements meets the requirements of the legislation. This includes identifying any areas that fall short of the necessary standards.

Each financial year, the SAO is required to provide HMRC with a certificate certifying one of two things:

- that the company had appropriate tax accounting arrangements throughout the financial year of the company, or
- that the company did not have appropriate tax accounting arrangements throughout the financial year of the company.

If the SAO deems the company did not have appropriate tax accounting arrangements in place throughout the financial year, they must provide a 'qualified certificate' explaining what the shortcomings were. The certificate must comply with certain prescribed specifications set out by HMRC and must maintain clarity without ambiguity.

What are classed as reasonable steps?

Tax accounting arrangements encompass a framework of responsibilities, policies, appropriate people and procedures that are put in place to manage tax compliance risks. These arrangements, when implemented through systems and processes, must facilitate the accurate calculation of tax liabilities in all material respects.

Reasonable steps are the steps a person with overall responsibility for financial accounting arrangements would typically take to ensure awareness of all applicable taxes and duties. The reasonableness of these steps depends on specific circumstances and may involve establishing and maintaining processes for legal compliance, along with periodic checks and testing of systems, controls, process flows and transactions.

An SAO would be expected to oversee the introduction or changes to systems and processes, ensuring they are supported by appropriate planning, risk assessment, implementation and evaluation activities. Maintenance and retention of necessary records as well as ensuring adequate training, guidance, qualifications and experience of any individuals with delegated responsibility, would also fall under the remit of the SAO.

It's crucial to note that the SAO must consistently perform these duties throughout their period of responsibility and cannot simply address them at the end of the year.

What taxes does the legislation apply to?

SAO obligations apply to various taxes, including corporation tax, VAT, PAYE, insurance premium tax SDLT, SDRT, petroleum revenue tax, customs duties, excise duties, including air passenger duty and bank levy.

What are the penalties if you fail to comply?

Failure to comply with the legislation can result in fixed penalties of £5,000 as follows:

- a £5,000 penalty to the company for failure to notify HMRC of the identity of the SAO
- a £5,000 penalty to the SAO personally for failure to provide a certificate, or providing an incorrect certificate
- a £5,000 penalty to the SAO personally for not taking reasonable steps to ensure that the company establishes and maintains appropriate tax accounting arrangements.

Are there any exemptions from penalties?

If there is a reasonable excuse for the failure to comply, and the failure is put right without unreasonable delay after the excuse has ended, it may be possible to get an exemption from the penalty. It is important to note that a reasonable excuse does not apply to careless or deliberate inaccuracies in an SAO certificate.

HMRC guidance outlines that penalties are not typically pursued if details of dormant companies are omitted in cases where a risk assessment indicates a minimal requirement for tax accounting arrangements within a group of companies or for an SAO. However, for these purposes, HMRC only considers a company dormant if it lacks profits or income and has no assets capable of generating profits, income or gains.

How can UHY help?

Tax is increasingly on Boards' agendas and, whether you fall under the SAO regime or not, all organisations should be taking steps to demonstrate a clear vision for their tax operations as well as ensure a culture of 'no surprises' when it comes to tax risk. We often work with our clients to identify tax risks and can help you ensure that you have the correct systems and processes in place to allow your SAO to sign-off with the assurance required.

We can carry out a comprehensive review of the SAO role and key tax risk areas, benchmarking against best practice, documenting risks and recommendations for improvements to the control environment. Our methodology integrates experienced tax and audit professionals, as we recognise the need for a comprehensive assessment and understanding of accounting systems and controls to effectively address the intricacies inherent in tax-related regulations.

If you would like to know more about the SAO regime or require support in other areas of tax compliance, please contact Nick Donohue at n.donohue@uhy-manchester.com or get in touch with one of our automotive experts, listed on page 30 of this document.

Nick Donohue
Tax Partner
UHY Hacker Young

ZEV mandate: a tall order for dealers

On 25 October 2023, the government released the 46-page results of their stakeholder consultation on the zero emissions vehicle (ZEV) mandate. With the mandate poised to bring about significant transformation over the coming years, UHY automotive partner, Paul Daly, shares his views about the likely impact on the sector.

