

MOTOR 150 REPORT

Consolidated accounts of the top 150
companies in the UK motor retail sector

November 2016



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Motor retail is the shop floor of the UK automotive industry. This established and interdependent network of businesses has become a symbol of economic strength by employing 814,000 people, contributing over £70 billion in turnover, and exporting over 1.2 million vehicles to in excess of 100 countries in 2015.*

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

RETURN ON EFFORT PAYS OFF FOR THE MOTOR 150, BUT NOT EVERYONE IS SMILING

Last year we reported a record year for the Motor 150 group, but were forecasting potential tougher times ahead. We are, therefore, pleased to announce that the group's turnover has increased by over 6% to £58.6bn. This reflects the overall increase in the market and registrations in 2015.

Just as encouraging is the return on sales percentage which has improved to an all-time high of 1.57%. This equates to an overall increase in profitability of 11.7%. There is no doubt this is an impressive result in light of the continuing pressure on margins and reflects the Motor 150 group's attention to margin retention and cost control. At a time when customer experience is key and with the continuing focus on customer satisfaction this is an exceptional result for the group. However, this consolidated result masks the widening gap between the larger and smaller groups.

It has not been good news for all though. Our analysis has shown that growth has been most prevalent in the largest businesses within the group whilst the smaller businesses appear to have struggled. This may be partly as a result of organic growth but also due to acquisitions being made by the larger groups as consolidation in the sector continues at a pace. With the ongoing pressures and investment required to meet dealer standards it will be interesting to see where the smaller groups and single site locations end up in a few years' time. Will they continue to form part of the wider consolidation that is taking place?

Looking into 2016 and beyond, registrations have continued to increase, albeit at a slower rate with static retail sales being offset by an increase in corporate sales. The general tone in the industry appears to be that trading is becoming more challenging, the achievement of unit targets is becoming much harder and in many cases the number of units sold has remained constant whilst the margins have dropped. This means everyone is working harder to achieve the same result and as a consequence the phrase 'Return on sales' is being replaced by 'Return on effort'. We would expect the 2016 trading to be in line with the 2015 trading results.

The forecasts are for a stable level of registrations through 2016 and going into 2017, however, with the general uncertainty that surrounds the sector and the wider economy regarding Brexit, whether it being the manufacturing of vehicles in the UK, the effect of the devaluation of the pound or the level of inflation, it is difficult to predict what 2017 and beyond will bring.

If there is one thing we can be sure of, it is that the industry is only going to have to work harder to achieve the same level of results and we predict tougher times ahead.

£825m
2014 PROFITS

£922m
2015 PROFITS

£58.6bn
2015 TURNOVER

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.

A FORK IN THE ROAD

MIXED MESSAGES

As has become customary for the Motor 150, the latest year saw yet more growth in both turnover and profit. Turnover increased from £55.2bn in 2014 to £58.6bn in 2015.

The increase of 6.2% was in line with the increase in new vehicle registrations (6.3%) and represents the sixth straight year of growth in the industry since a small contraction in turnover in 2009. However the rate of growth in turnover did slow down compared with 15.7% in the previous year.

Whilst turnover may have increased for a sixth year in a row the opposite is true for the gross profit margin, which has now reduced to 11.0%. This is a reflection of the pressure manufacturers are applying to dealers, with many groups struggling to hit ever-increasing targets and the level of pre-registrations increasing.

In many ways with better information available online and via smartphones, low interest rates, combined with the competitive marketplace, the customer has never had it so good when it comes to buying a new car.

We are, however, starting to see two tiers developing within the Motor 150. As the analysis of turnover (figure 1) shows, the largest 75 groups have all seen reasonable growth ranging from 3-9%, whereas the next 75 retailers have achieved minimal increase if not a reduction. This has likely been due to a lot of M&A activity in the sector which has helped the larger groups consolidate their position. In addition, more importantly, those groups, with larger access to funds, are much better positioned to do deals with the manufacturer at quarter ends and invest in line with dealer standards. Last year each positional grouping in the table saw double-digit percentage increases highlighting the challenging trading conditions some dealers now face.



