Motor Sector

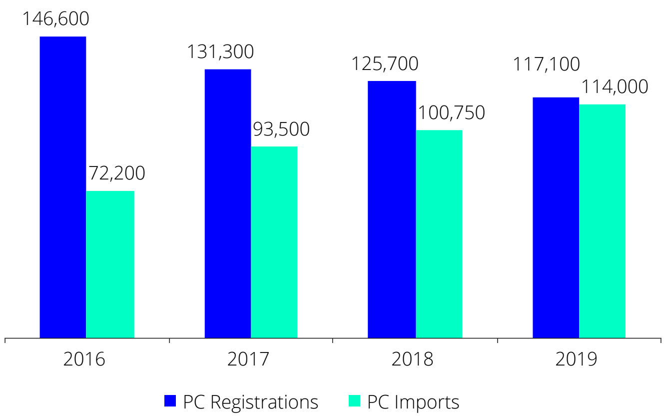
2019 Review

Summary

In January 2019, the year kicked off with a slow start; new passenger car sales declined 12.6% and light commercial vehicle sales declined 16.3%.

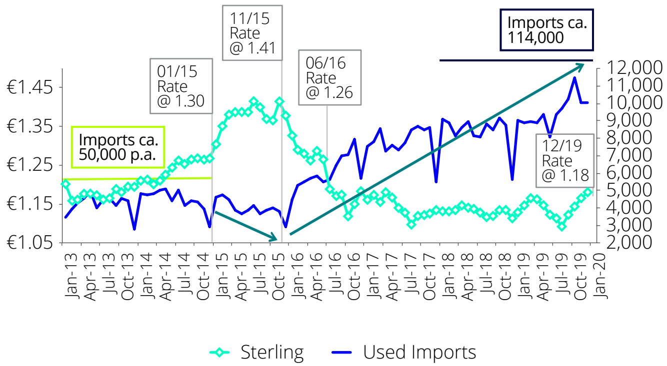
- By the end of H1 2019, following the launch of a number of volume models absent from the market in January (e.g. Toyota Corolla), the market had improved with new passenger car registrations down 7.3% to 80,750 units and light commercial vehicle sales down 7.9% to 15,350 units.
- In H2 2019, new passenger car sales declined 5.7% to 36,350 units and light commercial vehicle sales increased 13.9% to 10,000 units. By year end, new passenger car sales declined 6.8% to 117,100 units and light commercial vehicle declined 0.4% to 25,350 units.
- Electric vehicles (EV's) accounted for 2.9% of total new car registrations in 2019. As a comparison, EV's accounted for 1.9% of total EU registrations in 2019. In Ireland just two vehicles, the Hyundai Kona and Nissan Leaf, account for 63.1% of EV sales in 2019.
- Diesel remained the number one choice for Irish consumers at 46.6% of total new car sales. Diesel share of new car registrations has been falling since Q4 2015 and 2019 was the first year diesel share fell below 50% since 2009. Petrol vehicles accounted for 40.6% of the new car market. Hybrid sales accounted for 9.9% in 2019 and Toyota accounted for 81.5% of all Hybrid sales.
- SUV sales accounted for 45.9% of new passenger car sales in 2019 and represent 2.5x growth since 2013.

Market Overview



Used Car Imports

Brexit Impact: GBP vs. Eur & Used Imports



- In advance of the passed Brexit deadline of 31st October 2019, used car imports increased notably. In the months of September and October, used imports increased by 20.3% and 25.4% respectively. Strong demand for imports continued for the remainder of the year with imports increasing in December by 78%.
- In H2 2019, used imports increased by 24.4% to 60,800 units bringing annualised used imports to 114,000 units – a record year.
- Although used imported vehicles have an impact to new car sales, used imports can be seen as an opportunity for the motor dealers, particularly in a declining new car market, as they tend to carry higher margins.