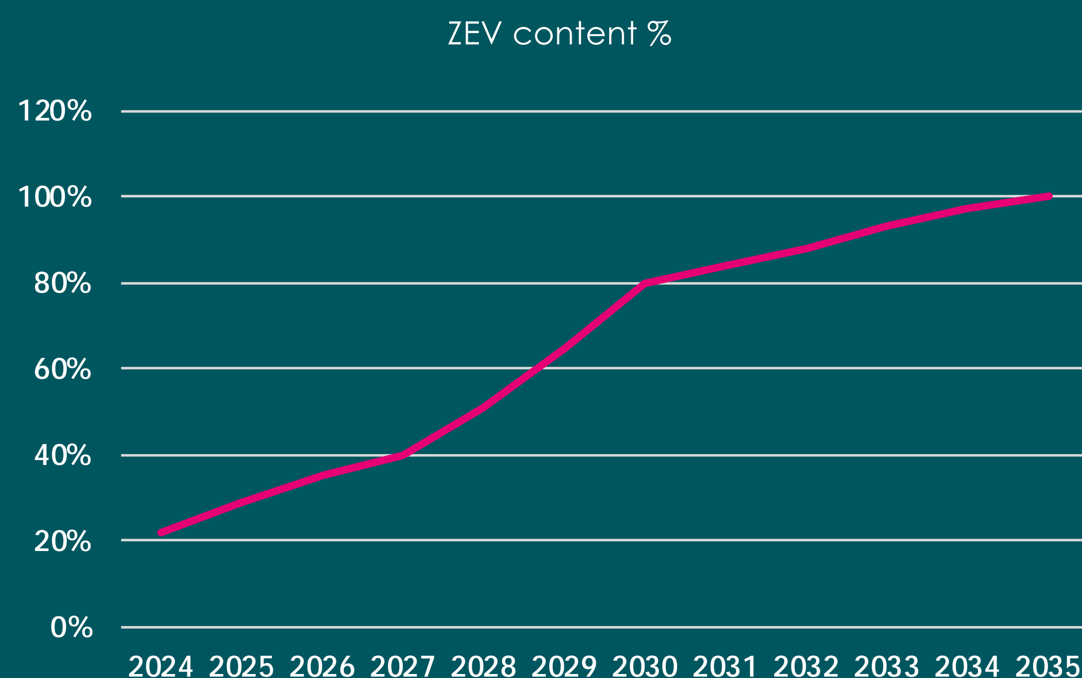
Ambitious targets to accelerate the transition to zero-emissions

Despite Rishi Sunak's promise to postpone the ban on internal combustion engine (ICE) vehicles to 2035 (from the initial 2030), the reality is the ZEV mandate sets ambitious targets that will significantly accelerate the transition to zero-emission vehicles long before that.

The ZEV mandate outlines a phased approach, starting with a 22% ZEV content target in 2024 (the 2023 year run rate for BEV was 16.5%) with a gradual uplift to 38% by 2027, before accelerating rapidly to hit 80% by 2030. The growth rate then slows again to just 4% per annum for the final five years to 2035.

The government's strategy involves annual targets for manufacturers, measured as a percentage of their total annual sales. According to the government report "each year, vehicle manufacturers are set a target as a percentage of their total annual sales that must be zero emission. The regulation will require that for each non-ZEV sold, the manufacturer must have a ZEV allowance, the unit in which compliance will be measured. Manufacturers will receive enough allowances that if they meet their target, they will not need additional allowances. If a manufacturer sells more ZEVs than their target, they will have a surplus of allowances they can sell, bank, or convert their excess allowances. If a manufacturer sells fewer ZEVs than their target, they can buy, borrow, use banked allowances, or convert CO2 emissions allowances to meet their obligation, or make a final compliance payment."

The mandated phased approach to ZEV % of annual sales



The data

The government mandate outlines the uptake target for zero emission cars as follows:

Year	2024	2025	2026	2027	2028	2029
Target	22%	28%	33%	38%	52%	66%
Year	2030	2031	2032	2033	2034	3025
Target	80%	84%*	88%*	92%*	96%*	100%*

*Target will be set out in future legislation later in the decade.

Our UHY view

Despite the environmentally commendable goals of the ZEV mandate, it makes no sense to set the targets in this manner. The abrupt acceleration of targets from 38% in 2027 to 80% in 2030 could pose challenges for both manufacturers and consumers. Why not have a gradual increase in acceleration of the requirement to the announced date of 2035?

Following the consultation these limits appear to be set (for now at least), so what will be the consequences?

