

2021 Automotive Sector Outlook

Predictions for the
year ahead from our
specialist automotive
team.



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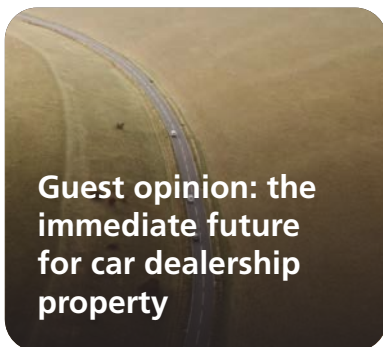
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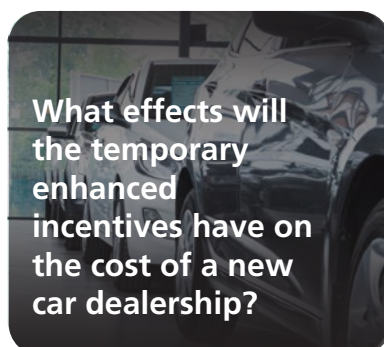
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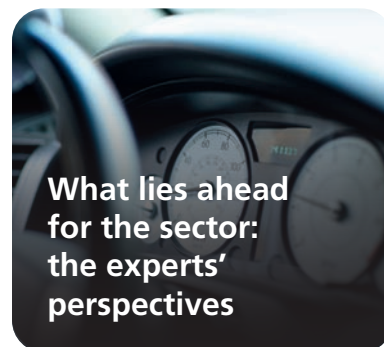
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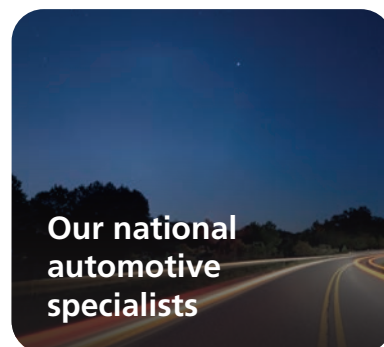
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State of the market

When we published our 2020 Outlook in February last year, we could not begin to comprehend the year that lay ahead. Yet, just one month later, the UK had entered its first lockdown and dealerships across the country were forced to close their doors.

Lockdown relaxation in summer saw a high level of pent up demand with automotive businesses enjoying a strong period but, as the year drew to a close, uncertainty was once again rife. Despite a brief respite following a last minute announcement that a Brexit deal had been done, the excitement was short lived as 2021 began with border delays, Covid-19 cases rocketing and a third, stricter lockdown upon us.

At the time of going to press, the return to some sort of normality appears to be in sight. The Government's roadmap out of lockdown has been shared and dealerships opened their doors once again on 12 April 2021.

2020 trading performance and 2021 prospects

We are now in a position where we have good visibility of 2020 results. Whilst turnover is down in the region of 10% to 20%, profits have remained healthy and, in many cases, exceeded 2019.

Looking firstly at the profit and loss, over 97% of the groups we work with had a profitable result in 2020. This is an exceptional result and the best we have seen since the unusual year of 2009 (another year when used vehicle prices rose strongly). For the five months to May 2020, we estimate the reverse was in fact true, with the vast majority of dealerships in a loss making position due to a weak March and losses in the total lockdown months of April and May. The closing results are therefore truly remarkable, demonstrating the robustness of the sector with some incredible performances, particularly in the bounce back months over the summer.

The combination of reduced manufacturer pressure, impressive cost saving measures, strong customer demand and Government support became intoxicating and many noted all-time record performances between June and October. Customer demand for vans is worth a particular mention. Due to an increased requirement for home delivery, the demand for vans

continued to grow throughout the year, with the UK's biggest auction operators reporting the average values were significantly outstripping guide prices across auction sites.

Turning to the financial position, again the picture is overwhelmingly positive. Of course, the profits have turned into cash helping the position but, more importantly, much improved working capital levels and a freeze on most capital investment projects has turbo charged the cash positions to record levels.

2021 has clearly been challenging so far given the lockdown situation, but the results we are seeing do not show any major casualties. The typical result is a breakeven position to the end of February and the expectation of a small profit in March, before the post lockdown demand returns again in Q2 to boost the position and bring results more closely into alignment with dealer budgets.

As we move towards the longed for return to normality, care must be taken to ensure sufficient reserves are held as increases in volumes, manufacturer pressure, slower turning stock and VAT repayments to HMRC are all likely to come with the return to normality. However, if the cost savings achieved in 2020 can remain embedded within businesses and margins retained, there appears to be a solid platform to build 2021 into another good trading year, proving yet again the inherent resilience of this sector.

Roadmap to our Outlook

In our 2021 Automotive Outlook, we take a look back at an extraordinary 2020 and share our predictions for 2021 and beyond. The prolonged disruption of Covid-19 brought with it a need for enhanced business resilience and flexibility. It has been remarkable how well dealerships have reacted to the challenges of Covid-19, embracing the necessary changes head on. On page 6 we take a look at how the industry has come together to navigate the unknown.

Market uncertainty is perhaps the biggest hard-hitting factor when it comes to M&A deal volumes and values, but has the pandemic triggered opportunity for some? We explore the reasons that deals are still being completed despite the economic climate and share our predictions for 2021 on page 4.

We also hear from Bill Bexson, Managing Director at Automotive Property Consultants, on page 12 who shares his views about the immediate future for car dealership property and discusses why he thinks the reports of the demise of bricks and mortar are greatly exaggerated.

It is fair to say dealers have had more than enough to worry about over the last 12 months. However, when economic survival is threatened, unfortunately new threats emerge and, in our experience, the occurrence of fraud increases – and the effects are so damaging they may last for years. On page 20, we have outlined a brief overview of the main types of fraud in the automotive sector and provide some tips about what you can do to protect your dealership.

Despite Covid-19 dominating all recent conversations, we can't publish our 2021 Outlook without mentioning Brexit. On page 8 we take a look at the new border formalities and outline the key areas that will impact on the automotive sector going forward.

And of course, the vast number of Government support measures need to be recouped somewhere. The Chancellor has already announced a £20bn "stealth tax" freeze on protections against income, capital gains and inheritance duties to "support the public finances", as well as an increase to the rate of corporation tax to 25pc from 19pc by 2023. On page 16 we share our tax predications and look at what the recent Budget announcements could mean for you and your business.

Finally, we once again have asked a panel of automotive experts for their views on how the landscape is likely to look for the sector through the rest of 2021 and beyond. Commenting on the market were UHY automotive experts, David Kendrick and Paul Daly, Swansway Group Director, Peter Smyth, Big Motoring World CEO, Peter Waddell, and Head of Research at Zeus Capital, Mike Allen. Read our Experts Panel debate on page 22.

We hope you find real food for thought in this, our 5th Automotive Outlook. If any of the topics covered prompt any questions, you will find our contact details on page 25 – our specialists will be pleased to assist and we look forward to hearing from you.



Current and prospective transactions market

It's difficult for businesses to plan for the unexpected, and 2020 was impossible to predict. Throughout 2020, automotive retail M&A activity was down considerably from previous years, heavily impacted by the significant uncertainty stemming from the Covid-19 pandemic. However, despite a slow in activity, deals did complete and UHY continued to be at the forefront of the activity that took place, being involved in 42% of the completed transactions in 2020. In this article, we share some of our key findings about the 2020 market and look forward to the prospects of 2021 and beyond.