FIGURE 1: ANALYSIS OF TURNOVER (£)

	2015 turnover	2014 turnover	2013 turnover	2012 turnover	Change 2014-2015	% Change
Positions 1-15	30,514,066,000	27,924,838,163	24,149,372,421	21,486,258,364	2,589,227,837	9.3%
Positions 16-30	7,756,240,127	7,556,534,098	6,271,098,538	5,565,113,713	199,706,029	2.6%
Positions 31-45	5,543,658,365	5,202,345,202	4,353,731,761	3,892,484,383	341,313,163	6.6%
Positions 46-60	3,723,294,763	3,617,131,253	3,268,436,293	2,799,935,089	106,163,510	2.9%
Positions 61-75	2,994,532,210	2,822,213,873	2,500,854,360	2,220,656,769	172,318,337	6.1%
Positions 76-90	2,350,720,214	2,378,308,298	2,093,878,313	1,822,089,512	(27,588,084)	(1.2%)
Positions 91-105	1,961,477,473	1,923,468,102	1,683,379,897	1,560,624,004	38,009,371	2.0%
Positions 106-120	1,566,585,918	1,547,696,922	1,386,035,396	1,316,931,835	18,888,996	1.2%
Positions 121-135	1,264,614,310	1,283,154,781	1,133,124,352	1,050,536,388	(18,540,471)	(1.4%)
Positions 136-150	965,078,256	982,978,753	885,389,167	853,338,019	(17,900,497)	(1.8%)
	58,640,267,636	55,238,669,445	47,725,300,498	42,567,968,076	3,401,598,191	6.2%

RETURN ON EFFORT

This same impact is also being felt at a profit level. Net profit before tax did increase by £97m (11.8%) to £922m and the net margin reached a new Motor 150 high of 1.57%, however the spoils have, as noted above, been unequally shared.

The net margin for the largest 75 dealers increased from 1.56% to 1.67%, an increase of 7.2%. However the next 75 groups in the Motor 150 saw their net margins fall from 1.12% in 2014 to just 0.97% in 2015. This is shown in figure 2 and, added to the turnover data opposite, highlights the challenges many dealers are facing and the result of the cyclical struggle with pre-registrations and pressure on margins.

Staff costs continue to be the most significant expense to motor retail businesses. Total staff costs were up by 4.4% to £3.7bn with the majority of this due to the additional 2,722 people employed by the Motor 150. Directors' emoluments increased by a similar percentage.

Overall it was Arnold Clark Automobiles who continue to set the standard, converting sales to bottom line profits with a net margin of 3.3% and profit before tax of £110m. However not all of the group made profits in the year with 12 groups, representing 9% of the Motor 150 group, making a loss.

STOCKING UP

The Motor 150 consolidated balance sheet increased by £472m to £5.2bn in the year. This was predominantly driven by the profit made by the dealer groups with few significant changes made in the balance sheet.

Gearing has fallen for a third year running to 59% however we anticipate that this trend might reverse in the near future as profit growth slows and dealers borrow more to fund investment in both dealer standards and acquisitions.

Stocking levels hit £10bn for the first time as the manufacturers continue to push stock on to the dealers. This was after a large 19% increase on the prior year and stocks are now almost twice as high as they were in 2011.

This seems to have been principally financed through increased stocking loans and trade creditors. Expenditure on fixed assets unsurprisingly increased by £1.5bn. Of this there was £354m spent on property, up from £297m in the prior year, highlighting the increasing requirements by the manufacturers to update their properties to meet new standards and dealers further securing their future property assets.

HAVE REGISTRATIONS PEAKED?

In 2015 new vehicle registrations continued their upward march with an increase in the year of 6.3% meaning 2015 became the all-time record, beating 2003 into second place. This did represent a slowdown from 2014 when registrations increased by 9.3% though the 2.63m registrations was roughly in line the SMMT forecast in last year's report of 2.60m. Within these figures there were some winners and losers. BMW and Mercedes-Benz saw growth of 12% and 17% respectively, and in the process taking BMW back ahead of Audi (5%) in the battle for German supremacy. Nissan and Land Rover also posted impressive growth whilst Fiat saw a fall of 4%. The emissions scandal seems to have hit Seat hardest, with the manufacturer posting an 11% fall. VW itself has held firm at a 4% rise though with the benefit of hindsight they have not been faring so well in 2016, with a reduction of 14% up to September 2016.

The battle between petrol and diesel engines continues to go down to the wire with petrol engines just outselling diesel engines for the first time in a couple of years. Alternatively-fuelled vehicles continued to rise from 2.1 to 2.8% of the market, with particular emphasis on the increasingly range of electric and hybrid vehicles available. We expect this trend to continue as the technologies are developed and invested in further by all manufacturers.