We can see four main issues:

Oversupply appears inevitable - the recent slide in EV residual values shows that, in the absence of more government incentives, the retail consumer demand is far from being in a position of outstripping current levels of supply. Oversupply of these vehicles appears inevitable and Q4 of each year could be extremely challenging as manufacturers fight with each other to secure ZEV registrations.

Existing challenges to intensify - infrastructure challenges, high interest rates, high energy prices and residual value/obsolescence concerns persist as medium to long term issues. We expect these challenges may become more pronounced in 2027 when the target increases escalate sharply.

Changing market dynamics - traditional manufacturers might find themselves in difficult waters, while the newer EV-focused entrants look set to capitalise on the changing market dynamics.

With the exception of Tesla, most EV focused manufacturers are new entrants. The traditional OEMs must be shaking their heads in wonder whilst the new entrants are rubbing their hands in glee at the prospects of opening up the UK market to their new products (or enjoying the revenues from credit swapping with traditional ICE manufacturers to help them meet their overall targets).

New vehicle supply to remain constrained - supply of new vehicles into the UK are likely to remain somewhat constrained unless there is a genuine increase in demand for ZEV products from consumers. Manufacturers will need to balance the ZEV target book each year and one route to that is to restrict sales of ICE vehicles by pricing them accordingly.

Whilst its environmental aims are laudable, we fear there will be a number of unintended consequences, not least of which will be the further decline of the automotive manufacturing base in the UK. However, there are some rules behind the scenes regarding CO2 emissions history that may help mitigate the impact. We are currently reviewing this information and will share our insight in due course.

Paul Daly
Automotive Partner
UHY Hacker Young

What lies ahead for the sector: the experts' perspective

At the start of the year, we asked a panel of industry experts for their insight on the outlook for the automotive sector through 2024 and beyond. Here are their views on five hot topics currently affecting the industry.

Following the exceptional years of 2021 and 2022, 2023 was a more challenging year for many in the industry. What are your predictions for 2024?

Our experts were in unanimous agreement that 2023 was a more challenging period, with the term 'challenging' resonating throughout our interview.

JCB Group Managing Director, Jonathan Bischoff kicked off the discussion, sharing his insight as the only dealer on the panel. In his experience, 2023 was very much a year of two halves. Jonathan explained, "for JCB, the first six months were a continuation of the successes seen in 2021 and 2022, but the second half became more challenging, particularly across used vehicles where pricing incurred significant fluctuations."

With financial insights from more than 60 audit clients in the sector, UHY automotive partners Paul Daly and Ian McMahon conveyed a cautionary outlook for 2024. Highlighting the prevailing trend of declining profitability since 2021, Paul revealed that he is generally seeing a more conservative approach to budgeting for 2024, with most budgeting below 2023 actual forecasts. Ian went on to share that he expects results to "be as low as 40 – 50% of the average profitability in 2023."

Mike Allen, who joined Cambria Investment Holdings new investment company, Cambria Private Capital, in October 2023 as Managing Director also foresees ongoing challenges attributed to global economic uncertainties, supply chain disruptions and the transition towards electric vehicles (EVs). Despite the hurdles, however, Mike predicts a potential recovery may occur in the latter half of 2024. He explains "markets appear to be pricing in interest rate cuts towards the end of 2024, but we do not see this as a mere formality, especially if inflation becomes more sticky as it must revert back towards the 2% target for interest rate reductions to occur."

Paul and Ian both make the point that the main issues are likely to be ongoing cost pressures and reduced new and used car margins. Ian adds that, in terms of overheads, whilst heat and light costs are stabilising, these will be more than offset by the interest burden when budgeting for a full year at the higher rates. He also shares the feedback he is receiving suggests there are some "eyewatering insurance premium increases" coming.

Commentating on the market were:

David Kendrick
Head of Automotive
UHY Hacker Young

Paul Daly
Automotive Partner
UHY Hacker Young

Ian McMahon
Automotive Partner
UHY Hacker Young

Jonathan Bischoff
Managing Director
JCB Group

Mike Allen
Managing Director
Cambria Private Capital

Paul is concerned about the response from the banks, highlighting a need for "banks to be supportive and hold their nerve as we see a number of businesses facing a breach of their financial covenants, especially interest cover calculations which were set in a much lower interest rate environment."