The headlines

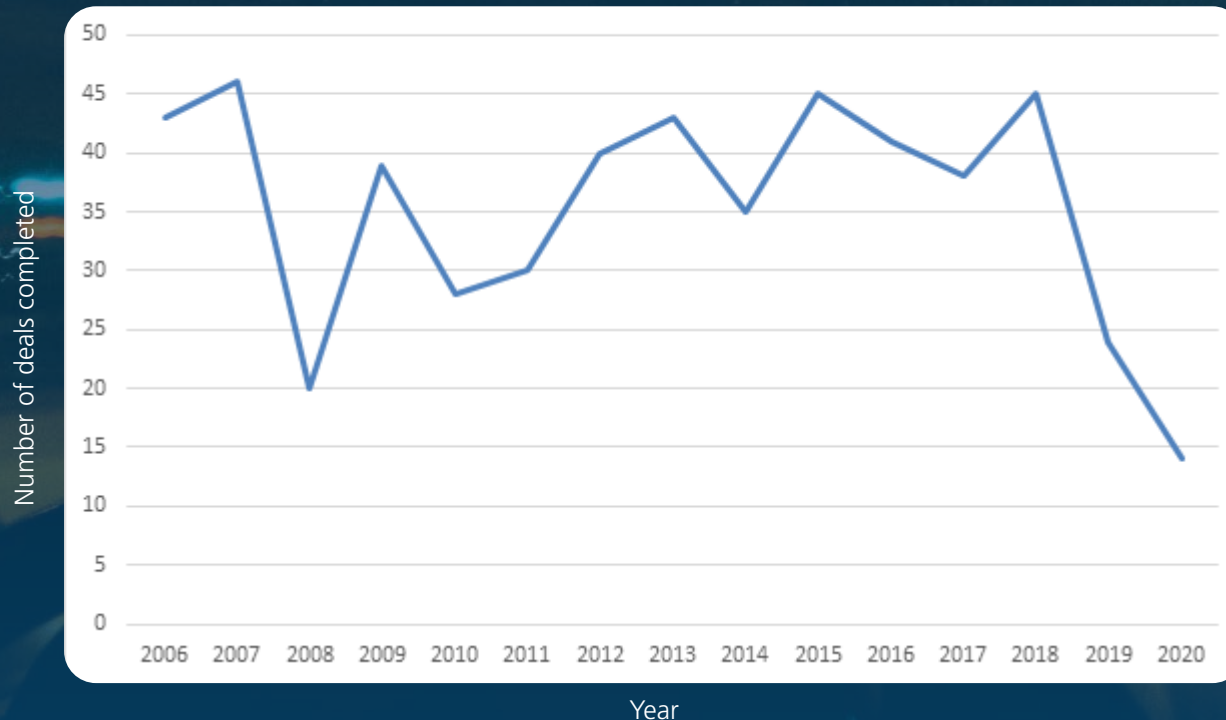
2020 at a glance

- Transactional activity remained steady but, with many deals 'slow walking' due to Covid-19, **completed transactions were down 40%**, with 14 deals completed in 2020, compared to 24 deals completed in 2019, 44 in 2018 and 38 in 2017
- **Strong international interest remains** with international owners involved in 22.5% of transactions in the last two years
- **No 'mega' deals were reported with substantial goodwill sums**, and there was a general drop in the average deal value

Outlook to 2021

- Potential for **distressed opportunities later in 2021**, once Covid-19 funding repayments are required
- **De-consolidation from the larger groups a real possibility**, with smaller players likely to consider increasing scale
- **Manufacturer site consolidation anticipated to increase** with non-core locations under review
- **Continued activity within the auto tech market likely**, with Covid-19 accelerating the tech journey

Deal volumes and values trends



Deal activity was down substantially in 2019 and 2020, with few 'mega' deals reported and a general drop in the average deal value. We have observed this falling deal value to be primarily attributable to a softening of the underlying profitability that drives the valuation. In addition, multiples which had escalated for certain brands to extremely high levels (witness the JLR goodwill levels in 2016 for example, as well as other premium brands) have now returned back to levels more consistent with prior historical trends.

For the transactions that did complete during 2020, there was a noticeable lengthening of the timeframes for completion of these deals, with many slow walked due to Covid-19 uncertainty. We saw a definite increase in the time taken from initial instruction to market a business through to achieving a firm offer and completion. This is partly the result of a more cautious approach from buyers, but property value discrepancies are also having a real impact. We anticipate this returning to a more normal position as Covid-19 gains stability in 2021 and the vaccine is successfully rolled out.

The other notable positive from 2020 was the significant pent up demand and profitability dealers enjoyed from June onwards. This has led to many businesses having substantial cash reserves around them, which can provide collateral to fund potential acquisitions.

The outlook for 2021

Strong international interest to remain

The interest of international investors in the UK automotive market has continued, following the boom in overseas activity a few years ago. International owners were involved in 22.5% of transactions in the last two years. While they are more cautious in their outlook as a result of Covid-19, based on our recent discussions we envisage activity to increase, particularly whilst exchange rates are so attractive. Buyers from the UAE, USA and East Asia remain extremely focused on the UK as a robust economy to make an investment.

The tech opportunity

We are seeing significant activity within this area, with Covid-19 accelerating the tech journey for many dealerships. Not only has there been progress within dealerships, but the software and tech providers themselves have become hugely attractive assets. We have already seen the likes of Codeweavers, enquiryMAX and Rapid RTC purchased in the first couple of months of this year and are aware of a number of other transactions currently in progress, with interest from private equity as well as larger consolidators.

Recurring revenue and growth opportunity is certainly driving the multiples for these businesses through the roof, with Covid-19 perhaps limiting the number of viable investment opportunities available. Exciting times in this space for sure.

Property values

With property values coming under scrutiny during 2020 due to the significant uncertainty, we were seeing up to 15% variance in current value versus historic valuations. This was highly frustrating as, fundamentally, nothing within the business or property had changed. It certainly posed a challenge in the transactions we advised on in 2020, with substantial variances from industry professionals. However, on the back of strong trading performances and with the release of the Government's roadmap out of lockdown, property values have recovered and industry commentators appear much more comfortable in their valuations, which is pleasing to see.

Brands of the moment

Having been through a period over the past five years where premium brands such as Mercedes, Audi, JLR and BMW have been top of people's shopping lists, we have seen a marked change in this area. Whilst premium businesses are undoubtedly still attractive, there has been much more focus on the likes of Kia, Toyota and Lexus, with substantial goodwill payments being tabled for these opportunities. The ever increasing focus on EV technology is also becoming a consideration for businesses when contemplating an acquisition, which again suggests a slight mind set shift to the medium/long term outlook for the sector.

Distressed opportunities

We believe that values will remain stable during 2021, however, it is likely that distressed opportunities will come to the market as we head into 2022. Government support will need repaying and high levels of unemployment are likely, therefore the market may become more challenging for those businesses without appropriate controls in place. We are, however, confident that strategic, well prepared businesses can still achieve good value in 2022.

Lack of banking support to remain an issue

The lack of mainstream banking support for the sector remains a real brake on both the organic and acquisitive growth prospects. Motor retail businesses continue to be placed in the general retail basket and we see no change to this outlook in the near future. Fortunately, the manufacturers' captive finance companies have been helpful in addressing some of these issues, particularly BMWFS, TFS and VW Bank.

The road ahead

Although transaction numbers have reduced considerably, this is no surprise given the uncertainty that engulfed 2020 and has followed us into 2021.

Looking to the latter parts of 2021, we see a return to a more normal level of market volumes and indeed the potential for some degree of pent up demand, particularly if the financial performance of the average motor retailer continues at the strong levels seen in 2020.

We expect to continue seeing strong demand for the right business, however, it is critical to identify the strategic buyer early in a process to deliver maximum shareholder return. Opportunities will continue to become available as larger groups trim their portfolios and smaller dealer groups come under greater financial pressure and scrutiny, therefore looking to exit. The de-consolidation of the PLCs will bring opportunities for those well placed privately owned businesses with funds in place to make strategic acquisitions.

Motor retail proves its resilience

Our 2020 Automotive Outlook, released in February 2020, talked of the Brexit storm on the horizon and the damage a no deal Brexit could have on the industry.

However, none of us predicted that a year later we would have spent much of the last 12 months in lockdown, with showrooms closed to the public. Yet, despite an extremely challenging 2020, a significant proportion of the dealership network reported profit and, in some instances, record breaking year end results. Indeed, our intelligence shows that profits were at least as high as 2019, despite average performance turnovers being down.

How have so many dealerships weathered this particular storm so well, despite absolutely no time to plan? In this article, we look at how the industry has come together to navigate the unknown.

Reinventing the business model - the online element of the customer journey is the new hot topic

The outbreak of Covid-19 and the subsequent social distancing and stay at home orders have forced dealers to get creative. Even before the lockdowns, the number of dealer visits was on the decline. Many dealers were already readying themselves for the growing demand for contactless transactions. However, no one expected the speed at which this became essential. Businesses that performed the best in 2020 already had solutions to hand or were quick to refocus their efforts into this area, ensuring that the showroom window and used car forecourts were well represented online.

The focus shifted from state of the art showrooms to improving the quality of photography, producing high quality videos with detailed commentary, using FaceTime to interact with customers and providing

walk around videos of vehicles. Simple things like checking how mobile friendly a website is or dealing with incoming email enquiries on a timely basis became essential.

The sale of new cars proved more challenging. But by embracing digital software solutions, such as online car retail platform SilverBullet, and ensuring all vehicles are marketed on car sales sites such as Autotrader, dealers have been able to provide a robust online presence. Effective prospecting from the dealer database also became all the more vital, particularly for new car sales with an increased focus on renewals business, enticing end of term customers or those on a monthly payment scheme to upgrade. Our panel of experts address the online shift in more detail on page 22.