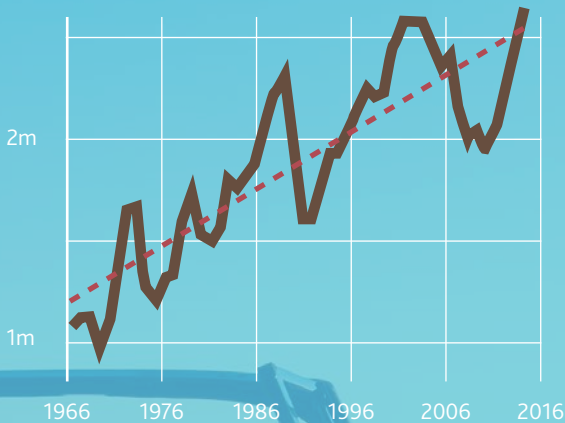
FIGURE 2: ANALYSIS OF RETURN ON SALES (%)

	2015	2014	Movement	% Change
Positions 1-15	1.66	1.64	0.02	1.2%
Positions 16-30	1.58	1.38	0.20	15.2%
Positions 31-45	1.64	1.52	0.12	7.7%
Positions 46-60	1.76	1.55	0.21	13.9%
Positions 61-75	1.98	1.36	0.62	45.4%
Positions 76-90	0.99	1.20	(0.21)	(17.1%)
Positions 91-105	1.17	1.02	0.15	14.8%
Positions 106-120	0.98	1.17	(0.19)	(16.6%)
Positions 121-135	0.76	1.03	(0.27)	(26.3%)
Positions 136-150	0.77	1.18	(0.41)	(35.1%)
	1.57	1.49	0.08	5.4%

THE END OF A CYCLE?

SMMT have forecast one more year of growth in registrations followed by a fall. The growth in 2016 is expected to be less than 1% with a fall of as much as 6% in 2017.

FIGURE 3: HISTORIC REGISTRATIONS



This fall might seem steep but should we be surprised? As the graph in figure 3 shows, new vehicle registrations, much like the economy as a whole, is cyclical in nature. The recession and resulting decline was sharper than seen since the crash of the early 1990s however the level of registrations has already recovered to move ahead of the long term growth path. The graph shows that each cycle is approximately 8-10 years in length on average and many feel we are due another downwards turn.

There are many signs that point to this fall. Continued pressure to pre-register at each quarter end cannot be maintained and we have already noted the toll it is starting to take on some groups. Used vehicle values remained stable but when these inevitably start to fall this will reduce the demand for new vehicles as used vehicle prices become more competitive. Add to this that the emissions scandal and Brexit are currently unknown in their full effect on consumer confidence and the wider economy and there is little positive news as uncertainty will only impact on the Motor 150 profitability.

To September 2016 we can see this effect taking hold. Registrations might have grown by 2.6% for the year to date but this has been underpinned by the fleet sector, which has increased by 5.4% whilst the private sector has increased by just 0.4%. In a recent poll carried out by AM-Online, 67% of respondents believed their targets will continue to increase in 2017. This will no doubt lead to an over-supply in the market and even further pressure on margins; great for the customer but bad news for the dealers.

In our report last year we referred to the level of pre-registrations as the elephant in the room. However, a year on this practice has only increased and looks set to increase further. In a recent survey dealers suggested that as much as 20% of the new car market related to preregistered vehicles.

TIME TO BUCKLE UP

In our previous report we summarised the findings by saying 'make the most of it while it lasts'.

It may have lasted from 2015 and into 2016 but now might be the time to fasten those seat belts. There is a lot of economic uncertainty and the pressure from consumers and manufacturers is starting to grip the Motor 150.

The squeeze on margins is set to persist and dealer performance is likely to be determined by how well they can balance control of their margins with the continuing pressure to hit targets.

M&A ACTIVITY REFLECTS A BUOYANT MOTOR RETAIL MARKET

2015 continued the positive M&A trends observed during 2014, with another 20 deals completed in the sector. Buyers included the 'usual suspects' of listed companies as well as a respectable showing from family-owned acquirers. From Southampton to Inverness, from volume to premium, deal activity touched most areas of the market. Deals need cash and the funding appetite from corporates, investors and banks showed little sign of abating. Despite the renewed deal activity, though, this still remains a highly fragmented market that remains ripe for consolidation.

PROLIFIC DEALMAKING

There is a clear market-wide agenda of acquiring dealerships with a strong strategic, financial and cultural fit. 2015 was a strong market for many dealers supported by stable consumer and business confidence alongside the introduction of popular models by leading OEMs.