However, it is not all doom and gloom, with UHY's head of automotive, David Kendrick, weighing in with a cautious optimism. Although he agrees that 2024 is likely to be more challenging, he reminds the panel that "the recent profitability dealers have enjoyed isn't 'normal' and we must not forget the historic trend and seasonality that the sector has had for a long time." Jonathan also adds some positivity to the discussion, sharing that he expects aftersales to be robust and similar to the prior three years, reasoning "customers have held onto vehicles longer than usual and are servicing and maintaining an aging vehicle parc." However, he adds it is now "imperative we target segment 2 and 3 customers and bring them back into the network."

All our experts agree the 2024 spotlight will be on EVs, with manufacturers striving to secure market share. Jonathan states "the biggest focus from our manufacturer colleagues will be around EVs and increasing retail sales in order to meet the legal requirements." Elaborating, "the most competitive area of the new vehicle market will be in the retail EV channel where manufacturers will be working hard to secure their market share."

Mike also expects to see continued growth in EV but adds warning that with traditional manufacturers still ironing out strategies for agency models and consumer-direct sales, "overall market performances by brand is therefore likely to remain uneven."

In the face of these challenges, the industry's resilience becomes the focal point of our discussion. The collective agreement among our experts is that while challenges persist, 2024 holds potential opportunities for adaptation and recovery. David concludes that whilst there are a number of questions to be addressed, he strongly believes "the proactive and stronger businesses will continue to thrive."

What do you think is going to happen next to used car prices? What are your thoughts on tactical-based EV registrations and their impact on the market?

The experts note the difficulty of crystal ball-gazing at this point in time, given the variety of different factors at play. However, Jonathan goes first, anticipating a stabilisation in used vehicle prices, asserting that the declines witnessed in 2023 have plateaued and he believes we shouldn't see as much volatility in the market. He does expect to see a decline in used vehicle margins but remains confident these will stay above pre-Covid levels. Jonathan prompts the panel to "remember there are still around 500,000 fewer vehicles in the marketplace due to supply issues across the previous three years, which will continue to hamper used vehicle forecourts." Ian agrees adding that "like any commodity, as the price of used cars falls, there will be a point where those with a close focus on the market will start to buy for stock again. As such, I don't foresee much further decline in value."

Mike, on the other hand, anticipates a continued fall in used car prices into 2024, particularly if new car supply improves as expected and there is reduction in demand pressure on the used market. Jonathan shares that he is starting to see unsold stock on site as new vehicle supply is improving. "The key driver here," explains Jonathan, "will be to re-educate sales teams to sell units from stock rather than taking factory orders."

David observes that the correction in used car prices was possibly a necessary adjustment as supply levels begin to ease. He emphasises the return of historic trends, signalling the increasing importance of stock turn. Paul points out that certain vehicle categories, especially larger, later plate vehicles, are starting to look good value, particularly against the new vehicle prices. With the likelihood of a degree of restricted supply of desirable ICE/hybrid vehicles, Paul thinks used car prices will "stabilise and present an opportunity for a more normal used car dealing environment, especially for those that have taken the pain on stock holdings that are at inflated prices."

Moving the conversation onto tactical-based EV registrations, while Mike believes tactical registrations may initially inflate EV numbers, he thinks this "could lead to a secondary market with more affordable EV options, influencing the overall market dynamics."

Paul is in agreement, pointing out that with EV prices falling substantially, many are now looking remarkable value. However, David highlights that enquiry rates on EVs remain low and Paul interjects that he suspects the majority will “end being forced down the corporate/motability channels”, meaning they stay out of the 2024 market, returning typically from 2026 onwards at the end of their lease period.

Ian and David both warn that volume-based tactical registrations can distort the nearly new market, potentially damaging the residual value of certain derivatives. This distortion, Ian warns, may influence monthly costs of Personal Contract Purchase (PCP) or Contract Hire (CH) agreements.

Mike points out that the dynamics in EV residuals is very different to that of ICE, and this will continue to be the case in 2024. Concluding, he anticipates “the depreciation scenario for used cars returning to more traditional patterns following the disruption of Covid and we need to take into account the peaks of 2021 into this equation. Tactical-based EV registrations, while boosting short-term figures, may not significantly alter the long-term market dynamics unless they are accompanied by broader consumer adoption and infrastructure support.”

Despite the announcement of a delay to the ban on ICE cars from 2030 to 2035, the zero emission vehicle (ZEV) mandate means that whilst petrol and diesel cars will remain on sale until 2035, 80% of all cars made must be zero emission by 2030. What impact do you think this will have on the industry?