Cash is king

Most will remember the 2008-9 crash and the businesses with more cash were the ones that came out stronger. Once again, the common theme throughout this period is that 'cash is king'. As we went into the first lockdown, with no idea about what was ahead, many businesses didn't realise what their monthly cost burn was, making short term cash flow a real issue. Who would have expected then that a combination of Government support, extended manufacturer stocking terms, reduced volumes and material de-stocking would leave the cash position in a materially strengthened position by the end of 2020.

Of course, this has been instrumental in helping all stakeholders sleep at night. Let's just hope complacency doesn't creep in as these factors will not be around forever and could catch out the unwary when, inevitably, things return back to a welcome normality.

Government support

Whilst the Government has announced a number of measures to support businesses during the pandemic, we are aware of only a small proportion of dealerships that have taken the Coronavirus Business Interruption Loans (CBILS) – either because they couldn't demonstrate need for cash at one end of the spectrum, or affordability of repayments at the other. However, most have taken advantage of the VAT deferral scheme, despite sitting on healthy cash positions.

Of more wholesale benefit has been both the Coronavirus Job Retention Scheme (CJRS) and the rates relief for retailers, with these payments proving to be a well judged form of assistance on the part of the Government, ensuring as many jobs as possible have been retained.

Sharing best practice

At the start of the first lockdown, UHY launched a Covid-19 WhatsApp Group for dealership owners and Finance Directors. This group brought together peers from across the industry who have used it to share up-to-the-minute advice and current thinking, allowing members to navigate the uncharted waters together.

It has been fantastic to see how everyone has worked together to support one another, from discussing different interpretations about Government initiatives, to whether or not commission should be included in furlough payments, to brand support and even vehicle cleaning regimes. The group has been extensively used by members as a sounding board and the insight and knowledge shared has provided a lifeline for many.

It has been remarkable how well those in the industry have reacted to the challenges of Covid-19, embracing the necessary changes head on. Strong management has resulted in many in the dealer network starting 2021 in a good position, and we believe the experiences and lessons learnt during 2020 will result in greater operational efficiencies going forward. Simply put, whilst the in-person experience cannot be replicated, the dealership model has proved its resilience and ability to adapt and evolve.

Beyond Brexit



The deal has been done. Despite the building 'odds against' and a backdrop of doubt at the end of last year, the UK and EU have negotiated a Trade and Cooperation Agreement (TCA), signed one week ahead of the end of the Brexit transition period.

There was a collective sigh of relief as news of the deal and ongoing trading relationship with the EU finally provided some unexpected stability for the UK. Mike Hawes, Society of Motor Manufacturers and Traders (SMMT) Chief Executive announced "For automotive, Brexit has always been about damage limitation, and the draft Trade Cooperation Agreement, while no substitute for the completely free and frictionless trade with Europe we formerly enjoyed, will address immediate concerns."

On announcing the deal, Prime Minister Boris Johnson declared that UK industry would face "no non-tariff barriers" when trading with the EU. However, deal or no deal, in reality there were always going to be obstacles to post-Brexit trade with the UK now outside of the Single Market and Customs Union.

However, the automotive sector would have faced tariffs of 10% on exported and imported vehicles in the event of a no deal Brexit, as well as 2-4% on their individual components, amounting to an estimated £1,900 premium on an EU-built car for UK buyers (with electric cars expected to become on average £2,800 more expensive). Under the terms of the deal, tariffs are imposed only on products that fail to meet 'rules of origin' requirements and no quotas have been imposed.

There is no doubt, however, that the new agreement will result in increased paperwork, processes and border checks for manufacturers.

In this article, we look at the new border formalities and outline the key areas that will impact on the automotive sector.

Rules of origin

The 'rules of origin' is the biggest post-Brexit change for automotive manufacturers, and confusion surrounding the clause is rife.

A product's country of origin is its 'economic nationality', which is not necessarily the country that it was shipped from.

For most products, 'origin' determines if a trade tariff is applied. Within the TCA, materials qualify for free trade by meeting the rules of origin criteria.

Essentially, this means goods sold in the EU by UK businesses must now originate from the UK or EU to benefit from the preferential tariff rates. Historically, origin has been less important to EU and UK manufacturers because once the part is imported to the EU it can move around freely. Since agreeing the TCA, the rules of origin mean that parts imported to the EU or UK now cross a border, resulting in potential tariffs if the origin criteria are not met.

Crucially for the automotive industry, the trade deal allows for a 12-month grace period for manufacturers to produce evidence of the origin of their products. But even for UK built cars, with more than half the 30,000 components in an average British-made car coming from somewhere else, asking manufactures to prove the origin of each is some task.



The country of origin for a product changes when a suitable amount of processing has been completed.

Government guidance states that once a product has gained originating status, it is considered 100% originating. This means an engine comprising 30% EU-derived components, if used in the production of a UK-built car, would count as 100% locally assembled. The SMMT has estimated that 41% of the content of cars built in the UK is sourced from within the country, with between an additional 20% and 50% sourced from the EU.

These rules are very complex and we recommend that advice is sought from a Customs adviser in situations where the rules of origin can not be applied simply.

New border formalities

Goods entering the EU from Great Britain (GB) face large amounts of new paperwork and checks. We have provided the headline import and export considerations below:

Exports

- If you are importing into and exporting from the UK, you will need to obtain a European Union registration and identification (EORI) number, which starts with a GB followed by your VAT number. If you do not have one, you may have increased costs and delays. You can apply for an EORI at <https://www.gov.uk/eori>.
- You will need to complete all relevant customs administrations declarations. These declarations are complex and require specialist knowledge to complete, so if you are not confident that you have the capabilities internally, we would recommend appointing an external agent.
- While the trade agreement allows for tariff free trade between the UK and EU, there are important exceptions. As outlined above, tariffs apply if the country of origin of the goods is outside the UK. This means if goods are shipped into free circulation into the UK from the rest of the world, and then shipped to the EU, it is likely Customs tariffs will apply. If import duties are payable in the destination country, in most cases these will be payable when the goods arrive in that country.
- You must retain proof that the goods have been physically moved to another country and this must be kept for six years.
- Where you have proof of export, and goods are exported within three months, the sale of the goods is zero rated for VAT purposes. The proof of export must show the physical movement of the goods.
- You will no longer be required to complete an EC Sales list (unless you are an NI business).
- Intrastat declarations are no longer required for dispatches (unless you are an NI business).

- The VAT411 form that was used when a customer in another EC Member State bought a new vehicle in the UK and took it back to their EC Member State will no longer be required unless you are an NI business. This is likely to be replaced with an updated version in the future. These transactions are now treated as an export, therefore if the customer collects the vehicle, a suggestion would be to charge VAT upfront until you are satisfied that the goods arrived in the EU and they have been registered there. As with all export evidence, it must show the physical movement of the goods and customs clearance in the destination country.

Imports

- As with exports, you must apply for an EORI number that starts with GB in order to import goods. You can apply for an EORI at <https://www.gov.uk/eori>.
- As with export declarations, you will need to identify whether there is the required skillset within your organisation to process formal import declarations or whether to appoint an external agent to assist if you do not.
- If import duties are payable, you will need to decide whether you are going to pay the import duty on arrival or set up a duty deferment account. The duty deferment account allows goods to clear into the UK seamlessly, then a payment for the import duty due is collected by direct debit on the 15th day of the following month. Normally, the deferment account requires a bank guarantee which is costly, however, this is only likely to be required for the duty element of the import taxes.
- Import VAT will not be payable on arrival. HMRC have introduced postponed VAT accounting (PVA) for goods imported from the EU to enable businesses to account for import VAT on their VAT return - paying it and reclaiming it in the same period. Postponed VAT accounting is available for all imports from 1 January 2021, not just for goods brought in from the EU.

Ongoing confusion with Northern Ireland

As a result of Brexit, the way in which businesses move goods between GB and Northern Ireland (NI) has changed.

From a VAT perspective, nothing has changed in that VAT is chargeable on the transaction. The changes are related to Customs duty, so where a vehicle has been imported from within the EU and then subsequently sold to a customer located in NI, the vehicle imported into NI may be subject to import duty at 10%. These rules apply to new and used vehicles, cash or financed sales and contract hire or hire purchase transactions.

Where a GB based business is the importer/declarant into NI, it is essential that they register with the Trader Support Service (TSS) who will facilitate the import into NI and arrange the payment of the duty required under the NI Protocol.

This can be done at <https://www.gov.uk/guidance/trader-support-service>.

