



MOTOR 150 REPORT 2017

CONSOLIDATED ACCOUNTS OF THE TOP 150 COMPANIES
IN THE UK MOTOR RETAIL SECTOR

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MOTOR RETAIL IS THE SHOP FLOOR OF THE UK AUTOMOTIVE INDUSTRY. THIS ESTABLISHED AND INTERDEPENDENT NETWORK OF BUSINESSES HAS CONTINUED TO BE A SYMBOL OF ECONOMIC STRENGTH BY EMPLOYING OVER 800,000 PEOPLE, CONTRIBUTING OVER £72 BILLION IN TURNOVER, AND EXPORTING OVER 1.3 MILLION VEHICLES TO IN EXCESS OF 150 COUNTRIES IN 2016.*

In this light, this Motor 150 report – revealing the aggregated performance of a study group comprising the top 150 companies in the UK motor retail sector – is an important business barometer. As such, this report, which covers performance in the latest audited accounts and looks forward into the current and future accounting periods, does not specify or comment upon the individual performance of companies, except where it is relevant to explain a variance from the market norm or to highlight a fresh sector trend. Our aim in producing the Motor 150 is to provide a considered insight into recent economic events and sector activity, the current and future dynamics of motor retailing, and to offer our professional views and advice for the future.

*SOURCE: SMMT



INTRODUCTION

WE'VE REACHED THE TOP OF THE MOUNTAIN...WHAT'S ON THE OTHER SIDE?

There has been a recurring theme in our Motor 150 report over the last few years of continued record profits but with an underlying pessimism over the longer term outlook; our latest analysis follows this trend. In fact, since 2012, there has been an increase in turnover of 47% to £62.8bn and profit before tax has risen by an astonishing 110% to £959m.

Looking back to 2016 it may have been a record year for overall profitability however the return on sales percentage reduced fractionally from the prior year high of 1.57% to 1.53%. This equates to around £27m of overall profit.

This slight reduction is not unexpected as dealers continued to increase registrations and volumes to achieve targets. This was to the detriment of the overall margin on transactions as competition has increased across the industry and the consumer becomes ever more informed as to the deals that are available to them.

This trend has followed into 2017 with a recent AM online poll concluding that almost two thirds of the participants believed their profits would be lower in 2017 than in 2016. At the time of writing, Pendragon had just posted a trading update expecting annual profits to be down by 20%. The London Evening Standard's city expert, Simon English, noted this could be an indicator that the "bottom just fell out of the UK car industry".

We are more optimistic than this but there can be no doubt the next year to 18 months will be a challenging time in an uncertain environment.

2016 saw further consolidation and the results bear out the fact that the larger groups continue to be the most profitable. They are able to take advantage of economies of scale and often react quicker to the demands of the manufacturers. It is also interesting to see the

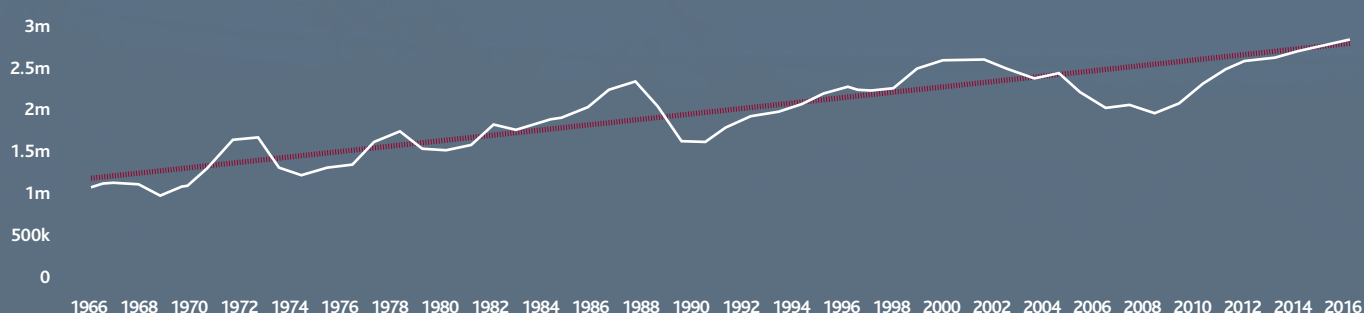
continued rise of used car supermarkets and dealer groups investing in these as separate operations to their more traditional franchise model.

Looking at 2017 and the future, registrations have started to fall with September 2017 showing a significant year on year decline. We have previously noted that over the past 60 years there appears to be an eight year registration growth cycle followed by a significant realignment or correction of the market. This appears to have begun in 2017 and we expect it to gather pace into next year. Together with the general uncertainty in the economy, not least because of Brexit, our prediction is that 2017 will have the first drop in overall profits for the Motor 150 group since 2008 but, despite this, profits will still remain strong.

As always in the sector there continues to be a requirement to invest in the business and the showrooms. It will be interesting to see how dealerships deal with the dichotomy of having to incur significant capex costs against falling profitability and the growing impact of the digital age with the challenges this brings to the retail experience.

In summary, 2016 may have been the last 'great' year for a while. However, although 2017 and 2018 look to be more challenging, there are still good returns to be made for those dealers who embrace technology, look after and develop their staff, and continue to work hard to deliver and retain the ever more discerning customer.

