Motor

2019 H1 Review

The Irish motor industry has experienced many challenges in recent years, but the market since the 2016 Brexit referendum has been particularly challenging.

Passenger Car Sales	Light Commercial Vehicles	Used Imported Cars
YTD 2019 -7.4%	YTD 2019 -7.6%	YTD 2019 +2.4%

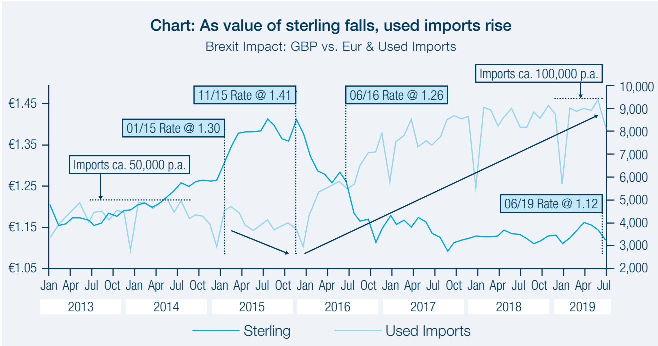
Summary

- In January 2019, the year kicked off with a slow start; new passenger car sales were down 12.6% and light commercial vehicle sales were back 16.3%. A number of key volume models were absent from the market at this point with launches due in the following months (eg Toyota Corolla).
- By the end of Q1, new passenger car and light commercial vehicle sales were each back 10.7%. April and May brought two consecutive months of growth; the new car market finished down 7.6% and light commercial vehicles were back 8.4%. June 2019 brought a third consecutive month of growth for passenger car sales.
- By the end of H1 2019, the market had picked up from January with new passenger car registrations down 7.4% to 80,712 units, light commercial vehicle sales down 7.6% to 15,386 units and used imports increased by 2.4% to 53,120 units.
- In H1 2019, the share of diesel engines fell below 50% of new car sales to 47.5% for the first time since 2008. The share of petrol engines increased to 40.7%; Hybrid and EV shares also increased to 9.5% and 2.4% respectively.
- SUV vehicles account for 46% of new car sales and represents 2.5x growth since 2013
- In the first half, Revenue collected ca. €1bn in VAT and VRT from car sales; €821m was collected in VAT/VRT from new car sales and €186m in VRT from used imports

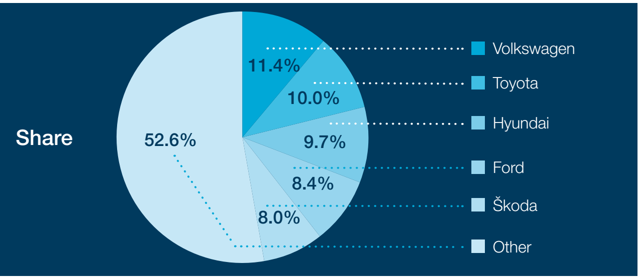
"Despite operating in a declining new car market, a well-managed and resilient franchised operation can still grow by refocusing on used sales and workshop channels"

Used Car Imports

- Registrations of used imports declined 0.5% in the first two months of 2019. In March, used imports increased by 10% which was likely driven by the original Brexit deadline. A further increase of 2.8% occurred in April which, again, was attributed to imports registered ahead of the second Brexit deadline.
- In the first half of 2019, used car imports are 2.4% higher than the previous year. 2018 was a record year for used imports, with 100,750 used passenger vehicles imported.
- As long as sterling continues to trade in it's current range, 2019 is shaping up to be another record year for used imports.
- Used imports can be seen as an opportunity for the motor sector, particularly as new car demand declines, as they tend to carry higher margins than locally traded vehicles.



Market Leading Brands / Market Shares



- In the first six months of 2019, Volkswagen holds the #1 position with 11.4% market share, followed by Toyota with 10.0% in #2, Hyundai with 9.7% in #3, Ford with 8.4% in #4 and Skoda with 8.0% in #5
- Sales of new premium cars collectively declined 13.2% in H1 2019 (Audi, BMW, MB, JLR, Lexus, Tesla, Porsche & Bentley). Sales of used imported premium brands, however, increased 13.3% and represent 27.7% 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 (i.e. ca. 8,000 – 10,000 p.a.)
- Furthermore, used imported vehicles aged <1 year increased by 23.5% in the same period. Premium brands accounted for 50.5% of these.

"The motor car market is more than glass boxes selling new vehicles. New car sales is just one channel but consider a motor dealership to be a used car operator with a workshop attached that also happens to sell new vehicles"

Regional Developments

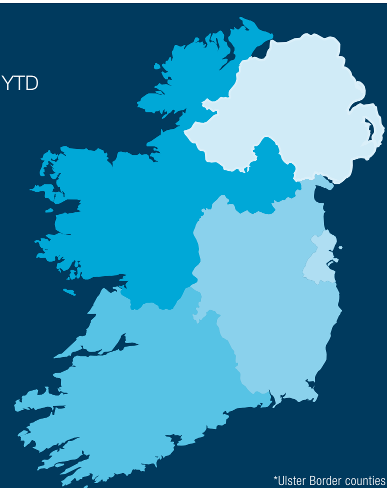
National Position
New (N) -7.4% YTD
Used Imports (UI) +2.4% YTD

Dublin
N -2.3% YTD
UI +11.6% YTD

Rest of Leinster
N -13.5% YTD
UI -0.7% YTD

Connacht/Ulster*
N -10.0% YTD
UI -3.6% YTD

Munster
N -9.0% YTD
UI +0.0% YTD



*Ulster Border counties

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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.