If the declarant can evidence that the vehicle sold is not at risk of crossing the border into Republic of Ireland, the import duty may not be payable.

In any event, we recommend any GB business selling into NI registers with the new UK Trader Scheme which will help ensure that you don't pay import duty when moving goods into NI from GB, where those goods will remain in the UK.

This can be done at <https://www.gov.uk/government/news/uk-trader-scheme-launched-to-support-businesses-moving-goods-from-great-britain-to-northern-ireland>.

We are here to help

With almost 1,500 pages of the Brexit agreement to sift through, our teams have been working hard to ensure we are fully briefed on the implications of the deal. Our dedicated VAT experts are on hand to provide support and advice. If you would like to know more about how the rules of origin apply to the automotive sector, or about any other aspects of the TCA, please get in touch.





Guest opinion: the immediate future for car dealership property

Property values came under scrutiny during 2020 due to the significant uncertainty and nervousness about the future of retail generally. However, according to Bill Bexson, Managing Director at franchised motor retail specialists Automotive Property Consultancy (APC), reports of the demise of bricks and mortar car dealerships are greatly exaggerated. In this article, Bill shares his views about the future for car dealership property and looks at some of the driving forces behind the current trends.

Bill explains, car dealerships, both in function and location, can readily evolve; witness Tesla and Cazoo transitioning into former dealerships, and on top of that other uses are biting at the heels.

Volvo have been reported to want to move to selling new cars entirely online, but on closer investigation what they intend is to originate sales online and close them at the dealerships. Original Equipment Manufacturers (OEMs) are wedded to dealers remaining the principal distribution conduit, and that is the key word, distribution, as dealers move away from conventional 'retailing' and morph into distribution and tech companies. For example, Inchcape have relisted on the London Stock Exchange and are now classified as 'Business Support Service', having previously been 'Speciality Retail', and Cazoo are expected to move to an IPO, rated as a tech stock.

What are the implications for the future?

Dealing firstly with Brexit, we are seeing impending problems with satisfying the Rules

of origin regulations which, in particular, affect battery production. This is resulting in many European countries, including the UK, looking to establish their own battery gigafactories to address future supply problems. We can expect weak economic growth as we move out of the lockdowns, there are already significant border control issues restricting imports and exports, and Brexit implications have squeezed the availability of finance for dealers.

Brexit though has been occluded by the Covid-19 pandemic. However, with the significant impact of vaccines we are starting to see hope for the freedom to travel and, with that, expected rises in consumer confidence and subsequent rises in consumer spending, which in turn feeds into economic recovery. The Bank of England's Chief Economist, Andy Haldane, back in February talked about the economic "coiled spring", ready to bounce back strongly when the pandemic is over. Household balance sheets are strong with low debt. Consumers, therefore, have cash to spend. With limited foreign travel opportunities in the immediate future, their attention could well turn to cars.

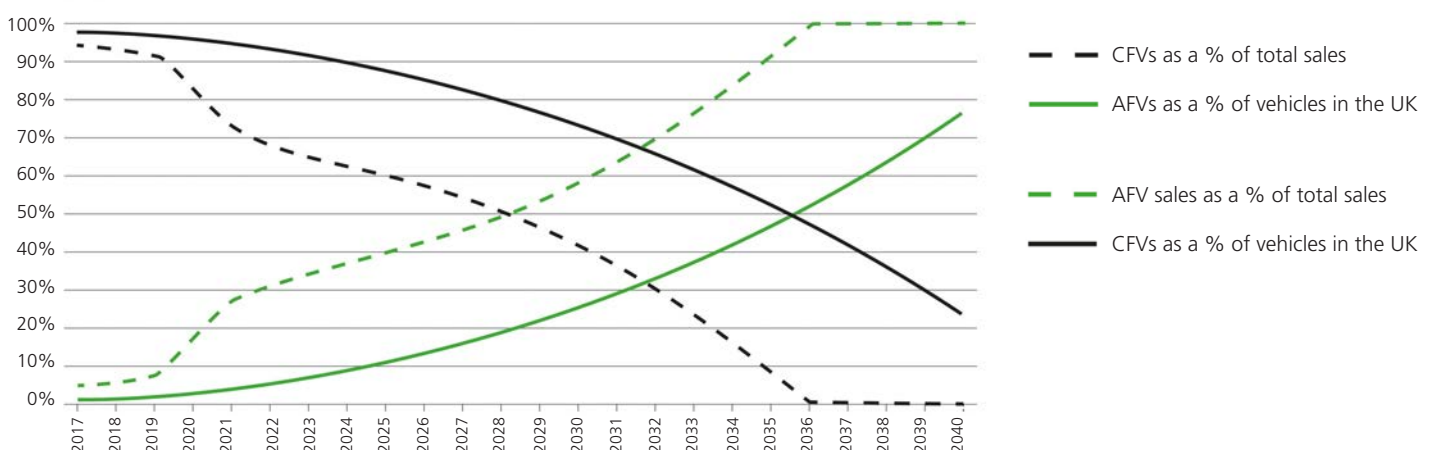
Supply of new vehicles has proven challenging during lockdown and further accentuated by a semiconductor chip shortage. New car pricing has effectively risen as dealers have been able to secure fuller margins and across various segments within the used car markets, pricing has actually at times increased. This is all indicative of a supply-side squeeze, rather than any lack of demand. The pandemic has seen cars become more important to consumers wanting to have their own space and, in the short term, increases in stay-vacations and car journeys is a reasonable expectation. The large open

spaces that car dealerships are able to offer, both externally and internally, can easily satisfy social distancing requirements. Overall, we see that the pandemic has effectively acted as an accelerator of structural changes sweeping through the motor industry.

This leads on to the core CASE dynamic, as outlined by Mike Allen at Zeus Capital (Connectivity, Autonomy, Shared/Subscription and Electric). There are around 100 electric vehicle offerings available now or shortly which has stimulated significant growth in EV sales and adaption. Covid-19 has accelerated EV take-up and OEMs are going electric in a big way, for example, Jaguar have recently announced plans to go all electric.

The emissions benefits are well publicised, however, enormous investment in infrastructure is required to provide the necessary charging points. The Government has announced bold plans for the ban of petrol and diesel cars by 2030 and hybrids by 2035. This does not mean that of the approximately 39.7 million vehicles on the road that by 2030, or indeed 2035, they will all be electric vehicles. Take-up over the last year or so has improved significantly and, considering the extended range of EVs available, we have adjusted our January 2018 projections for the number of AFV sales in 2030 from 24% to 58% and by 2035, from 54% to 93%. This means that in 2030, 26% of vehicles on the road will be AFVs and by 2035, 49%. We think it will take until 2040 to achieve 100% new car AFV sales but even then, 22% of vehicles on the road will be combustion engines. While take-up now is expected to be quick, within a relatively short period of a year or two, we expect the pace to slow down to allow the infrastructure provision to catch up.

AVF UPTAKE & CFV DECLINE





What does this all mean for car dealerships' property?

Turning to the bricks and mortar story: dealers have paid their rents and, as a result, investors have developed a new respect for the industry, albeit the investor profile has shifted towards private investors and property companies who have the dexterity and responsiveness to recognise the robust distribution credentials of the sector. The larger financial institutions are hampered by the reported classification of car dealerships as retail assets by the world's leading property performance

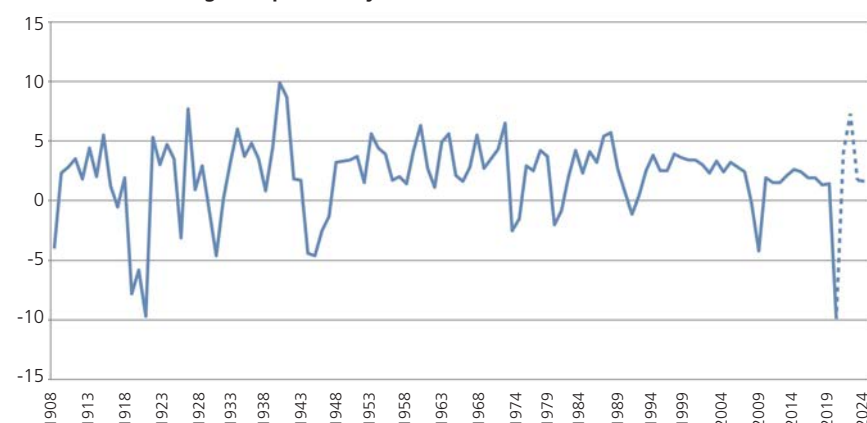
index, MSCI. Car dealerships offer a strong Industrial functionality and as the CASE-motivated structural changes permeate throughout the industry, the distribution function of dealers and their real estate assets will only be enhanced.