Our panel unanimously agree that the current government legislation leaves the industry with no choice but to shift focus towards delivering more EVs and converting more customers into an EV product. However, not all views are aligned when it comes to our discussion around the perceived impact on the industry.

This is a subject Paul feels strongly about and he opposes the way the targets are set out in the ZEV mandate, claiming he would prefer to see a more gradual increase in the acceleration of requirements. He reasons, “while the environmental aims are commendable, I fear unintended consequences, including the further decline of the automotive manufacturing base in the UK.” (Paul explores the implications in detail on page 21 of this Outlook).

Mike agrees the mandate will intensify pressure on manufacturers to increase EV production, however he thinks the delay to 2035 for the ICE ban provides some breathing space. Nonetheless, Jonathan stresses the need for manufacturers and the dealer networks to be fully aligned in “understanding that EVs are the way forward and any date delay should not affect the focus on EV sales today.”

Mike believes the industry is already gearing up for the transition and he expects to see a surge in innovation and investment in EV technologies, along with strategies to maximise returns from the remaining years of ICE vehicle sales. Ian too expects to see variety of tactics, suggesting brands might bundle multiple ICE vehicles with EVs in strategic campaigns. To illustrate his point, he gives the example of “dealers having to buy two EVs with every eight ICE units”. He also predicts some brands shifting their EV products to agency, while maintaining a traditional franchise model for ICE sales.

David questions consumer demand, reminding the panel that “current statistics show EVs are not hugely popular within the consumer marketplace, especially with the high prices and increasing interest rates.” Ian also highlights the delicate balance between the “push of product’” against the “pull of demand”, expecting “some very unnatural market challenges.”

David points out that the corporate and fleet market continue to make up a substantial element of EV registrations currently, suggesting that prices are going to have to “materially change to stimulate the market.” Coupled with concerns surrounding the used market and battery lifespan, our panel were generally in agreement that there are numerous hurdles ahead.

Agency plans are afoot among some of the biggest brands in the UK. What are your thoughts on how the model is unfolding? Do you think manufacturers appreciate the critical role dealers play in the retail process?

As the dealer on our panel, Jonathan offers a balanced perspective. In his experience, “most major brands in the UK either sit in the ‘agency is a part of our transactional world’ model and others sit in the ‘we will never introduce agency in our network’ model.” Whichever camp a manufacturer sits in, Jonathan strongly believes they understand “the pivotal role the dealer plays in the retail sales channel.” However, he admits agency brings some challenges when it comes to retailers transacting with customers, explaining “we currently have agency across some of our brands and early indications show that the new margin retention is very similar to the previous franchise model. However, these are small numbers, and we will get a clearer picture as the year unfolds and more volume is sold on agency.”

Tactical-based EV registrations, while boosting short-term figures, may not significantly alter the long-term market dynamics unless they are accompanied by broader consumer adoption and infrastructure support.

Paul chimes in with unexpected positivity, stating that feedback from his dealer clients with agency brands has been more positive than he expected. He adds that while teething troubles are inevitable, the "willingness to take a partnership approach to some of the issues that have presented themselves is really refreshing."

Anticipating potential turmoil in the new car market due to the ZEV mandate, Paul thinks there is "an understandable school of thought developing that a reduction in profit in exchange for the transfer of risk to the national sales company (NSC) is quite attractive." However, given Stellantis' decision to delay the transition to an agency model until late 2026, Mike points out that some manufacturers appear to also be taking a more cautious approach to market changes. He elaborates that the delay, primarily to address stock issues, "suggests a slower-than-anticipated adaptation to new sales models", adding "there are a number of diverging strategies at play from the OEMs towards agency though, as we know."

Ian is concerned about the sustainability of the agency model without genuine collaboration between the NSC and the dealer. The complexity of customer challenges, he argues, requires the personalised touch that only dealers provide. "I don't believe the NSC will ever be able to replicate this level of customer service, nor deliver against the expectation a customer has for such a significant high value purchase."

Mike envisages an evolution in the role of the dealer. He expects focus to shift more towards customer service, vehicle servicing and localised marketing, adding "manufacturers must leverage the critical role dealers play in understanding local markets and maintaining customer relationships ensuring mutual profitability and customer satisfaction. The ultimate success of agency will come down to implementation and execution, from both the manufacturer and retailer." Jonathan echoes this sentiment, emphasising that "agency must never impact on a customer's experience with us and the brand. It is vital that the integrations between all parties are seamless."