Bank of Ireland

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Motor

2019 H2 Outlook

1992 – NEDC
Introduction of New European Driving Cycle

Sept 2017 – Phased Transition to WLTP
Introduction of New European Driving Cycle

Sept 2018 – WLTP & RDE
Introduction of *Worldwide Harmonised Light Vehicles Test Procedure* (WLTP). Compulsory for all new vehicles sold

Sept 2019 – RDE Step 2
Introduction of Real Driving Emissions (RDE), Step 2. On road testing of vehicles to evaluate NoX emissions

Jan 2020 – WLTP & RDE
WLTP and NEDC values to be calculated for vehicles up to 2020. From Jan 2020, WLTP will be the only consumption and emissions values for all new cars

With the backdrop of Brexit and a continued rise in levels of used car imports, new car sales are expected to decline in 2019 to ca. 115,000 units. The sector, however, is not just about new car sales...

Summary

- The general economic environment remains positive, and there are a number of factors that remain supportive to the Motor Sector:
  - BOI has nudged up our GDP growth forecast for 2019 to 4.8% and our 2020 forecast to 3.8% while the equivalent numbers from the Central Bank of Ireland are 4.2% and 3.6% respectively.
  - Seasonally adjusted unemployment fell to 4.5% in June 2019 (from 5.9% in June 2018) and is expected to remain at this level.
  - Interest rates are not expected to materially change in H2 2019.

Challenges

WLTP

- **What is WLTP?**
  - The Worldwide Harmonised Light Vehicle Test Procedure (WLTP) is a new laboratory test to define vehicle C02 emissions. WLTP replaces the New European Driving Cycle (NEDC) test designed in 1980's.
- **How it impacts the sector:**
  - Following a phased transition to WLTP since Q4 2017, full WLTP will apply in 2020. WLTP involves more "real world" testing and produces higher C02 emission results. Motor taxation in Ireland (VRT; Motor Tax) uses C02 emissions as the base for calculating of these taxes.
  - The EU recommendation to member states is to implement WLTP in a revenue-neutral manner. Without intervention from government, the impact of WLTP in 2020 will mean higher retail prices and/or road tax for Irish consumers. This represents a significant threat to motor dealers in Ireland.
- **The solution?**
  - Reform of the current VRT tax bands is required to ensure minimal disruption for the sector and consumers in Ireland. The sector, represented by the Society of the Irish Motor Industry (SIMI), is currently engaged with Revenue and the Department of Finance to find a revenue-neutral solution.

Brexit

- The impact of Brexit and, in particular, currency fluctuations will continue to be monitored closely in H2 2019.

In the event of a Deal, the value of sterling is likely to strengthen. This would reduce the inflow of used imports from the UK where the average saving from 2015 to 2018 was ca. €3,550. These savings explain the twofold increase of used imports in the same period. In the event of used car supply tightening, this could have a positive knock on effect for new car sales.

In the event of a hard Brexit, a WTO tariff of 10% will apply. This tariff, coupled with non-tariff delays and a requirement for VAT to be charged on used vehicles imported from outside the EU could reduce used imports to Ireland.

Skills shortages

- Qualified workshop technicians are reported to be in short supply. As a result, motor dealers are experiencing upward pressure on salaries in order to retain key staff and/or to attract new skilled staff resulting in an increased cost base for dealerships.
- From 2016 to 2018, SOLAS recorded a drop of 9.5% in the take up of motor mechanic apprenticeships. This compares to an uplift of 35.2% for all crafts in the same period, indicating a preference for other trades (eg. Construction, manufacturing trades etc.) This poses a challenge to sector in the future.

Opportunities and 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 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 retailer 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 Administration Overheads.

"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, that will be the springboard to enable sustainable growth into the future."

Outlook

- The forecast for 2019 is for an overall decline in sales of between 8 and 10%; indicating a new passenger car market of ca. 115,000 units and a Light Commercial Vehicle market of ca. 23,000 vehicles.
- At present, the SIMI are predicting new car sales to decline by 9% to 105,000 in 2020. In the event of a lack of VRT reform this year and/or a hard Brexit, both new passenger cars and light commercial vehicle sales are expected to weaken further.
- Proposed VRT reform needs to be timely to allow distributors and motor dealers to adjust stocks to suit a revised tax regime.
- The sector, therefore, needs a fair wind with regard to WLTP/VRT reform and Brexit. If these are favourable, the 2020 outlook for the sector would look more positive.

Bank of Ireland

- 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.

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