Dealership property is flexible and we are already seeing an increase in the aftersales and distribution utilisation of real estate and a shrinking of the traditional showroom. Whilst the buildings' adaptability is often not an impediment, this does need to be amalgamated with changing OEM standards, and overcoming town planning

obstacles, when compared to the freedom of the internet. Nonetheless, the two work in harmony together.

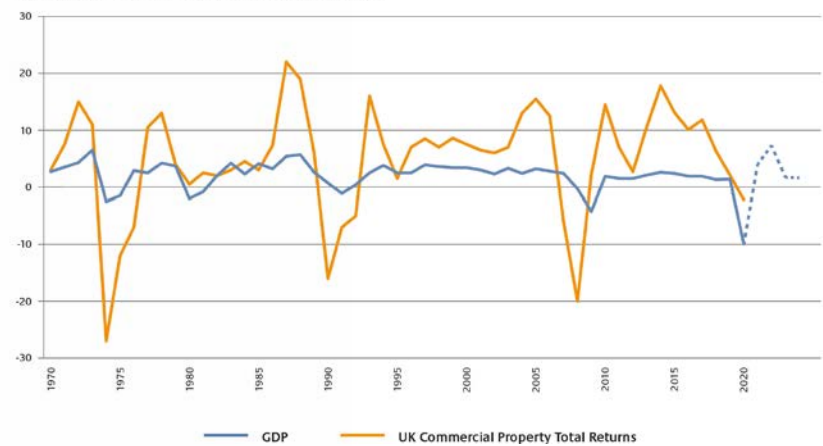
Albeit we are living in uncertain times, the property market moves in a typical peak and trough fashion. The diagram below measures GDP from almost the turn of the last century and shows the peak and troughs of economic performance, reflecting dramatic events such as the world wars and the Spanish flu pandemic, which lasted almost 36 months from January 1918 to December 1920.

GDP (office for budget responsibility)



The graph below demonstrates that from past performance analysis, property does not directly follow GDP movements, but is rather a GDP multiplier. Property performance over the last 50 years has tracked the direction of GDP movement, but more aggressively ie. there are deeper troughs and higher peaks. As such, property is more volatile than GDP. Total Return is a measurement of capital growth and income (rent).

UK COMMERCIAL PROPERTY TOTAL RETURNS AGAINST GDP



In the graph below, we have used APC's investment yield (capitalisation rate) as a proxy for car dealership pricing and plotted the direction of travel alongside the Government's own GDP projections.

GDP v AVERAGE CAR DEALERSHIP CAPITALISATION YIELD



Car dealership investments' solid performance during the pandemic has seen robust value retention easing only 4% when compared to the wider commercial property pricing declines of 7% - 10%. Since summer 2020, we have seen noticeable improvements in pricing and more investor interest in the sector, which we expect to result in further pricing compression for what can be best described as survivor stock. When compared to broader economic uncertainty, its comparative attractive Yield makes the right dealership investment a good place for investors to be.

Customers will still demand the dealership experience

Car dealerships are uniquely characterised by their ability to combine 'e-commerce' and 'bricks and mortar' and it remains important to disengage their association with the performance of the Retail Property Market and unlock value through their distribution characteristics. In the next 12 months, we expect dealerships continue to expand their digital journey between dealer and customer with physical dealerships evolving in function and location over time, particularly as consideration is given to how moving to EVs will affect the usage of space.

About Bill Bexson

Bill is Managing Director at Automotive Property Consultants and a RICS Registered Valuer. APC is a specialist property advisory business dedicated to the franchised motor retail property sector. The company's focus on the franchised dealer market has enabled APC to develop market leading sector knowledge and provide clients with a bespoke motor retail property service. They hold an extensive database of car dealership transaction comparables, dealer and manufacturer 'open points', and properties available in the market.

This data allows APC to extensively analyse the national car dealership market; for example to determine average rents per region, average lease lengths per region, and property availability regionally.

If you would like to speak to Bill about how he can help you with property matters, you can contact him at bbexson@automotive-property.com or call 07831 827442



Bill Bexson
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Disclaimer

The views expressed in this article are those of Bill Bexson and are from personal research and experience and intended as opinion only.



The future of tax

Chancellor Rishi Sunak presented his second Budget on Wednesday 3 March 2021.

The Chancellor's announcement stayed light on tax increases, but he did announce a string of real terms tax increases by freezing various allowances and thresholds:

- Personal allowance frozen at £12,570 until April 2026
- Capital Gains Tax annual exemption at £12,300 until April 2026
- Inheritance tax allowances (all until April 2026):
 - Nil rate band at £325,000
 - Residence nil rate band at £175,000
 - Means testing threshold at £2m
 - Pensions lifetime allowance at £1.073m
- VAT registration threshold at £85,000 until April 2024

Capital Gains Tax

The Capital Gains Tax (CGT) rate remains at 10%, to the extent that any income tax basic rate band is available, and 20% thereafter. Higher rates of 18% and 28% apply for certain gains; mainly chargeable gains on residential properties with the exception of any element that qualifies for Private Residence Relief.

There are two specific types of disposal which potentially qualify for a 10% rate up to a lifetime limit for each individual:

- Business Asset Disposal Relief (BADR) (formerly known as Entrepreneurs' Relief). This is targeted at directors and employees of companies who own at least 5% of the ordinary share capital in the company, provided other minimum criteria are also met, and the owners of unincorporated businesses.
- Investors' Relief. The main beneficiaries of this relief are external investors in unquoted trading companies who have newly-subscribed shares.

The lifetime limit for BADR was reduced from £10 million to £1 million for BADR qualifying disposals made on or after 11 March 2020. Investors' Relief continues to have a lifetime limit of £10 million.

Business assets and Gift Hold-Over Relief

Gift Hold-Over Relief operates by deferring the chargeable gain on the disposal when a person gives away business assets. The gain then comes into charge when the recipient disposes of the gifted asset. The recipient is treated as though they acquired the asset for the same cost as the person who gave them the asset.

A change to the relief ensures that Gift Hold Over Relief is not available where a non-UK resident disposes of an asset to a foreign-controlled company, controlled either by themselves or another non-UK resident with whom they are connected. This measure affects disposals made on or after 6 April 2021.

Super-deduction

The headline-grabbing super-deduction allows companies to deduct 130% of a qualifying asset's cost from pre-tax profits without limit; a 24.7p reduction in tax liability for each £1 invested.

To qualify for the super-deduction, expenditure must be incurred:

- on or after 1 April 2021 but before 1 April 2023 (contracts entered into on or before 3 March 2021 cannot qualify); and
- on new and unused, not second-hand, plant and machinery.

Specifically excluded from the deduction is expenditure on:

- cars;
- long-life assets; and
- the provision of plant and machinery for leasing.



SR Allowance

The 'SR allowance' allows companies to deduct 50% of expenditure on special rate assets from pre-tax profits without limit; a 9.5p reduction in tax liability for each £1 invested.

Similarly to the super-deduction, expenditure must be incurred on or after 1 April 2021 but before 1 April 2023 on new plant and machinery other than cars, long-life assets, and leased plant and machinery.

On the following page, we look at the impact these temporary measures could have on the cost of a new dealership build.

Corporation Tax

The rate of corporation tax will remain at 19% for the next couple of years, but will rise to 25% from 1 April 2023. This rise will only impact companies with profits in excess of £250,000, as companies whose profits remain at or below £50,000 will continue to pay 19%. A sliding scale of rates will apply on profits between £50,000 and £250,000.

Tax reforms on the horizon?

Despite having got off relatively lightly in the Chancellor's Budget, HM Treasury unveiled a number of documents and consultations on future tax policies on March 23, dubbed 'tax day'. Most of these consultations hinge on the administration of tax. So, whilst not specifically aimed at the automotive industry, if implemented they will have an impact on all businesses.

Timely payment

One consultation considers 'timely payment of tax'. Most companies (99% according to HMRC literature) pay their corporation tax 9 months and 1 day after the end of the accounting period. Large companies are already obliged to pay quarterly on account. The consultation is seeking views as to the benefits and challenges of this current arrangement, including whether a move towards the Government's avowed aim of bringing the payment of taxation arising out of transactions closer to the date the transaction takes place will be of any benefit to a business. Any change would have to be accompanied by some sort of digital record keeping and filing, but HMRC have stated that 'Making tax Digital' for corporation tax will not become mandatory until 2026, at the earliest.