FIGURE 1 HISTORIC VEHICLE REGISTRATIONS



REACHING THE SUMMIT

THE VIEW FROM THE TOP

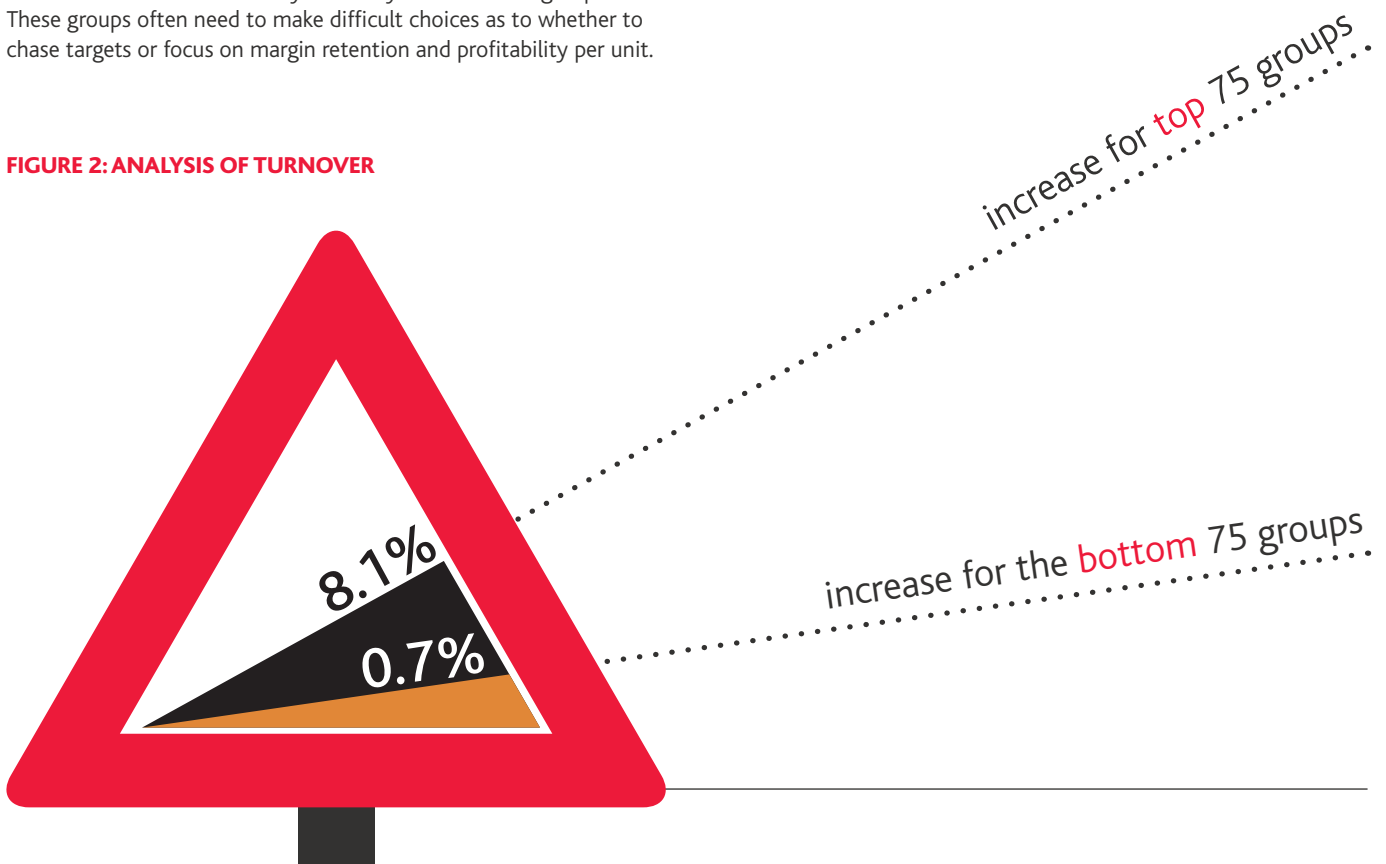
We are pleased to report that 2016 was yet another record year for the industry as turnover for the Motor 150 grew by an additional 7.1% to £62.8bn. This is now almost one and a half times the turnover we reported for 2012 which puts into perspective how well the industry not only recovered but has grown after the economic woes of almost a decade ago. This 7.1% growth outstripped increases in the new vehicle registrations during the same period (2.3%) as aftersales revenues continued to grow and the used vehicle market performed strongly.

Last year we determined a two-tier trend in the revenue growth, with the largest 75 groups all enjoying above average increases and the next 75 groups seeing very little growth. This year has been no different as figure 2 shows. The largest 75 groups have enjoyed an increase in turnover of 8.1% whilst the next 75 groups saw their share of the spoils rise by just 0.7%. For reference the median turnover was approximately £185m. The larger groups continue to be well positioned to take advantage of deals with the manufacturers, particularly over targets, and enjoy economies of scale and access to finance beyond many of the smaller groups. These groups often need to make difficult choices as to whether to chase targets or focus on margin retention and profitability per unit.

In addition to this there have been record levels of consolidation in the market which have principally served to make the larger groups even bigger. Intangibles generated through acquisitions reached a Motor 150 high of £169m in 2016. This is more than double the 2015 comparative which was the previous best at £64m. More information on M&A activity in the industry can be found later in the report.

The spot at the very top, however, did see one change as Pendragon's crown as the Motor 150's largest dealer group (based on turnover) was passed on to Sytner. Their turnover in 2016 of £4.8bn took them past Pendragon's £4.5bn and they are on course to be the first group to surpass the £5bn mark, possibly in 2017.

FIGURE 2: ANALYSIS OF TURNOVER



LESS OXYGEN

The manufacturers continued to flex their muscles impacting profitability further. In 2016 the gross margin fell from 11.03% to 10.95%. This may not seem like a significant squeeze but it does represent the fifth consecutive decrease in gross margin. In 2012 the margin was 11.60% and based on current turnover levels this equates to a fall in profitability of £408m. This is likely to be due to the potential over supply in the market with new vehicles and ever-increasing competition between dealer groups.

The story was similar for net margin. This fell from an average of 1.57% in 2015 to 1.53% in 2016. Whilst turnover increased by 7.1% the profit before tax for the Motor 150 grew by 4.0%. As noted above, together with a slight contraction in the gross margin, operating expenses also increased by 5.7% year on year. However, unlike last year, there was little correlation between turnover growth and net margin increase. On the whole the larger groups continue to enjoy higher returns on average than the smaller groups.

Staff costs remain the most significant operating expense to the industry. The overall level of expenditure remained steady at £3.7bn despite the number of employees increasing by 7% from 116,180 to 124,033 within the Motor 150. As a result the average wage fell from £32,000 to £30,000. The recent BDO Motor Salary Survey has suggested a small increase of 2%. Although this is calculated on a different basis, overall it suggests pay rises are starting to flat line as the market starts to turn.

WELL STOCKED

Following another year of improved performance it was no surprise that the level of stock held increased by 4% to almost £10.4bn. The increase was well short of the 19% increase in the previous year as the slowdown in the pace of growth in the market took hold. It was funded primarily by additional stocking loans which saw a corresponding £400m increase. The higher level of stocking loans in turn was the driver behind a rise in the gearing from 59% in 2015 to 64% in 2016, a return to 2014 levels. Whilst interest rates remain low this remains the best way of funding working capital.

Outside of working capital there were significant increases in the level of fixed assets by just over £500m. This is primarily as a result of an additional £1.7bn of capital expenditure as the Motor 150

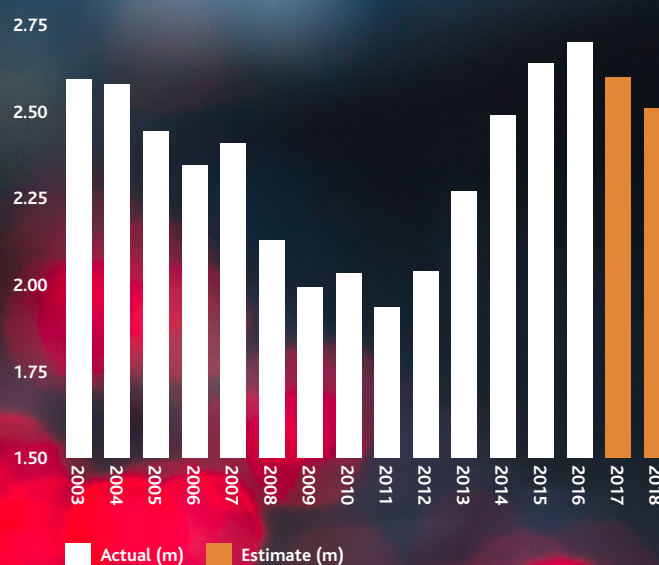
continue to invest in their facilities to ensure dealer standards are met, as evidenced by the increased spending on property from £354m in 2015 to £373m in 2016.