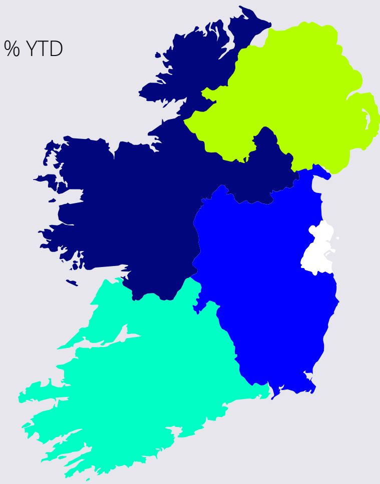
National Position
New (N) -6.8% YTD
Used Imports (UI) +13.1% YTD

Dublin
N -1.2% YTD
UI +18.4% YTD

Rest of Leinster
N -13.0% YTD
UI +10.4% YTD

Connacht/Ulster*
N -9.8% YTD
UI +8.9% YTD

Munster
N -9.6% YTD
UI +13.0% YTD

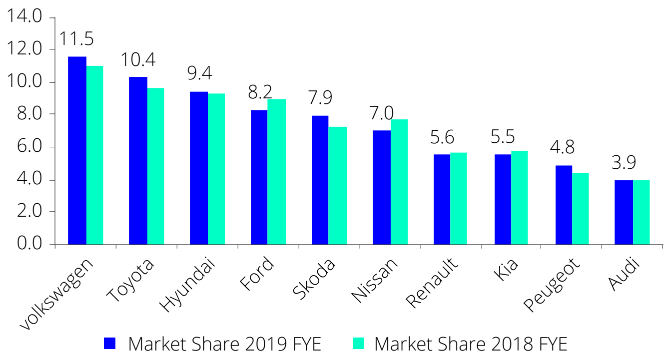


*Ulster Border counties

Market Leading Brands / Market Shares

Passenger Car Registrations

PC Sales



- Volkswagen finished the year in #1 position with 11.5% market share, followed by Toyota with 10.4% in #2, Hyundai with 9.4% in #3, Ford with 8.2% in #4 and Skoda with 7.9% in #5.
- Sales of new premium cars collectively declined 8.4% in 2019 (Audi, BMW, , Mercedes-Benz, Jaguar Landrover, Lexus, Tesla, Porsche & Bentley). Sales of used imported premium brands, however, increased 21.2% and represent 27.4% of all used imports.
- Used imports aged <1 year have a particular impact on new car sales and represent between 8-10% of total used imports (ca. 10,000 units p.a. and have a direct impact on new car sales) Premium brands accounted for 47.9% of imports <1 year.

Light Commercial Vehicle (LCV) Registrations

- Ford finished the year in #1 position with 21.0% market share, followed by Volkswagen with 18.7% in #2, Renault with 14.3% in #3, Peugeot with 8.3% in #4 and Opel with 6.8% in #5.
- There were eight consecutive months of LCV sales growth to November 2019 – a positive trend.

Passenger Car Sales	Light Commercial Vehicles	Used Imported Cars
FYE 2019 -6.8%	FYE 2019 -0.4%	FYE 2019 +13.1%

Bank of Ireland

Motor Sector
Outlook 2020

Summary

Following three consecutive years of a declining new car market, the sector is hopeful for a year of stability in 2020. There are a number of green shoots worth consideration:

- Positive macroeconomic environment. Bank of Ireland has nudged up our GDP growth forecast for 2020 to 4.8%.Our unemployment rate forecast remains unchanged at 4.6%.
- Eight consecutive months of LCV growth to November 2019.
- A Nitrogen Oxide (NOx) emissions levy introduced in January 2020 is likely to reduce the level of older used vehicle imports into Ireland from the UK. This could support new car sales this year.
- The desire for consumers to drive more environmentally friendly vehicles coupled with the "decade effect" for new vehicles registered in 2020 may attract consumers to change their vehicles.
- Vehicle distributor's widely forecasting new car demand to be at least flat (circa 117,000 new car sales), and many report growth in vehicle pre-orders for delivery in 2020.
- The Society of Irish Motor Industry (SIMI) is, however, forecasting a decline of 6% in new car sales in 2020 to circa 110,000 new car sales. The development of used import trends in 2020, and its impact to new car sales, will depend on how sterling performs and what impact the NOx levy, commencing in January 2020, has to used car import volumes.

"Despite operating in a declining new car market, a well-managed and resilient franchised operation can still grow by refocusing on used sales and workshop channels"

KPI's

Motor dealerships operate in a highly capital intensive and low profit environment. As a result, they focus on the following areas in order to maximise profitability:

- **Used Car Stock Management:** As the new car market declined in recent years, motor dealers look for alternative sources of income to compensate for lost contribution from new car sales. Dealers can source additional used cars in both the Irish and UK markets to recover/increase overall sales profitability. Stock levels still require intense scrutiny as below average management of used car processes leads to cash-flow problems, higher stand-in values and an aging stock profile. A well-managed retailer will turn used stock 6 times per annum indicating used stock should be held for no more than 60 days.
- **Aftersales Performance:** Motor retailers can focus on developing profitability in their workshop and parts departments as this gives protection against volatility in new car sales. A key industry KPI is known as Absorption where the benchmark is 80%. This indicates that direct profit produced from Aftersales will absorb 80% of administrative overheads, thus providing comfort to a dealer during times of instability.