Notification of uncertain tax treatment by large businesses

Another consultation impacting on larger businesses outlines a new policy which will require a business to notify HMRC where they have adopted an uncertain tax treatment. This requirement, according to HMRC's introduction of the consultation, "will help to identify and reduce tax losses caused by delays in identifying and resolving disagreements in how the law should be interpreted. This proposal is not intended to suggest that HMRC's interpretation is always correct or that a difference in legal interpretation is avoidance or evasion."

This consultation is seeking views on the following areas, with the notification requirement proposed to become effective from April 2022:

- the definition of uncertain tax treatment
- the threshold for notification
- exclusions from the requirement to notify
- the proposed penalty for non-compliance.

What next?

Whilst the 2021 Budget announced incentives for business, it also clearly signposts the need for an increase in taxes, with the freezing of allowances and bands and the future increase in corporation tax on the horizon. The consultations also appear to show the direction of travel, from HMRC's perspective, towards paying tax sooner and also having more dialogue with HMRC.

The world of tax can be a challenging and ever-evolving minefield of information. Smart advice on corporate tax planning can help you achieve very substantial benefits. If you would like to speak to one of our tax specialists, please get in touch using the contact details on page 25.

What effect will the temporary enhanced incentives have on the cost of a new car dealership?

Between 1 April 2021 and 31 March 2023, companies investing in qualifying new plant and machinery will benefit from new first year capital allowances.

These changes mean a new build dealership costing £2.5 million (excluding land) could benefit from tax savings of £239,110. And the full amount could potentially be made available immediately if sufficient use is made of the Annual Investment Allowance (AIA), which is currently set at £1 million. In this article, we look at example calculations to illustrate the cash effects of the recent changes.

The calculations

A typical new build car dealership in the UK may have plant of around 43% of the build cost. Of course, this amount varies by design, brand and the particulars of individual procurement, including the quantum of direct works, but the figure is useful for illustrative purposes.

In this example, the total allowances would typically be split 35% main pool and 65% special rate pool. Based on these rates and splits, the example dealership would have £376,350 of main pool allowances and £698,750 in special rate pool allowances. The new temporary super-deduction of 130% would be applied to the main pool, giving a £489,125 reduction. The £698,750 would also benefit from a 50% first year deduction under the SR Allowance, with the balance being written down at 6% per year. Therefore, £349,375 should be written off under the 50% rate and £20,962 under the 6% rate.

The balance of the special rate pool £328,412 would be carried forward into future years and written down at a rate of 6% per annum.

Even ignoring the AIA in its entirety, there should be an immediate cash benefit of £163,297 if sufficient tax is paid using this illustrative example. Though in reality many dealers will be able to obtain the full cash benefit, £239,110 in this example, by appropriate use of the AIA.

These incentives are, therefore, potentially valuable, but given the current business environment care should still be taken before accelerating capital expenditure.

Before any expenditure you should ensure that the enhanced reliefs are applicable to your situation as there are exclusions, as outlined in our tax article on page 16. This example is also indicative only of a new build project. The typical rates will be different for refurbishments, extensions etc.

In considering the enhanced reliefs, it is important to consider carefully the typical level of allowances at the outset if there is debate on bringing forward capital expenditures.

The UHY view

Super-deduction

The super-deduction should apply to 'main pool' expenditure such as car lifts, tools, equipment and other items used in the business, as well as alterations to buildings to install other plant and machinery.

The super-deduction compares favourably to the 100% deduction of up to £1m expenditure under the AIA, returning 19p for each £1 invested. This may encourage lower value items to be capitalised as well as careful reflection on whether other expenditure could be capitalised (eg. staff costs installing plant).

However, with the main rate of corporation tax scheduled to increase to 25% from 1 April 2023, there may be limited benefit in bringing forward capital expenditure from that period, depending on the level of expenditure and the AIA limit at the time. Further, the Treasury will recover some of the tax benefit given by taxing balancing charges on end of life assets at the increased 25% rate.

SR Allowance

The SR Allowance is applicable in the main to integral features of a building such as the heating, ventilation and air conditioning (HVAC) systems and electrical and power systems.

The SR Allowance compares favourably to the 6% special rate which might otherwise apply, although with the AIA limit currently at £1m it appears of greatest benefit to those companies spending more than £1m on special rate assets. The £1m AIA limit is temporary and expected to return to its previous level of £200k after 31 December 2021.

Planning Capital Expenditure

Given the varying rates of relief for different expenditure, and that some substantial costs remain outside the scope of capital allowances (including land, buildings, doors/shutters and mains water systems), costs associated with, for example, a workshop extension, could quickly have complex tax treatment. Careful planning should therefore be undertaken if the tax position is to be budgeted for.

Losses

An extension of loss carry back was also announced so that losses made in 2020/21 and/or 2021/22 will be available to offset taxable profits for the three prior years on a 'last in first out' basis. The extension applies to a maximum of £2m for each company, corporate group or unincorporated business per loss-making year, and each company within a group is limited to a cap of £200k per loss-making year. The ability to carry back to the previous 12 months remains unlimited and capital allowances can generate losses. The cashflow benefit of refunding tax paid at 19% now must be weighed up against carrying the loss forward into years with a higher main rate of tax of 25%.

If you would like to discuss a potential capital project and obtain a guide to the likely level of relief available within the project, please contact one of our advisers on page 25 to discuss your specific circumstances.



Fraud and the automotive sector

Over the years, we have unearthed many different types of fraud, ranging from teeming and lading, back handers, profit manipulation and issues surrounding cash sales.

In April 2020, it was announced that Lookers was expanding its internal fraud investigations to its entire business after initial findings from one of its operating divisions resulted in an expected one-off charge of over £4 million in its 2019 financial results. At the end of the year, after eight months of delay, Lookers released its long-awaited annual report for 2019, detailing enormous losses as well as a cash fraud of £327k. This example just illustrates how allegations of fraud, previously undetected, can emerge from the shadows with a devastating impact on the results.

A high percentage of frauds in the automotive retail sector are committed by insiders, so ensuring you have strong financial controls in place is essential. You may wonder why, at your pre year-end audit planning meeting, your auditor queries whether there have been any instances of fraud during the year. It might seem a completely irrelevant question and one that has nothing to do with the audit but ask yourself, are your systems and controls robust enough to deter fraud? Would you know if your employees were pulling a fast one, or your supplier was really who they said they were? In this article, we have provided a brief overview of the main types of fraud in the automotive sector and provide some tips about what you can do to protect your dealership.

Profit manipulation

Not all fraud needs to be about cash. Sometimes, it can be about hiding the truth from more senior management, giving the impression that the results are not as bad as they really are. We have seen financial losses through profit manipulation build up into the £m's on balance sheets. Often the pressure is borne on the accounts team member rather than the manager who instigated the fraud. Any obvious pressure or stress exhibited by an accountant should prompt a cause for concern and a review of the balance sheet reconciliations instigated by a relevant internal or external party with the appropriate accountancy training.

Cash and credit card sales

Members of staff are often trusted that they will give the cash on sale of an asset to the company; unfortunately this does not always happen. This type of fraud is difficult to detect if the fraudster is modest in their ambitions. However, this is rarely the case and a lack of detection emboldens the individual until eventually the scale of their fraud is detected. Nevertheless, to protect yourself from this type of fraud, it makes sense to discourage the use of physical cash within the customer base wherever possible.

Teeming and lading

Teeming and lading is one of the most common types of fraud and will often start with just a small amount of money. If the fraudster finds that they get away with 'borrowing' the money, the amounts will escalate. Teeming and lading can either be a cash fraud or a way of covering over errors. If a cash fraud, it can be perpetrated by any staff member with access to cash, so sales staff taking deposits as well as service and parts advisers who can take cash. Most solutions rely on robust initial controls, through strong policies and segregation of duties. For larger businesses, the use of an internal audit function can provide some independent verification.

Kick back/backhanders

One of the hardest frauds to identify, this is where an employee is being paid by a supplier or customer to source or give them business. The sales and purchases still take place and are recorded and paid for in the usual way. The impact being that the price paid for goods may be high compared to a competitive quote, or sales price achieved too low. The business, therefore, loses out through reduced profit. We still hear of instances where owners accept that such practices are part of the 'normal' motor trade practice and that this will always happen to some extent. However, if you take the view, as we do, that this is not acceptable, it is important to put safeguards in place.

Supplier fraud

This particular fraud occurs when weaknesses within the financial controls process present an opportunity for a fraudster to extract cash from the business via the initiation of unauthorised payments or via the creation of a legitimate expectation of payment based on fraudulent invoices. This type of fraud can have a devastating impact as it is generally undertaken by determined, informed and methodical individuals over a protracted period of time, ultimately depriving the business of cash whilst the management struggle to comprehend reasons for such lack of cash availability.