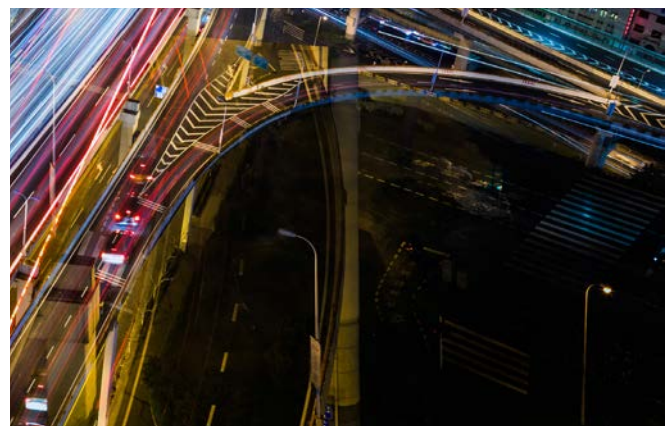
It is worth noting that the long-term pension liability increased from £163m to £228m in 2016. This is due to the additional uncertainty in the economy after the Brexit vote in June 2016, low gilt yields and continuing low interest rates.

THE DESCENT

There have been predictions for a few years that the downturn in new vehicle registrations was on its way and since the 2016 year end it has finally arrived. Back in 2014 the SMMT had predicted this would take place in early 2016 suggesting the market would flatten out before the 2.5m registration mark was reached. Despite the market performance surpassing these expectations, the peak was reached at the end of March 2017. At the time of writing expectations for 2017 as a whole are forecast by SMMT to be 2.59m units, which would represent a 3.7% fall on 2016 levels. An additional fall of 3.4% to 2.50m units is forecast for 2018.

FIGURE 3 NEW CAR REGISTRATIONS (M)





The detail within the 2016 new vehicle registration data shows that the growth in registrations during the year was predominantly down to the fleet sector which posted a 5% increase with private and business purchases seeing a fall. This was the first fall in the number of private registrations since the turn of the decade. Unsurprisingly the market share of diesel cars fell in 2016 from 48.5% to 47.7%, with the Volkswagen scandal biting towards the back end of the year and the Government's green initiative. SMMT forecast that in 2017 this will fall to just 43.2% of the market and further to 42.4% in 2018. The opposite is the case for alternatively-fuelled vehicles (AFVs). Registrations in AFVs increased by 22.2% in 2016 and this trend is expected to continue going forwards as new technologies are developed, existing ones refined, and manufacturers increase their product ranges to include more hybrid and electric vehicles. Already in 2017 we have seen significant commitments from Land Rover and Volvo in this regard.

The slowdown is not unexpected and the relentless pace of growth in the last five years, along with increasing difficulties by many groups to keep pace with manufacturer targets and rising levels of pre-registered vehicles, was not going to be sustainable. This slowdown, however, does not have to mean continuing sharp falls in the level of registrations. The graph on page one demonstrates the cyclical nature of the long-term upwards trend. With this in mind we might expect registrations to fall to approximately 2014 levels over the next year or two with a recovery after that. There continues to be a lot of uncertainty in the economy, this together with the recent interest rate rise affecting people's access to affordable finance there is a lot that could change.

ROCKY ROAD AHEAD

Despite the optimism and strong performance in 2016 and the preceding years, the path ahead is going to be tougher. The further expected interest rate rise will not only affect consumer borrowing but also dealer groups' costs of financing their stocks and showroom upgrades. As new vehicle registrations slide downwards from their precarious perch in 2017 and with continued uncertainty over the economy, it is difficult to predict the next few years with confidence. However, if history can teach us anything it is that the industry has proven very robust and able to adapt to change, and this will certainly be tested once again.

2016 – THE TOP OF THE MARKET?

Last year we said it was a good time to sell and so it proved. The M&A momentum in the motor retail sector continued with 24 completed deals in 2016 representing a 20% increase in deal volume over 2015.

The year saw a wide spread of acquirers across the full spectrum of volume and premium brands, with increased activity in particular from family-owned dealerships and privately owned corporates. Despite the uncertainty caused by the Brexit vote, 2016 continued to see several cross-border deals with overseas buyers still seeing the UK as a good place to invest. In a highly competitive market, the appetite for acquisitive growth remained steadfast and 2016 always felt like a good year to be selling. As we look back, many are now asking “was 2016 the top of the market?”

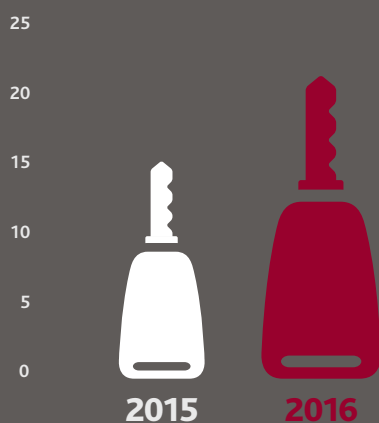
M&A IN THE DRIVING SEAT

M&A continues to represent a key strategy for growing market share and fulfilling other strategic and financial ambitions. Whilst there are many drivers of M&A activity, from expanding geographical reach to growing and diversifying franchise relationships, it is clear that M&A is firmly rooted in the sector.

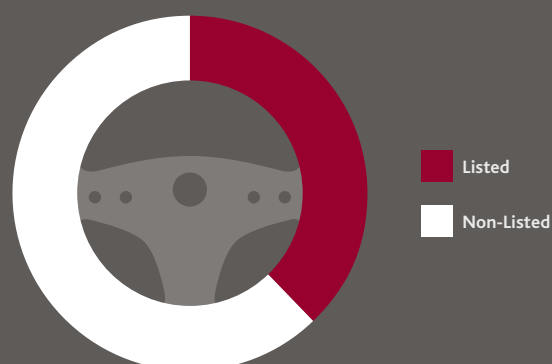
With increasing margin pressure and the need to invest in dealerships to ensure compliance with dealer standards, there is an increasing need to develop economies of scale and gain access to resources for capital investment purposes. M&A presents a ‘fast track’ strategy where achieving key business objectives can be done successfully and within a relatively short period of time.

There is a continued appetite from UK-listed companies to acquire and invest in UK dealerships. Listed companies continue to possess strong balance sheets and have access to significant sums to fund acquisitions. The most notable listed UK acquirers include Lookers plc, Vertu Motors plc, Cambria Automobiles plc and Marshall Motor Holdings plc.

IN 2016 THERE WERE MORE BUYERS THAN IN PREVIOUS YEARS...