"If you're looking to scale and grow, the key areas to focus on growth are in the used car department and the workshop department. If you have those areas performing to benchmark standards, this will be the springboard to enable sustainable growth into the future"

Brexit

The UK formally left the EU on 31 January 2020. We are currently in the implementation period which is due to end on 31 December 2020. The impact of Brexit to the sector and, in particular, currency fluctuations will continue to be monitored closely throughout 2020.

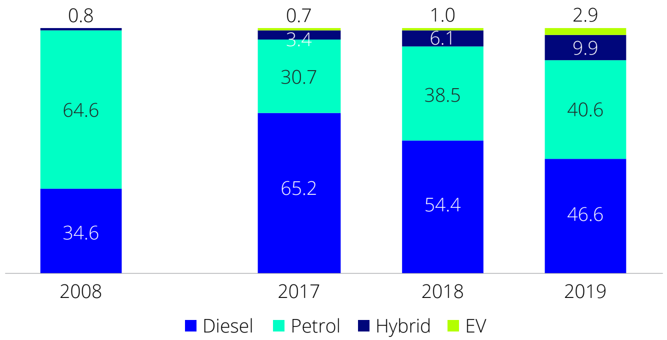
Electric Vehicles and Carbon Dioxide ($C0_2$) Emissions

Automotive manufacturers require time to develop and scale EV's and bring them to market. The sector is investing €57billion annually into R&D in the EU and is committed to move toward Carbon Neutrality by 2050. Road transport accounts for 21.1% of Greenhouse Gas Emissions in the EU with passenger cars representing 12.8%. The sector has delivered a 31.2% reduction in $C0_2$ emissions from new car sales, as $C0_2$ emissions in the EU fell from 172.2g/km in 2000 to 118.5g/km in 2017. Automotive manufacturers in the EU must achieve a $C0_2$ target of 95g/km in 2021 for new car sales or face significant penalties. The sector is further committed to more stringent $C0_2$ goals that need to be achieved by 2030.

Electric Vehicles will become part of the motoring landscape in the coming years. Manufacturers will need to develop more EV options in order to meet consumer demand and strict EU emissions targets. This new technology is, however, expensive to produce and will remain high for EV and carbon neutral fuels according to the European Automotive Manufacturers Association (ACEA) – body representing 16 major Europe-based car, van, truck and bus manufacturers. The growth of Electric Vehicles (EV's) in Ireland is likely to be an "Evolution not a Revolution".

Diesel remained the most popular choice with Irish consumers last year, declining from a peak of 76.3% in 2014 and represented 46.6% of all new cars sold in 2019. Combined sales of diesel and petrol new car sales accounted for 87.2% of new car sales in 2019. EV and Hybrid sales accounted for 12.8% of the market in 2019 and these are likely to grow further in 2020. As a comparison, EV's accounted for 1.9% of total EU registrations in 2019 so Ireland punched above its weight with 2.9% share in 2019 when compared to its European neighbours.

Fuel Type Analysis



2008: $C0_2$ based taxation introduced

Finance Opportunities

We expect that trends regarding debt requirements experienced in 2019 will carry into 2020. Consolidation of single operators into larger dealer groups is likely to continue this year and Bank of Ireland is open for business and has an appetite for the sector.

- Motor dealers are likely to experience increased capital expenditure needs required for EV Infrastructure and we can provide funding to support same.
- Refinance opportunities will present themselves from time to time and we welcome the opportunity to discuss these needs with new customers in 2020.

Bank of Ireland

We have a strong appetite to support your business, in 2020 and beyond, with comprehensive sectoral expertise and provide you with funding bespoke to suit your short and long term needs.

Sources: SIMI, ACEA, CSO, Central Bank, SOLAS, Jim Power Economics.

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Stephen joined Bank of Ireland in 2018 and brings over 20 years Motor Sector Industry experience having held senior positions in both wholesale distribution and in retail as a motor dealer where he operated as Dealer Principal for 7 years – read more about him at boi.com/motorsector.