Generally, financial systems and controls tend to reflect the size and nature of a company. The occurrence of this type of fraud is, therefore, more notable in smaller businesses where control processes are reliant on a limited number of individuals or in larger businesses where the sophistication of a control process does not match the size of the company, or where key mitigation controls are implemented sporadically, if at all. Essentially, this fraud is mitigated by robust system and control processes. At a minimum, we recommend ensuring a suitable level of segregation of responsibilities across finance teams.

Cybercrime

Cybercrime is ever evolving and staff need to be reminded to be sceptical about everything; from a parts supplier informing you of new bank details, to an email from the dealer principal requesting the immediate transfer of funds, to a call from the bank to say there is a problem with the payment run. Accounting systems should have strong controls in place which include double-checking instructions before transferring funds or changing bank details. We also recommend that you speak to your insurers about cyber liability insurance and make sure you have a good understanding of how you are covered.

Protecting your dealership from fraud

To reduce the risk of fraud, you should regularly review your financial controls and put measures in place to ensure the continuation of a strong control environment. As a minimum, we recommend you:

- Review the strength of financial controls and internal processes and guidelines
- Remind employees of existing company policies governing conduct and the acceptable use of company systems, devices and information
- Put measures in place to identify any unusual behaviour, such as enhanced monitoring or retrospective review of high-risk transactions

- Warn employees that cyber criminals may exploit the current turmoil to increase phishing attacks
- Review cyber liability insurance and understand how it will respond in potentially harmful situations
- Discuss automotive retail fraud risks with your auditor during the audit planning meeting to ensure key risks are identified and responded to.

We have considerable experience dealing with common fraud risks and can work with you to help you protect the business.

We have published a more detailed guide about these different types of fraud, along with real life examples and details on the various measures you can take to prevent crime from occurring, which can be found on our website at <https://www.uhy-uk.com/insights/fraud-automotive-retail-sector>.

Alternatively, please email marketing@uhy-uk.com to request an electronic copy of the guide.

If you would like to discuss fraud in more detail or find out about how we can help you develop strong financial controls, please contact one of the experts listed on page 25 to discuss your specific circumstances.



What lies ahead for the sector: the experts' perspectives

We asked a panel of industry experts for their insight on the outlook for the automotive sector through 2021 and beyond. Here are their views on nine hot topics currently affecting the industry.

Commentating on the market were:



David Kendrick
Head of Automotive,
UHY Hacker Young



Paul Daly
Automotive Partner,
UHY Hacker Young



Peter Waddell
CEO,
Big Motoring World
Group and Carzam



Peter Smyth
Group Director,
Swansway



Mike Allen
Head of Research,
Zeus Capital

2020 was a very challenging year as a result of Covid-19, however it was still profitable for many in the industry. What did you learn from 2020 that has changed you or your business for the better?

David Kendrick, UHY's head of automotive, opened the discussion by highlighting the resilience of the automotive sector, emphasising that despite the unprecedented operating environment "the majority of dealers had a very good year, in spite of everything going on."

Both David and Mike Allen, Head of Research at Zeus Capital, commented on the impressive speed owner managers adapted to change. Mike said "when the lockdown first hit, I think the first thing I learnt was how well most operators can cope in an unforeseen crisis. Nobody had a manual for this, and in many cases, it took decades to develop successful businesses, yet days to close down the businesses for an unknown period of time. Despite the inevitable distress this caused business owners, the industry came together to share best practice and cash management appeared to be well executed across the board, albeit aided with strong Government support." David agrees, adding "it is amazing that, when faced with a pandemic no one had ever experienced before, people just adjust. Those that embraced the change quickly will have been the winners."

Swansway Group Director, Peter Smyth, explained that Swansway were able to respond quickly thanks to daily Zoom meetings between the senior directors. During these meetings, directors review real time data, with updates on financials, stock, the age of cars and an overview of the previous day's business. Peter shared that "this meeting takes place every morning at 9.30am. We have found it extremely beneficial as we always know exactly how the business is performing and we will continue to hold these daily meetings following the pandemic."

Peter Waddell, CEO of Big Motoring World, added that in the last 12 months he has learnt a lot about his company and his staff, including the things that he needs to change. He said "during the first lockdown we had a three month period when we could take a step back and reflect on the

business, and there will be a lot of things I will change as a result. How we can help staff more and how we can help customers more; ultimately how we can change the company for the better. It is all about the detail. As a very aggressive company, we had been so busy so we used this time to take a step back and reflect on what works and what needs changing."

On the subject of staff, Peter Smyth added that Swansway have reduced their headcount by 8% in the last 12 months. Peter said "the reduction in headcount has resulted in a saving of roughly £3m. Our team is smaller but we are still selling just as many cars." David Kendrick agreed that "cutting out unnecessary costs that have crept back in, streamlining businesses and aligning the cost base to ensure it is fit for purpose has been essential". Smyth went on to say that the pandemic also made it easier to dispose of any loss making franchises, revealing "it is painful at the time, but these loss making franchises have now been replaced with profit making businesses."

From a market perspective, as the first lockdown eased in summer 2020, pent up demand was very strong. Used cars were flying off dealer forecourts with some dealerships reporting a sales ratio of used to new cars as high as 15-1. UHY automotive partner, Paul Daly, commented "2020 probably confirmed what we already knew, but for many dealers it is a lot easier to make a good return when there isn't too much new vehicle supply."

However, the demand for used cars was so high, dealers were struggling to get hold of used car stock at auction, resulting in prices soaring. Big Motoring World boss Peter Waddell, who launched his online used car dealership Carzam in 2020 with a stock of 4,000 cars, said "not buying as many cars at auction has changed us for the better. We have found a lot of our cars cheaper elsewhere".

The Carzam website went live in December 2020, offering thousands of used cars for sale available for same day collection or next day delivery, aiming to 'accelerate and lead' the digital transformation of the industry. But despite the huge amount of planning and investment into Carzam's launch, Waddell feels there is always more to be learnt in the digital arena, stressing

that 2020 highlighted gaps in their SEO strategy. He revealed that "SEO will be a crucial part of our digital marketing strategy moving forward."

Sharing final thoughts about lessons learnt during 2020, Mike Allen said "my final lesson was understanding monthly trends in a lot more detail. We were following consumer demand closely, OEM supply patterns ahead of Brexit, balance sheet and cash management as well as varying levels of Government support during the year."

Ultimately, the panel were in agreement that, whilst 2020 was a year no one would want to play out again, the Covid-19 pandemic has given industry leaders a chance to take a step back and revisit the fundamentals of their businesses. Paul Daly concluded "our discussions with a number of owner managers, many of whom have had to go 'back to the floor' during the coronavirus crisis due to furloughed staff, have indicated that they are surprised at how some of the basic processes they thought were still in place had fallen by the wayside. 2020 allowed owners the time to correct this and ensure that managers are fully held to account in ensuring that processes are properly followed day in day out, with a view to managing costs, improving operational efficiency and optimising profit."

How do you think the move to digital is going to affect the industry over the next 5 years?

During the Covid-19 crisis, we saw how quickly the buying process can change towards click and collect to suit the external environment. However, our panel unanimously agreed that, whilst Covid-19 has undoubtedly triggered an acceleration in digital developments, digital will not replace the need for dealership visits and personal interaction.

Mike Allen explained "the traditional dealership model has already undertaken rapid change that has become more digital, and will become increasingly personalised, targeted and intuitive to the consumer in our view. There is no doubt digital will continue to develop around enhancing the consumer buying experience and buying patterns, but we still believe this does not mean dealership visits are diminished from the process. As with everything, digital transformation will begin and end with the consumer in mind."

David Kendrick injected "never have we had so much noise around the digital journey. Yes customers will be doing more research online than ever before, but I remain a believer that the dealership network is very much still needed, even though the number of representation points is likely to reduce." Paul Daly agrees, adding "we have seen an acceleration, but a lot of it is due to lockdown. I believe it will settle at a natural level, with clients typically thinking around 25% digital will be the normal going forwards."

Peter Smyth also thinks the industry has taken huge steps forward in the digital space over the last 12 months. He said "I welcome the disrupters as they have made us up our game. I believe it will ultimately help our industry. All the current intel is telling us that customers are prepared to deal online digitally, but they prefer a mixture of 'bricks and clicks', with a local dealer to visit and a chance to ask questions and view the product. I believe that if franchise dealers adapt to address the digital aspect of their business, as many have over the last 12 months, they will be well placed going forward."