...WITH FAMILY-OWNED DEALERSHIPS AND PRIVATELY OWNED CORPORATES RESPONSIBLE FOR MORE DEALS THAN THE ‘USUAL SUSPECTS’ OF LISTED COMPANIES

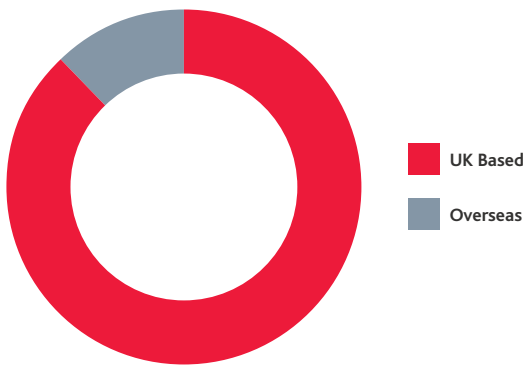


UK ASSETS RIPE FOR OVERSEAS BUYERS...

There is a clear trend towards cross-border deals, with three deals involving buyers from the US to Japan. This trend has continued into 2017, where we have seen five such deals completed with continued activity from Penske Automotive Group Inc. and Group 1 Automotive, Inc. of the US, Japanese listed VT Holdings' acquisition of Wessex Garages and notable activity from listed South African buyers Super Group Limited and Imperial Holdings Limited.

Overseas buyers are typically cash-rich and have immediate access to significant capital resources with M&A at the top of their agendas.

15% of deals involved overseas buyers - a noticeable group of acquirers



...WITH CONTINUED INVESTOR & BANK INTEREST

2016 has demonstrated continued appetite from investors and banks, for example:

- £39m refinancing of Perry's Group Limited supported by Lloyds Bank to support the acquisition of seven UK-based dealerships
- Investor support for Hendy Group's acquisition of Lifestyle Motor Group

TOP DEALS IN 2016...

- Lookers plc acquisition of Knights Group for £27m
- Hendy Group Limited acquisition of Lifestyle Motor Group
- Lookers plc acquisition of Drayton Group for £55m
- Marshall Motor Holdings plc acquisition of Ridgeway Garages (Newbury) Limited for £107m
- VT Holdings Co., Limited acquisition of Wessex Garages Holdings Ltd
- Perrys Group Ltd acquisition of seven dealerships across the East Midlands

AND NOTEWORTHY DEALS ALREADY COMPLETED IN 2017

- Super Group Limited acquisition of Essex Auto Group Limited
- Group 1 Automotive Inc.'s acquisition of Beadles Group Limited
- Imperial Holdings Limited acquisition of Pentagon Motor Holdings Limited
- Penske Automotive Group Inc.'s acquisition of Car Shops Limited
- Super Group Limited acquisition of Slough Motor Company

AND THE FUTURE?

Whilst many voices are sounding a note of caution and 2017 M&A activity may not reach the heights of 2016, we do expect M&A activity to remain strong. There remains a real appetite for well invested, quality dealerships.

NO AVOIDING CCO

The various political changes that have taken place over the last 12 months have had a knock on effect on the introduction of various pieces of tax legislation. The General Election caused delays in finalising legislation that took effect from April 2017 but this should be resolved before the new Autumn Budget on 22 November.

As the prospect for ongoing dealer profitability starts to be challenged, dealers should be aware of the change in the rules governing tax losses that took place from April 2017. Trading losses incurred from April 2017 can now be used in a much more flexible manner, both within a single company as well as a group, although the amount that can be used is capped at 50% of profits.

HMRC's focus on tax risk and governance continues to sharpen and the light touch approach to the Senior Accounting Officer (SAO) rules is now very much at an end. The introduction of the new Corporate Criminal Offence regime (CCO) legislation is now a major issue for all motor dealers to come to terms with. The Corporate Criminal Offence of 'failure to prevent the facilitation of tax evasion' is part of the continued, global focus on the prevention of tax evasion and other financial crimes. It is one of a raft of UK measures introduced by the Criminal Finances Act and took effect on 30 September 2017.

Based on the UK Bribery Act 2010, the aim of the legislation is to overcome the difficulties in attributing criminal liability to corporates when their employees, contractors and other 'associated persons' are seen to be facilitating tax evasion by a taxpayer (who could include a customer or supplier). Under this legislation, it is the corporate that is subject to prosecution without the need for prosecution of any individual. This legislation is targeted at all businesses (whatever their size) and, although the reputation of the industry has greatly improved over the last few years, HMRC will be no doubt be concentrating on this issue over the coming 12 months.

A successful prosecution could lead to: an unlimited fine, public record of the conviction, significant reputational damage and adverse publicity and severe regulatory impact. There are approved ways for businesses to defend themselves against the threat of prosecution; these broadly follow the SAO regime and it is necessary to put systems and procedures in place to prevent the company

unwittingly helping tax evaders. BDO has developed a detailed programme to work to help dealers on this new legislation – we can help you identify the issues involved and to prepare a suitable defence to any HMRC challenge in this area.

VAT

This has been an eventful year for motor dealers. HMRC has again spent the year carrying out VAT inspections on businesses as the increasingly complex VAT regime in relation to the various manufacturer bonus arrangements means that dealers do not always get to the right answer from HMRC's perspective.

As we highlighted last year, HMRC is now even more active in challenging the reductions made by dealers to their VAT payments in relation to 'cash contributions' to customers towards the cost of buying a new car. Given the amounts of VAT at stake (plus interest and potential penalties of up to 30%) we expect that this matter may result in an appeal to the Tax Tribunal, if it has not already done so.

In addition and in an attempt to prevent previous errors, new UK VAT law became effective on 1 April 2017 limiting the number of supplies of vehicles adapted for disabled use that could be subject to VAT at the zero rate. Zero-rated sales are now limited to one vehicle per person every three years. However, the new rules do nothing to clarify what is meant in the law by "substantially and permanently" adapted for disabled use. The Government also missed an opportunity to incorporate some of the existing concessions set out in HMRC's published guidance into VAT law. This has left many dealerships refusing to take the risk of selling zero-rated vehicles as HMRC might seek to collect standard rate VAT on the sales in the future.

UNCERTAIN TIMES AHEAD

THERE ARE A NUMBER OF CHALLENGES THAT THE DEALERS HAVE GOING FORWARD AND THESE INCLUDE THE FOLLOWING:

IMPACT OF BREXIT

To date no one knows what sort of Brexit deal will be struck. This uncertainty is damaging to the sector and the wider economy. The impact on the industry could result in reduced exports, increased tariffs, a reduction in manufacturing in the UK and an increased focus on the European market by manufacturers.

EVOLVING DIGITAL AND CHANGING MARKETPLACE

Digital marketing and transactions occurring online are increasing. Retailers need to keep evolving and ensuring they are meeting the customer's needs and demands. Marketing needs to be more focussed on digital channels and, with more virtual transactions being carried out, this might make dealers question whether significant investment in showrooms is required.

POTENTIAL INTEREST RATE RISES

Interest rates have been at an historic low for a couple of years however there has been a rise in November 2017 and another forecast in early 2018. This will effect finance deals for customers making deals more expensive and have an effect on the dealer as any funding that is in place (whether it be property or stock funding) will become more expensive and ultimately reduce profitability.

