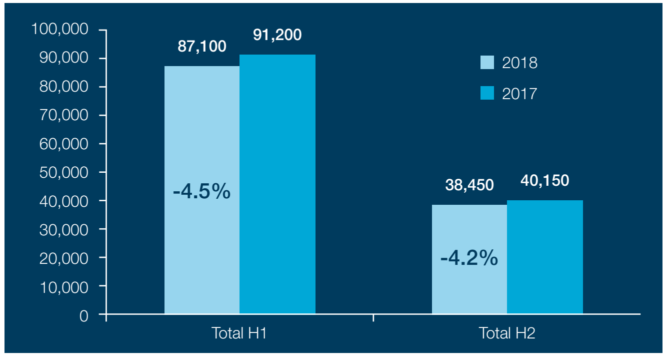
Motor

2018 Review

The new passenger car market in Ireland experienced exceptional growth from 2013 to 2016, nearly doubling in size. It has, however, declined almost 15% since 2016 and the new car market fell 4.4% in 2018.

Summary

- New car registrations reached 125,550 units in 2018, a decline of 4.4% compared to 2017; 38,450 units were registered in H2 2018 representing 30.6% of the market.



- Used car imports reached record levels in 2018 with 100,750 units registered – this represents a 7.8% increase in 2018. 48,900 units were registered in H2 2018 which was 3% ahead year on year.
- On a positive note, Light Commercial Vehicle (LCV) registrations have increased by 5.5% and Heavy Goods Vehicles (HGV) registrations were flat for 2018.

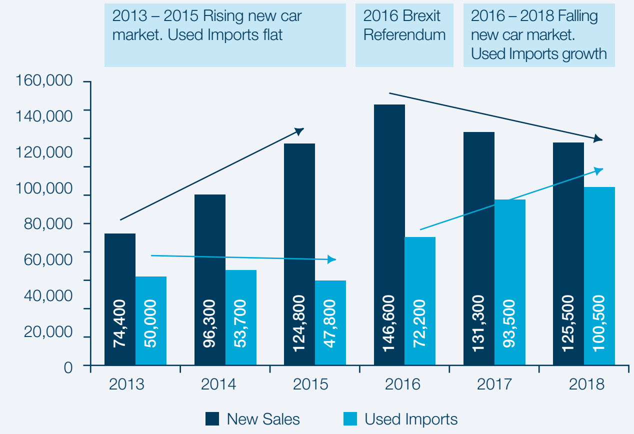
Market Leading Brands / Market Shares

- The leading brands by market share in 2018 are as follows: Volkswagen (10.97%), Toyota (9.59%), Hyundai (9.27%), Ford (8.99%) and Nissan (7.73%). The top five brands represent 46.5% of the Irish Market. The brand with the biggest increase in new car registrations was Peugeot which registered 1,707 (43.9%) more cars than in 2017 and finished the year with 4.46% market share.

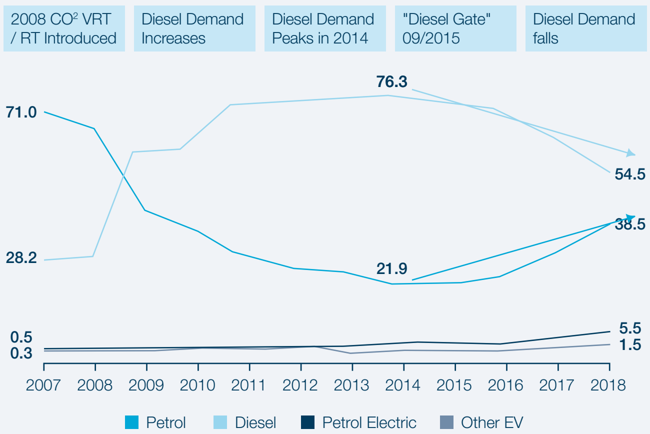
2018 Market Overview / Key Trends

- The decline in the new car market since 2017 can be largely attributed to the impact of Brexit and subsequent increase in used car imports along with the impact of so-called "Diesel Gate".

Used Import (UI) Trend



- The annual volume of used imports from the UK has more than doubled since 2015. This has impacted residual values of used cars.
- Significant year on year increases have been recorded in new petrol vehicle registrations from a low point in 2014 of 21.9% to 38.5% in 2018. Used imports, however, remain predominately diesel (ca. 75%).