The extensive variety of UK dealerships provides buyers with opportunities to create diversified vehicle brand portfolios. The strategy of marque expansion is viewed as important to reduce exposure to individual brand performance and fluctuations in consumer/business demand. As a result, M&A deals have covered the entire brand spectrum, from volume brands such as Nissan, Ford and Volkswagen to premium brands including Jaguar Land Rover, BMW, Mercedes-Benz and Audi.

The most common reasons cited for acquisition are:

- brand diversification
- profit synergies
- strengthen relationships with key brand partners and
- expansion into new geographical territories – as an example, Marshall Motor Holdings plc's first acquisition as a public company of SG Smith Holdings Limited both strengthened its relationships with key brand partners, particularly Audi, and enabled geographic expansion into the South East.

All 2015 deals were completed by UK-based acquirers, yet international acquirers remain strategically interested in the UK. Since 2016, we have seen two cross-border deals completed - Japanese listed VT Holdings' acquisition of Wessex Garages and Lei Shing Hong's acquisition of Mercedes-Benz Retail Group UK.

READY FOR MORE?

The most prolific acquirers are listed companies. They have strong balance sheets and immediate access to significant sums to fund acquisitions. There is also evidence of continued appetite from investors and banks to provide additional finance via equity placings and bank loan facilities:

- Lookers plc - £240 million facilities secured until 2020, with the potential to increase by an additional £30 million for acquisitions
- Vertu Motors plc - £35m equity placing to fund acquisitions
- Cambria Automobiles plc - £37m five year banking facilities
- Marshall Motor Group - £120m revolving credit facility (three year committed).

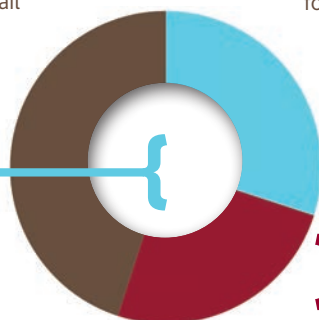
In addition, a number of family-owned dealerships have seen receptive banks supporting new facilities.

TO SELL, OR NOT TO SELL?

2015 has been a successful year for the UK motor retail market. Whilst there were suggestions of consistent year on year growth 'normalising' to lower levels, this has not been seen. In fact, recent statistics and market intelligence confirm that new car registrations increased from the prior year with key market players achieving excellent financial results and building strong positions going into 2016.

Even within an uncertain post-Brexit climate and following VW's emissions scandal, 2016 has been viewed with much optimism by OEMs, dealerships, investors and funders. Furthermore, with the strong appetite from domestic and international acquirers for UK dealerships alongside good valuations based on the traditional net assets plus goodwill premiums, it remains a good time to sell.

more than half
of all M&A deals have
been undertaken
by listed acquirers



with nearly a half
of 2015 deals completed by
the top 3 acquirers



THERE MAY BE TROUBLE AHEAD

Currently you do not seem to be able to breathe without the word Brexit being mentioned or blamed for something. The motor retail industry, as with all sectors, will have its challenges as a result of Brexit.

Encouragingly registrations have not significantly changed since June but there is no doubt that the general uncertainty is not good for the UK as a whole and is of considerable concern to the resurgent automotive industry.

The general weakening of the pound will only make imports more expensive and there is evidence that new car prices have increased slightly since the referendum. However is this as a result of Brexit or a convenient excuse?

From a wider industry view over 80% of vehicles manufactured in the UK are exported with over 50% being exported into Europe. Therefore, uncertainty over

our trading relations with Europe is not good for the wider sector.

It is very encouraging to note that Nissan recently decided to continue investing in its UK manufacturing. This will have a significant positive impact on the automotive sector and for the North East region as a whole.

Industry expert, Professor David Bailey notes "Nissan and other car firms want the UK to retain access to the single market so they can export UK-made cars to the EU without tariffs, and manage their value chains in as frictionless a way as possible."

If this is not possible, then the UK automotive industry will look significantly different in the future.

INCREASED COSTS IN BUSINESSES

The sector will have to watch out for increased costs coming into their businesses over the next 12 months and beyond.

All businesses with a payroll over £3m will be liable to pay the apprenticeship levy. Unless dealers have the right approved training this will be a cost on the business and is discussed in more detail on page nine. A number of dealer groups have also told us that the potentially biggest impact on their business will be the increased minimum wage which is due to increase by over 29% over the next four years to £9.30 per hour. This increase will make dealers really think about the staffing levels in their business and to accommodate these extra costs some other jobs may have to be sacrificed.