SERVICE CONTRACTS

Although a great retention tool for the dealer the margins are low and this ultimately could reduce the overall profitability of the service department which is a key source of profit for any dealership.

CAPEX REQUIREMENTS

The manufacturers are still seeking considerable capex requirements however in light of reducing profits the dealers are thinking more about the capex spend to profit return.

FCA COMPLIANCE

Over the past number of months there has been increased speculation in the national press around the FCA taking a very close interest in the sector. As long as your controls and processes stand up to scrutiny there should not be an issue, however there are bound to be some losers if and when the FCA carry out their inspections.

PRESSURE ON TARGETS IN A MARKET THAT IS REALIGNING ITSELF

Targets are becoming harder to achieve and this leads to increased levels of pre-registration which can become a noose around a dealer's neck.

SCARCITY OF STAFF

With almost full employment in the UK, dealers need to ensure they retain all their best staff as replacing them is not only costly but also very difficult.

CONTINUED WEAK POUND

Since the announcement of Brexit the value of sterling has dropped by around 30%. This has led to increased new car prices as the imports become more expensive. Assuming the car purchase is financed this then has an impact on monthly PCP payments and potentially the residual value.

EXTENDED PCP DEALS

Over 80% of cars are sold through PCP deals however it has become apparent that more customers are extending their terms to four years rather than three. Does this mean a longer changeover for new cars?

MAKING THE MOST OF THE APPRENTICESHIP LEVY

The Apprenticeship Levy came into effect on 6 April 2017 and charges 0.5% on an employer's pay bill subject to Class 1 NICs. There is a £15,000 allowance per company (or connected group) to set off against the Levy so only those with a combined annual pay bill in excess of £3m have any liability.

Employers paying the Levy in relation to English-based staff will receive a 10% top-up to their related monthly contributions to spend on apprenticeship training. All employers, whether they pay the Levy or not, can access funding for apprenticeships. Levy payers will access the funding via a digital account which will enable users to see their Levy contributions and/or how much apprenticeship training they may purchase with a qualified training provider. Smaller employers will get funding directly from the Department for Education via their training providers. It should be noted that the amount of funding an employer may spend on each apprentice is capped.

Now that dealers have become used to the payment of the levy they should review their existing training provision and strategy going forward against business needs. All groups should consider what can be done in the short term to utilise the Levy funds being built up, as well as defining and shaping their future training needs. The key point is that every effort should be made to use the funds in the digital account as otherwise they will be lost. However, it is vital to check that the training groups/dealers want to provide will qualify under an apprenticeship standard.

GDPR – ARE YOU READY?

The General Data Protection Regulation (GDPR) - the new legal framework for the processing of personal data - becomes effective on 25 May 2018. In today's digital world, where data is collected, stored and processed at almost every juncture, the risks to an individual in terms of how data is used and protected have never been higher. GDPR addresses those risks head on and places firm responsibilities on organisations that process personal data. This is especially important to the motor sector where in many cases the information held by dealers in regard to existing and potential customers is significant.

Dealerships should already have taken time to review their CRM systems and considered their controls and processes around the retention and use of customer information as well as ability to store the customer consent information now required.

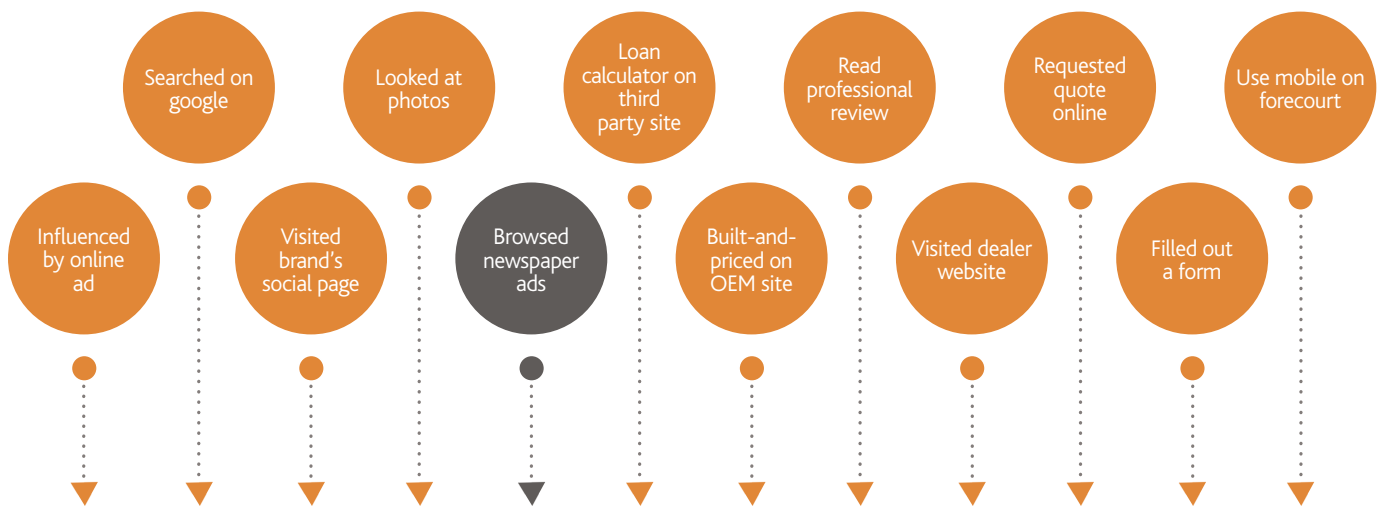
The level of potential fines for those breaching the new regulations has had much publicity and GDPR is not something to be taken lightly. However, it is also an opportunity to better understand what your customers actually want and make your marketing communications more relevant. We would recommend thinking about additional training for staff not only so they fully understand the new rules but to consider your sales process and how you interact with customers.

The key initial step is to understand the size of the task within your business, whether you need a Data Protection Officer, and secure the necessary resources and senior backing. Key actions to consider:

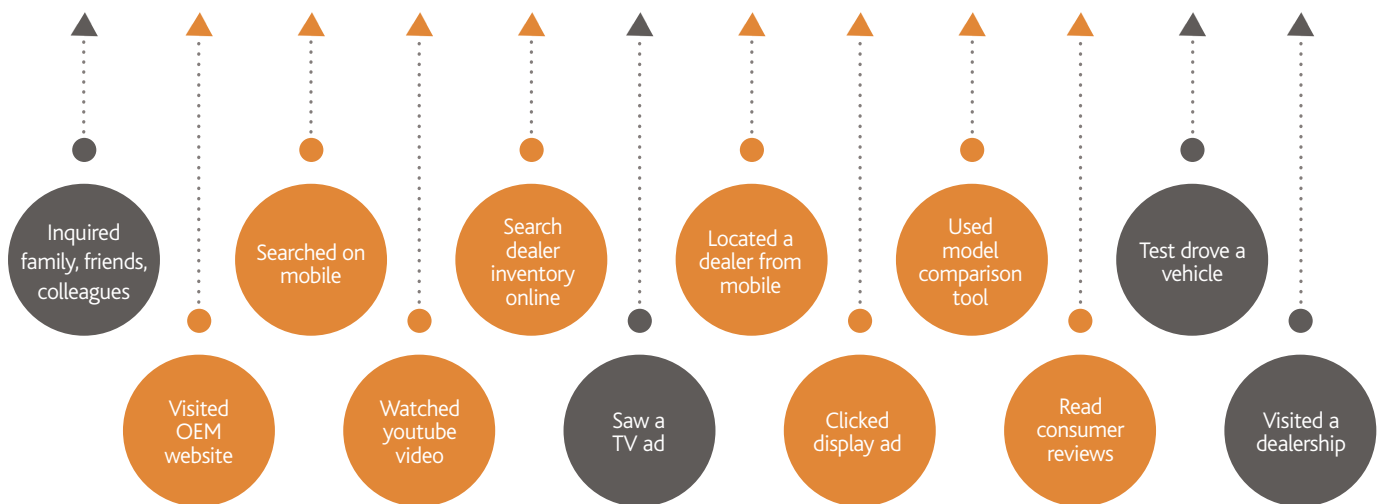
- Identify who across the business needs to be involved and develop a cohesive project plan
- Emphasise the importance of culture in embedding new processes that may feel alien to staff
- Understand your data - do you know what data you have, where it is located and how sensitive it is?
- Understand your data risks and controls – what are the privacy risks associated with the data you hold and how can your controls mitigate this?
- Do your IT/CRM systems have the ability to store consent data?
- Ensure that the threats to data privacy through electronic means, notably cyber security threats, are appropriately managed
- Develop your data privacy policies and procedures – areas such as consent may require significant interaction with customers before 25 May 2018 to ensure compliance thereafter. Consider what mechanisms there are to respond to any breaches, right to be forgotten, data portability requests etc.
- Audit and Compliance – what mechanism do you have in place to independently assess whether you are creating a sustainable and compliant regime.

DIGITAL MINDSET

The digital world is well and truly with us. Not only is it transforming consumer buying patterns but the introduction of more connected and autonomous vehicles will enable manufacturers to directly access data on both car performance and customer driving behaviours. Dealers must evolve to ensure they remain a key part of the buying and maintenance process.



24 AVERAGE TOUCHPOINTS: 19 ARE DIGITAL





The average customer will now visit less than two dealerships when purchasing a car. Once they walk into the showroom if the sales transaction is not achieved then the opportunity is likely lost. Dealers need to focus on how they deliver a seamless and efficient personalised experience online, in the showroom and the service centre.

It may seem like the traditional dealership model is under threat but our view is that fears of its demise are greatly exaggerated. Ultimately, we believe that customers will always want to 'see and touch' the car but that the element of human interaction may be on an ever more transactional basis.

The successful dealerships will be those who make the best use of data alongside both the digital and traditional touchpoints available to showcase their products and create an end to end customer journey.

WHEN THE GOING GETS TOUGH...

The industry is a very mature and resilient one.

Many dealers have been through the previous ups and downs of registration and profit cycles and are well placed to take informed business decisions in these uncertain times.

Although new car registrations have started to decrease this presents opportunities for used cars. It was interesting to note Sytner's acquisition of Car Shop earlier this year and at the AM100 dinner in the summer, a number of dealer groups felt the biggest opportunity in 2017 and 2018 to be in the used car market.

The recent BDO salary survey saw the average salary increase by 2% from the previous year. This is the smallest increase in the last five years and shows that dealers are mindful of their costs in these more challenging times.

The industry is ever evolving and ever changing and the advent and growth in the sale of alternatively fuelled cars must also be seen as opportunity for the sector.

Significant amounts of money are being spent by the manufacturers and companies developing autonomous cars. Although in some ways disturbing to think about, this concept could change people's mobility and attitudes to car ownership and create opportunities for the industry.

People who now won't own a car for whatever reason may buy an autonomous vehicle (AV) to transport them. Unsurprisingly, by 2025 all new cars are likely to have high levels of assisted driving features - 50% are expected to have partial autonomy and 10% with full autonomy (ie driverless cars). The potential impact on dealers may be positive on sales (especially if AV's can liberate the elderly or disabled) and also positive on service as these vehicles may run harder than manual vehicles.

There may be less car ownership in the future and more hiring of cars for occasional days and use of car share, Uber etc. If this is the case car sales and margins may fall while service work could increase.

There is no escaping the fact that the market is a rapidly evolving and dealers need to be open to new ideas and methods of retailing.

CONCLUSION

Our view is that there will be a realignment in the market over the next 18 months or so and then continued growth and profitability thereafter.

Over the next decade the average UK motor retailer will see many changes to how their dealership is set up and run. Dealers will need to consider their own strategies very carefully, plan accordingly and temper manufacturers enthusiasm for bigger and better bricks and mortar showrooms in a world where the car buying journey is increasingly digital. Having said that, change is slowed by history and preferences – car retailing is an enormous industry shaped by habit and as such we forecast dealers will see rapid evolution not revolution.

It will continue to be a challenging environment, potential increased manufacturer control, further consolidation of ownership and a progression from a margin optimisation operation to one of volume.

MOTOR 150 GROUP

STATISTICS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	2016	2015	2014	2013	2012
		£m	£m	£m	£m	£m
Turnover		62,778	58,640	55,238	47,725	42,568
Cost of sales		(55,904)	(52,170)	(49,070)	(42,229)	(37,629)
Gross profit		6,874	6,470	6,168	5,496	4,939
Gross profit %		10.95%	11.03%	11.17%	11.52%	11.60%
Operating expenses		(5,920)	(5,601)	(5,362)	(4,848)	(4,464)
Other operating income		192	238	192	154	133
Operating profit	1	1,146	1,107	998	802	608
Exceptional items		(9)	3	5	12	(8)
Interest paid	4	(198)	(200)	(187)	(182)	(193)
Interest received		20	12	9	16	50
Profit before tax		959	922	825	648	457
Taxation		(184)	(185)	(188)	(146)	(123)
Profit after tax		775	737	637	502	334
Minority interest		(12)	(6)	(5)	(2)	(3)
Net profit		763	731	632	500	331

CONSOLIDATED BALANCE SHEET

	Note	2016	2015	2014	2013	2012
		£m	£m	£m	£m	£m
Fixed assets						
Intangible	6	1,196	953	839	802	754
Tangible	7	5,562	5,124	4,840	4,313	3,909
Investments		339	194	268	253	238
		7,097	6,271	5,947	5,368	4,901
Current assets						
Stock		10,417	10,020	8,420	7,191	6,352
Debtors	8	2,919	2,720	2,839	2,708	2,595
Deferred tax asset		34	11	17	18	23
Cash		709	748	524	486	364
Other		311	362	136	117	113
		14,390	13,861	11,936	10,520	9,447
Debtors due after more than one year		39	35	33	42	23
Total assets		21,526	20,167	17,916	15,930	14,371