Regional Developments

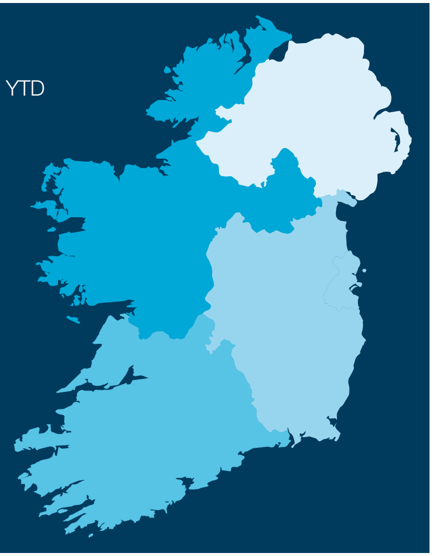
National Position
New (N) -4.4% YTD
Used Imports (UI) +8% YTD

Leinster
N -3.1% YTD
UI +11.9% YTD

Connaght/Ulster*
N -5.5% YTD
UI +1.6% YTD

Munster
N -6.2% YTD
UI +7.2% YTD

Northern Ireland
N -11.6% YTD
UI -1.3% YTD



LCV and HGV Market

- The LCV and HGV markets have bucked the new car market trend in 2018; the LCV market grew by 5.5% and the HGV market was flat year on year. This reflects strong macro-economic data in the Irish market and confidence within Irish SME's to replace and expand their fleets. The leading LCV brands by market share in 2018 are as follows: Ford (23.94%), Volkswagen (19.14%), Renault (13.49%), Toyota (9.42%) and Peugeot (6.60%).

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Stephen joined Bank of Ireland in 2018 and brings over 20 years Motor Sector experience developed in both Retail and National Distributor positions. He comes to us direct from industry having previously been employed as General Manager for a multi-franchised retail motor group for 7 years. He opened a new retail operation in 2011 in a very challenging economic environment and was responsible for building both Sales (new and used) and Aftersales (Service and Parts) functions of the business. In addition to a first class honours BA in Business Studies (Hons) from Griffith College Dublin, Stephen holds a Certificate in Transport Engineering from Dublin Institute of Technology.

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2019 Outlook

With the backdrop of Brexit and a continued rise in levels of used car imports, new car sales are expected to decline again in 2019 to ca. 110k – 113k units.

Summary

- The general economic environment remains positive, and there are a number of factors that will be supportive to the Motor Sector:
  - GDP is forecasted to increase by 4.2% in 2019
  - Unemployment is expected to contract further to 4.9%
  - Youth unemployment has contracted to 12.3% in November 2018. This is a positive indicator for the motor trade as the average age of new car consumers rose considerably during the recession.

Challenges

- The impact of Brexit and, in particular, currency fluctuations will need to be monitored closely in H1 2019.
- In the event of a hard Brexit, a WTO tariff of 10% will apply. This tariff, coupled with additional regulatory requirements (yet to be developed), and a requirement for VAT to be charged on used vehicles coming from outside the EU upon registration in the state is likely to reduce used imports to Ireland, though this will depend on exchange rate movements..
- The Exchequer collected €1.4bn in VAT & VRT from new and used car sales in the first 9 months of 2018 which was a 0.9% increase on 2017. The average tax take works out to be €9,334 on every new car registered and €3,378 on every used car registered. The loss to the Exchequer is clearly evident as used imports continue to increase.
- Staff shortages are evident, particularly for technicians and sales professionals. As a result, dealers have to pay higher salaries in order to keep staff or to attract new skilled staff resulting in an increased cost base for dealerships.
- The full effect of the implementation of WLTP (World Light Vehicle Testing Procedure) and diesel VRT increase of 1% should be seen in 2019. Increases are expected in declared C02 emissions which will lead to increases in new car prices and road tax.

Opportunities and KPI's

- Motor dealerships operate in a highly capital intensive and low profit environment. As a result, they should focus on the following areas in order to maximise profitability:
- **Used Car Stock Management:** As the new car market continues to decline, motor dealers will look at alternative sources of income to compensate for the margin loss. 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 dealership will turn used stock 6 times per annum indicating used stock should be held for no more than 60 days. The industry benchmark for stock turn is 8 times.
- **Aftersales Performance:** Many motor retailers 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 the Absorption ratio and the benchmark is 80%. This indicates that direct profit produced from Aftersales will absorb 80% of Overheads.

Outlook

- New passenger car and LCV markets declined in January 2019 by 12.6% and 16.3% respectively. Annualised, a decline of 10 - 12% is forecasted in 2019.
- In the event of a hard Brexit, however, both new passenger car and LCV markets are expected to weaken further.
- Used car imports in January 2019 were down 0.6%, a small decrease year on year. Annualised, used imports are expected to be in line with 2018 levels of ca. 100,000 units.

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- We understand the Motor Industry, the intense seasonality of new car sales in quarter one, the impact this has on used stock volumes, the unique funding requirements of the sector and the importance of developing growth in Aftersales which ultimately protects the business against volatility in new car sales.
- We have a strong appetite to support your business, in 2019 and beyond, with comprehensive sectoral expertise and provide you with funding bespoke to suit your short and long term needs.

Sources: SIMI, Central Bank, ESRI, Jim Power Economics Ltd, CSO.