The response that surprised us the most came from Carzam owner, Peter Waddell, who commented that whilst lockdown helped the online businesses and moved the digital presence forward, he believes "people still like to buy a car in person" and he expects online sales to drop now showrooms are open again. Despite pumping £50m of his own cash into his new online car sales business, Peter expects most people will still want to "touch and feel" the product. He elaborated, "there is room for physical and room for digital; we have both. But there will always be a need for the traditional dealership model." Concluding, Peter joked "you didn't expect that answer from me, did you?"

What is your outlook for 2021 and have you done anything differently when planning for this year?

Generally the consensus is that 2021 should be a good year for the industry. Our panel expect strong demand and margins now showrooms are re-opened, with costs already under tight control and bolstered further by extended Government schemes. Mike Allen explains, "as restrictions lift, we would expect pent up demand to offset

any weakness seen in the traditional March trading period. We think the PLCs are in good shape from a cost management and balance sheet perspective, and are well equipped to deal with the challenges this year will bring. I think companies will be happy to be on par with 2020 in profit terms, especially as Government support gets removed." David Kendrick agrees, adding "at this point, I would expect businesses to be back on plan, however, I do worry what lies ahead in Q4 and 2022 as the Covid-19 impact really hits the economy."

When it comes to planning for the year ahead, Paul Daly feels this it is something that is very difficult to do in such a fast moving environment. He says "I have been encouraging clients to do some more dynamic forecasting, rather than relying on plans that become rapidly out of date."

Peter Smyth doesn't intend to do anything differently. He explains "2020 was a great year for results and we expect a repeat in 2021. These results may come at different times of year, but we expect the overall result to be similar."

On the other hand, Peter Waddell expects 2021 to outperform 2020. He said "staff have been in lockdown for months and they are hungry. We have some Rottweilers that want to get out of the cage. They want to get back out to work; their energy now showrooms have re-opened is electrifying! And people are ready to spend money. They haven't had holidays or had anything to spend money on."

How do you see the current issues with high street retail evolving? Does this present any opportunity or threat for traditional car retailing?

Both Peter Smyth and Peter Waddell think the high street will evolve but do not foresee the death of the high street. Smyth comments "There is a reluctance to use public transport so people will still want to visit their local high street. I think we will see the exit of the big department stores and these will be replaced by smaller owner operated businesses that sell specialised products. I expect the high street to become a mixture of boutique style and residential."

Paul Daly thinks the evolution will be more fundamental and suggests that high streets are increasingly going to be more about experience than the practicalities of shopping. He said "I think the high street will become more of a shop window for products that people may then choose to purchase online. I can see car showrooms being a potential good fit into this new environment."

David Kendrick points out that car retailing is very different to other retail as there are the aftercare and servicing elements. He says "there will be a change to car retailing, but it will not be as severe as perhaps the high street has been hit. There are also winners and losers, some high street operators remain profitable with a strong online presence also."

All are in agreement that people will still want to visit car dealerships. Peter Waddell sums it up by saying "I've been in this industry for 37 years and the actual structure of how people buy a car has not changed in those 37 years. People still want to see the product, touch it, haggle etc. They still want to come to a dealership."

Do you feel the burden of business rates on traditional retail businesses is a fair one? Do you foresee any changes to the way the Government looks to generate income in this area?

Paul Daly feels strongly that the burden of business rates on traditional retail businesses is unfair. He explains "I think that rates typically represent 50% of rent cost. This is outrageous and a real cost drag on physical retail businesses compared to online. I think the Government has to respond to this and ensure the online businesses pay their fair share, with VAT being the obvious area to target to allow a more level playing field."

Mike Allen agrees that this is an area that needs to be reviewed, adding "motor retailers operate from large premises and are low operating margin businesses operating off high fixed cost bases. The industry is critical to the wider automotive supply chain in the UK, which needs to be supported in a post-Brexit world. I think this needs to be reviewed by the Government and OEMs alike."

Interestingly, the two motor dealers on the panel, Peter Waddell and Peter Smyth, do not think there will be any changes to business rates. Both agree that the Government has to generate the income somewhere, so they can not see there being any change to business rates on traditional businesses. When quizzed on whether the rates are fair, Peter Smyth commented "I did think business rates were fair until the rise of the internet, but now with so many online businesses it does not seem fair. If there was an online tax to be paid it would be fairer,

however, as our business model is moving more online, we don't really want that now!" Peter Waddell points out that even his online business still has to have a warehouse to store the cars and therefore has to pay rates on that.

Has Brexit affected your business at all and do you think it will in the future?

The overwhelming response was a simple "no" to both parts of this question. Mike Allen went into more detail, explaining "the FX dynamics have not changed post Brexit, which is a positive, and it was clearly beneficial that there were no direct tariffs. However, the long term consequences are less clear, but we think the UK will always be a strategically important market for most OEMs, and providing sterling remains robust should remain an active market."

Peter Smyth agrees with Mike, adding that the "British market is too big a player for European OEMs to ignore."

David Kendrick added that he had expected Brexit to put the brakes on the transaction market in 2020, but it was actually Covid-19 that had the biggest impact on M&A activity. However, Kendrick added that he is now seeing significant activity return, in the automotive retail market but also amongst software and tech suppliers to the industry. He said "I think 2021 could be extremely busy with a number of transactions taking place before a potentially tougher 2022, when many businesses may become cheaper. It is also likely the capital gains rates will finally change, which may also see a surge in owners looking to exit before any changes."

What is your latest view on the EV market and how it will evolve?

This is a question we have been asking our panel for a number of years now. The response to date has been that, whilst EV was starting to gain some traction, it was going to be a very slow process. However, the consensus this year is that EV is finally gathering pace following the Government's announcement that the sale of new petrol and diesel cars is to end by 2030.

Peter Waddell thinks the growth of the EV market will increasingly pick up pace over the coming months and years "as more people get to know about it and get comfortable with it". He revealed electrification is a big focus for him personally this year, as well as his companies, stating "I believe it is going to happen. We want to be involved in it and be one of the first."

Peter Smyth also thinks electrification is undoubtedly coming and he highlights the millions OEMs have invested into the development of EVs. However, Smyth thinks the speed of evolution will largely depend on the supporting infrastructure. Mike Allen agrees, foreseeing "some challenges in terms of affordability of vehicles and infrastructure that will probably come under the spotlight in the next couple of years."

Paul Daly predicts that "more of these products will be made under license, in the same way as many other consumer goods are. This will bring production costs down and make it difficult for those that don't evolve to compete."

David Kendrick reasons that there is a lot still to do to make the 2030 deadline a reality. He says "it wouldn't surprise me if the 2030 date changed again. Diesel and petrol cars will be around for some time after that as well. The market is changing, yes, but the consumer still appears to be very wary of electric and the lack of infrastructure in place as it stands."

Peter Smyth concludes "Government have some big questions to ask. Their biggest problem is about how to generate the income they have enjoyed on petrol and diesel sales if they really are going to meet the target to replace the sale of these vehicles with electric. I wonder if electrification is a stepping stone towards hydrogen at the pump, with duty payable on that?"

What do you think will happen with used car values over the next 12 months?

Despite concerns that an end to the ban on the repossession of vehicles by finance companies due to missed payments could lead to an oversupply of cars on the used market in 2021, all of our experts expect used car values to remain buoyant in 2021, with some predicting that values will go up. Paul Daly explained “we are still seeing restricted supply, caused by the dramatic reduction in registrations in 2020 and 2021 to date, and this can only be good news for the used car market.”

Peter Waddell believes the values will go up, injecting that “it is all down to supply and demand and the demand is outstripping the supply. It did it the first time we came out of lockdown and it will do it again”.

Peter Smyth also expects values to stay buoyant, adding “30% less new cars are being sold at this moment in time, but people still don’t want to use public transport. I don’t see any issue on the horizon with used car values. Just look at all the new players coming to the market – it must be attractive!”

Mike Allen wraps up the conversation by concluding “we have to remember that used values were very strong in 2020 in what was a supply constrained market, with Q1 2021 starting in the same vein. It would not surprise us to see a “normal correction” if the supply of new cars started to accelerate later in the year, but we do not see this on the horizon yet. On balance we see used car values remaining resilient.”

As we came to the end of the interview with our panel of experts, it was evident that one overriding theme was present throughout; their outlook for the industry is positive.

Yes, 2020 was an unprecedented and difficult year and there may well be further issues to overcome as we navigate the road to recovery, but the automotive retail sector remains one of the UK’s most resilient and important economic pillars and it has an incomparable ability to overcome obstacles. From our experts’ perspective, it will continue to do so.

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