	Note	2016	2015	2014	2013	2012
		£m	£m	£m	£m	£m
Current liabilities						
Loans and bank overdrafts	9	4,092	3,645	2,988	2,438	2,534
Trade and other payables	10	9,585	9,263	8,116	7,101	6,000
Current tax liabilities		105	135	158	140	104
		13,782	13,043	11,262	9,679	8,638
Non-current liabilities						
Loans and bank overdrafts	11	1,385	1,106	1,024	1,238	1,163
Trade and other payables	12	458	554	604	518	488
Pension liabilities		228	163	199	176	181
Provisions		55	40	69	55	62
Deferred tax		132	105	74	71	78
		2,258	1,968	1,970	2,058	1,972
Total net assets		5,486	5,156	4,684	4,193	3,761
Capital and reserves						
Share capital		778	744	751	772	759
Share premium		409	386	367	351	293
Profit and loss account		3,965	3,669	3,220	2,761	2,380
Revaluation reserve		142	164	164	152	153
Other reserves		158	167	158	140	127
		5,452	5,130	4,660	4,176	3,712
Minority interest		34	26	24	17	49
Total equity		5,486	5,156	4,684	4,193	3,761

NOTES TO THE ACCOUNTS

	2016	2015	2014	2013	2012
	£m	£m	£m	£m	£m
1. Operating profit					
Depreciation of tangible fixed assets	490	466	453	407	368
Amortisation of intangible fixed assets	50	40	3	32	34
Audit fees	8	8	7	8	8
Non audit fees	5	3	2	3	3
Operating leases - land & buildings	199	181	195	197	221
Operating leases - other	8	26	17	9	11
2. Staff costs					
Wages and salaries	3,251	3,321	3,166	2,887	2,667
Social security costs	338	309	320	294	269
Share based payments	25	7	5	4	2
Pension costs	75	76	66	66	60
	3,689	3,713	3,557	3,251	2,998
Total number of employees	124,033	116,180	113,458	106,861	102,582
Average pay per employee (£000)	30	32	31	30	29
3. Directors emoluments					
Salaries and fees	135	104	99	94	82
Bonuses	1	3	3	2	2
Compensation for loss of office	–	1	1	–	–
Pension contributions	6	5	5	4	5
	142	113	108	100	89
Average emoluments per highest paid director (£000)	311	258	285	246	227
4. Interest payable					
Bank loans and overdrafts	37	34	36	48	57
Other interest payable	123	116	115	133	136
Other finance expense	38	50	36	1	–
	198	200	187	182	193
5. Dividends					
Dividends paid in the period	212	210	190	165	82

	2016	2015	2014	2013	2012
	£m	£m	£m	£m	£m
6. Intangible fixed assets					
Cost b/fwd	1,286	1,229	1,148	1,101	1,078
Additions	185	84	74	53	55
Acquisitions	169	64	9	16	31
Disposals	(36)	(24)	(2)	(7)	(4)
Other	(1)	–	–	(1)	–
Cost c/fwd	1,603	1,353	1,229	1,162	1,160
Amortisation b/fwd	365	367	347	327	372
Charge	50	40	42	32	34
Transfer	–	–	–	–	–
Impairments	1	5	1	4	1
Disposals	(9)	(12)	–	(3)	(1)
Amortisation c/fwd	407	400	390	360	406
Net book value at year-end	1,196	953	839	802	754

	Freehold property	Leasehold property	Motor vehicles	Plant and fixtures	Total
	£m	£m	£m	£m	£m
7. Tangible fixed assets					
Cost b/fwd	2,578	1,241	1,378	1,643	6,840
Additions	373	220	879	216	1,688
Disposals	(99)	(93)	(855)	(102)	(1,149)
Acquisitions	172	19	4	29	224
Revaluations	10	1	–	–	11
Other	(44)	1	–	2	(41)
Cost c/fwd	2,990	1,389	1,406	1,788	7,573
Depreciation b/fwd	243	285	408	911	1,847
Charge	35	80	247	128	490
Disposals	(12)	(46)	(232)	(86)	(376)
Other	(4)	3	37	14	50
Depreciation c/fwd	262	322	460	967	2,011
Net book value at year-end	2,728	1,067	946	821	5,562

8. Debtors - current					
Trade debtors	1,498	1,329	1,210	1,070	912
Group and related party loans	497	520	859	799	1,050
Corporation tax	7	6	4	6	10
Other debtors	537	484	423	481	308
Prepayments	380	381	343	352	315
	2,919	2,720	2,839	2,708	2,595

NOTES TO THE ACCOUNTS cont.

	2016	2015	2014	2013	2012
	£m	£m	£m	£m	£m
9. Loans and overdrafts - current					
Bank loans and overdrafts	874	579	512	383	503
Stocking loans	1,887	1,499	1,200	1,286	1,065
Group loans	1,305	1,539	1,245	744	934
Other loans	26	28	31	25	32
	4,092	3,645	2,988	2,438	2,534
10. Trade and other payables - current					
Trade creditors	7,887	7,453	5,781	5,114	4,363
Other taxation and social security	217	150	193	160	154
Finance leases	175	438	583	397	336
Other creditors	628	648	580	483	408
Accruals	678	574	979	947	739
	9,585	9,263	8,116	7,101	6,000
11. Loans and bank overdrafts - non current					
Bank loans	816	603	640	633	628
Group loans	192	173	54	357	397
Other loans	377	330	330	248	138
	1,385	1,106	1,024	1,238	1,163
12. Trade and other payables - non current					
Accruals	161	80	67	19	9
Finance leases	77	322	274	414	383
Other creditors	220	152	263	85	96
	458	554	604	518	488
13. Net debt and gearing					
Net debt comprises:					
Loans and bank overdrafts due within one year	(874)	(579)	(512)	(383)	(503)
Loans and bank overdrafts due after more than one year	(816)	(603)	(640)	(633)	(628)
Stocking loans	(1,887)	(1,499)	(1,200)	(1,286)	(1,065)
Finance leases	(252)	(760)	(857)	(811)	(719)
Other loans	(377)	(330)	(330)	(248)	(138)
	(4,206)	(3,771)	(3,539)	(3,361)	(3,053)
Cash and cash equivalents	709	748	524	486	364
Net debt	(3,497)	(3,023)	(3,015)	(2,875)	(2,689)
Total equity	5,486	5,156	4,684	4,193	3,761
Debt/equity	64%	59%	64%	69%	71%