However, not everyone can muster enthusiasm with David firmly declaring the agency model a "complete shambles". In contrast to Paul's unexpected positivity amidst the challenges, David highlights the issue with Mercedes dealer profitability since moving to the model in January 2023. He voices concerns about the imposition of agency by OEMs without "genuine demand from consumers or dealers." Summarising, he says "ultimately the consumer will decide and initial feedback is that it's not well received. A number of OEMs are delaying the launch and, personally, if it was abolished all together, I think that will be a much better outcome. Dealers are good at moving metal – when a push market returns, I am unsure how an agency model will allow the OEMs to hit the required targets!"

China's share of the European electric car market has more than doubled in less than two years. What potential effects do you foresee from new brands entering the market? What are your tips on identifying the likely winners going forward?

Paul opened this discussion, highlighting that a number of the new entrants are well positioned to take advantage of the substantial changes coming to the UK market. He notes that vehicle price increases "have left room for a genuinely cheaper alternative which, coupled with the ongoing cost of living and high interest rates, may increase their attractiveness to certain UK consumers allowing them to gain a crucial foothold to build from." He expects the new Chinese brands to appeal to multiple car households who adopt a two-car strategy with a larger ICE/hybrid vehicle for longer journeys and a smaller, cheaper EV for local trips, explaining this is particularly likely "given a number of traditional brands have chosen to take their own product offering substantially up market, including the removal of their smaller platform offerings from the UK market altogether."

However, David stresses the uncertainty around identifying the likely winners. With more entrants set to come, he shares a word of caution about "jumping in with one too early and missing a stronger opportunity further down the line." The panel agree, with Paul and Jonathan also emphasising the complexities of predicting success. Having interacted with all the new Chinese brands currently entering the market, Jonathan explains "each of the new Chinese EV entrants have certain strengths and weaknesses and predicting which would be successful is very challenging. The new brands entering the market will have to create a market share via price and quality and the traditional existing brands will not wish to lose any market share, particularly in the EV channel, which will make for an interesting battle during the next few years." David adds that he thinks "it is pretty much guaranteed over the next few years we will lose some existing OEM partners in the UK, with these new entrants gaining market share."

Paul injects that it is critical dealers understand the business model on offer and that the likely margins are sufficient to cover the investment (he stresses both in terms of financial cost and management resource/distraction). He believes it will be many years before new entrants are able to offer a viable used car and aftersales contribution, so the new car contribution must very much be seen to stand on its own two feet, adding "in the case of EV aftersales, the long-term development of a generous income stream is of course under threat in any event."

Ian shares Paul's concerns about the aftersales support. He acknowledges some of the superb products entering the market but anticipates "a lag until Chinese-produced vehicles establish a sufficient support network", which Ian strongly believes will be needed for the typical customer to feel reassured. He sees potential opportunity for an aftersales centric consolidator, however, is sceptical about the technical support availability in the UK or Europe to address complex unforeseen problems. He illustrates his point by saying "I'm sure many consumers have had experience of buying other goods from China. When they work, they are superb value for money, but it isn't as if you can just send a car back to the UK handling agent and get another one shipped out to your driveway!"

Wrapping up our interview, Mike concludes that he expects China's increased market share to act as a catalyst for heightened competition, fostering innovation, better pricing and an expanded array of choices for consumers. To identify winners in this evolving market, he advises "focusing on companies with strong supply chains, innovative technology, robust financials, and an understanding of local market preferences". "Navigating complex agency and direct sales models, effectively managing skill shortages, and adapting to industry consolidation trends are key attributes for future winners", he summarises.

Navigating the shifting tides

As we came to the end of the interview, it is evident that the automotive landscape is undergoing a profound transformation. Following the exceptional years of 2021 and 2022, the sentiment among our experts was that 2023 presented a more challenging period and 2024 looks set to follow suit.

Although the spotlight is very much on EVs as manufacturers vie for market share, the topic that triggered most debate during our interview was the ongoing evolution of the agency model. Reactions were mixed among our panel, with some expressing positivity and detailing successful partnerships, however this sentiment was certainly not held by all.

Underlining the industry's evolving and dynamic landscape, the overall feeling was one of cautious optimism and a collective agreement that the challenges will be met with resilience and adaptation. Navigating supply chain complexities, consumer preferences and the shift towards EVs and agency will be crucial for industry players aiming to thrive in this transformative era. Whilst a lot is unknown, one thing is for sure - the next few years will not be dull!

Interview took place in January 2024.

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