MOTOR 150 COMPANY NAMES

Allen Ford (UK) Limited	Eastern Holdings Limited	L & L Inc Limited	S.G. Petch Limited
Ancaster Group Limited	Eden (GM) Limited	Listers Group Limited	Saftdwin Limited
Aprite (GB) Limited	EMG Anglia Limited	Lloyd Motors Limited	Sandcliffe Motor Holdings Limited
Arnold Clark Automobiles Limited	Endeavour Automotive Limited	Lookers plc	Sandown Motors Limited
Arthur Bassett & Co Ltd	Essex Auto Group Limited	LSH Auto UK Limited	Sinclair Motor Holdings Limited
Barnetts Motor Group limited	F G Barnes and Sons Limited	Marriott Motor Group Limited	Snows Business Holdings Limited
Barretts of Canterbury Limited	Fish Brothers (Holdings) Limited	Marsh Wall Limited	Sparshatts of Botley Limited
Baylis (Gloucester) Limited	Foray Holdings Limited	Marshall Motor Holdings plc	Specialist Cars Holdings Limited
Beadles Group Limited	Ford Retail Limited	Marubeni Auto Investment (UK) Limited	Stephen James Group Trading LLP
Bestodeck Limited	Furrows Holdings Limited	McLean & Appleton (Holdings) Limited	Steven Eagell Limited
Birchwood Motor Group Limited	Gates Group Limited	Mercedes-Benz Retail Group UK Limited	Sutton Park Motor Company Limited
Blade Motor Group Limited	George Thurlow and Sons (Holdings) Limited	Mike Pulman Limited	Swansway Group Limited
Bolton Car Centre Limited	Glyn Hopkin Limited	Mill Garages North East Limited	Sytner Group Limited
Brayleys Cars Limited	Go Motor Retailing Limited	MJT Securities Limited	T C Harrison Group Limited
Breeze Motor Company Limited	Greenhous Group Limited	Mon Motors Limited	T. G. Holdcroft (Holdings) Limited
Bugle Inn Motor Company (Holdings) Limited	Grevan Cars Limited	Motorline Holdings Limited	Tanner Automotive Limited
Burrows Motor Company Limited	Group 1 Automotive UK Limited	Now Motor Retailing Limited	The Harratts Group Limited
Bussey & Sabberton Bros Limited	Guildford Portfolios Limited	Ocean Automotive Limited	The Phoenix Car Company Limited
C.E.M. Day Limited	H. R. Owen plc	Parks of Hamilton (Holdings) Limited	Thompson Motor Company (Preston) Limited
Caffyns plc	Halliwell Jones Holdings Limited	Parkway Derby Limited	Toyota Tsusho Automobile London Holdings Limited
Cambria Automobiles plc	Hanif Automotive Limited	Partridge of Hampshire Limited	Trust Group UK Limited
Cameron Group (Perth) Limited	Hartwell plc	Pendragon plc	Underwoods Garage (Tiptree) Limited
Carco Group Limited	Harwoods Limited	Pentagon Motor Holdings Limited	Vantage Motor Group Limited
Cathedral Motor Company Limited	Hawco & Sons Limited	Peoples Limited	Vertu Motors plc
CCR Motor Co. Ltd	Hawkins Motors Limited	Perrys Group Limited	Vindis Group Limited
Central Garage (Uppingham) Limited	Helston Garages Group Limited	Peter Cooper Motor Group Limited	Vospers of Plymouth Limited
Chapel House Holdings Limited	Hendy Automotive Limited	Peter Vardy Holdings Limited	W Brindley (Garages) Limited
Citygate Automotive Limited	Heritage Automotive Limited	Peugeot Citroen Retail UK Limited	W R Davies (Motors) Limited
Cotswold Motor Group Limited	Howard Garages (Weston) Limited	Porsche Retail Group Limited	W.H. Bowker Limited
Currie Motors Limited	Hughes of Beaconsfield (Holdings) Limited	R. Robinson & Co. (Motor Services) Limited	W.J.King (Garages) Limited
CWC (UK Holdings) Limited	Inchcape Retail Limited	Renault Retail Group UK Limited	Walter E Sturgess & Sons Limited
D J Cox Limited	Jardine Motors Group UK Limited	Renrod Holdings Limited	Westover Holdings Limited
D. M. Keith Limited	JCB Medway Limited	Ringways Garages (Doncaster) Limited	William Morgan Group Limited
Decidebloom Limited	JCT600 Limited	Riverside Motors Holdings Limited	Williams Motor Co. (Holdings) Limited
Desira Group plc	John Clark (Holdings) Limited	Rybrook Holdings Limited	Worcester Carsales (Holdings) Limited
Dick Lovett Companies Limited	John Grose Group Limited	S Jennings Group Limited	Yeomans Limited
Donnelly Bros. Garages (Dungannon) Limited	Johnsons Cars Limited Kent Auto Panels Limited		
Drift Bridge Garage Limited	Knights North West Limited		
Drive Motor Retail Limited			

COMPILATION OF THE REPORT

SOURCES OF INFORMATION

The 150 companies included in this report were selected from the "Top 200 Franchised Dealer Survey" published in Motor Trader magazine and copies of most recent financial statements were obtained from Companies House filings. The published accounts (see below for year ends), obtained from Companies House filings, were used to provide the financial information included in this report.

YEAR ENDS

The year ends included in the 'current period' financial information in this report range from 31 March 2016 to 31 March 2017 being the most recent accounts filed at Companies House at the time of the compilation of this report. For companies with December year ends (122 in the population) the 'current period' will be the year ended 31 December 2016. For January to March year ends (6) the current period is that ending in 2017. For April to November year-end companies (22), due to the restrictions of the filing deadlines at Companies House and the timescale of compilation of this report the current periods are predominantly those ending in 2016.

AGGREGATION

The published accounts of the 150 companies identified by the above processes have been combined by a simple aggregation to produce the financial information in this report. No consolidation adjustments have been made and in particular no adjustments have been made to reflect the non-coterminous year-ends of the companies.

IFRS AND UK GAAP

Of the 150 companies, eight have prepared their accounts under IFRS and the remainder under UK GAAP. However, as those companies represent 30% of total revenue and as the implementation of IFRS will increase in future, we have decided to present the financial information in a format more consistent with IFRS than UK GAAP. We have made no attempt to adjust UK GAAP numbers to comply with IFRS, we have merely represented the UK GAAP numbers in a format similar to IFRS.

Consequently a number of allocation judgements were required that may impact the comparability of the financial information.

DISCONTINUED OPERATIONS / NON OPERATING ITEMS

No distinction has been made between continuing and discontinued operations due to the variety of judgements and presentational approaches taken by relevant companies. Where it has been possible to identify such items, all 'exceptional' or similar items reflected outside operating profit have been aggregated, although we have produced a brief analysis of the main items in the notes to the accounts.



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SECTOR SPECIALISTS IN MOTOR RETAIL

We understand the complex mechanics of automotive retailing. Our clients include franchised dealerships and used car operations and range from single to multi franchised groups.

This means we can pinpoint where you can enhance efficiency and protect profit. As sector specialists and with our broader role in the industry we have run seminars and workshops with the Retail Motor Industry Federation and The Institute of Motor Industry, we attend motor conferences in the UK and the NADA conference in the USA and from this we can keep you informed of changes, challenges and opportunities as they arise through having a close working relationship with you.

This combination of breadth and depth and commitment to exceptional client service has made us one of the top advisors to motor dealerships in the UK.



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