AN EVOLVING LANDSCAPE

The world of motor retailing continues to evolve with increasing focus on personal contract plans, driven by low interest rates, and a focus on the monthly instalments rather than the total cost. The ownership cycle of a car is now often only 24-36 months and we are seeing the used car market flooded with these vehicles which will inevitably lead to over-supply and a fall in prices which dealers will have to monitor closely.

There is also greater use of digital sales channels making it easier than ever to choose your new car on your mobile, with the millennials particularly comfortable with this process. This has meant increasing contact by the manufacturer with the customer, through digital campaigns and access to data directly from the car, leading to customer relationships slowly migrating away from the dealers. Advances in vehicle technology have also meant more reliability and fewer opportunities to get customers in the showroom. Add in the emergence of brokers such as Carwow and it is becoming increasingly difficult to deal directly with customers and forge relationships. We are also now seeing pop-up shops on the high street, with Rockar offering a full sales service for Hyundai and Jaguar Land Rover, whose own website proudly boasts "There is, of course, no need to visit the physical store at all; the online site allows customers to browse models, book test drives, specify their car, arrange finance and even trade in an existing model before hitting the 'buy' button". This must surely make dealers question why new expensive showrooms are required at all.

What is clear is that dealers need to continue to be innovative by developing a strategy incorporating all sales channels, both traditional and digital, with a focus on the needs of the customer, and a joined-up experience that keeps them coming back.

REPORTING AND STAFF CHALLENGES

The key to a successful business is a stable and motivated workforce. With low levels of unemployment and skills at a premium this is becoming ever more important to the motor sector.

STAFF RETENTION AND RECRUITMENT

As in all industries there is a shortage of high quality, skilled workers. Unemployment is at a record low and therefore all industries are having to pay increased salaries to retain the best staff.

The motor industry suffers more than most other industries with staff turnover. From evidence obtained in a 2014 workforce study report in the USA the average staff turnover rate was 36%. A further report noted a healthy turnover rate was around 10%.

For every member of staff that leaves your business around 150% of an employee's annual salary is spent on a replacement. Therefore, taking the average salary per the Motor 150 report of £32,000, the overall cost to the business of replacing an employee could be £48,000 on average.

In a low-margin industry this must be a cost to be avoided.

HOW DO YOU RETAIN STAFF?

*"The best dealers **do not and will not offer jobs** to current and future employees; **they offer careers**"*

Dr K Parry and Dr T Nash

The key is to understand your workforce; you need to be a destination employer with a strong culture and brand. Culture and brand means loyalty and loyalty brings profit.

A dealership can have a number of key differentiators which will help keep and retain staff being:

- Work/life integration
- Community relations
- Diversity and inclusion
- Innovation
- Top down transparency.

By 2025, 75% of the workforce will be made up of the millennial generation. Business owners will need to understand this generation, one which is less pay orientated and more goal orientated, want to feel they are learning yet being challenged, and want to feel they are making a difference. However, because they communicate using their mobile devices they hate confrontation meaning as owners you will need to act more as coaches than as managers.

GENDER PAY GAP REPORTING

In our last Motor 150 report we noted regulation and disclosure was increasing with the advent of the new FCA and consumer credit rules. Moving into 2017 we see further regulation which will require most groups in the Motor 150 to comply with gender pay gap reporting.

In February 2016 the Government issued its draft consultation on mandatory gender pay gap reporting. The Equality Act (Gender Pay Gap Information) Regulations 2016 will require employers with over 250 employees to publish gender pay gap details highlighting the difference in payments made to female and male employees.

The first information must be published by April 2018 and relates to pay details in the year to April 2017. This includes all bonuses paid between 1 May 2016 and 30 April 2017 so companies are already within the reporting window.

This information will be published subsequently every 12 months on a searchable UK website where it is accessible to both employees and the public, as well as uploaded onto a government-sponsored website which will allow league tables by sector to be produced.

WHAT NEEDS TO BE CALCULATED AND PUBLISHED?

- **Mean pay:** this is the difference between the average hourly earnings of the employer's female and male employees.
- **Median pay:** this is the difference in the mid-point value of hourly earnings.
- **Mean bonuses:** similar to the first point this is the difference between the female and male average bonus pay in the 12 month period.
- **The proportion of men and women who receive bonuses:** this will be the proportion of men and women who receive a bonus.
- **Gender pay split between quartile pay bands:** employers will have to divide their overall pay range into four quartiles, containing equal numbers of employees, and report the gender split in each of these four bands.

HMRC: STEPPING UP SCRUTINY

VAT ISSUES

Recent HMRC activity clearly demonstrates the intention to spend more time and energy enquiring into businesses - especially from a VAT perspective – with particular attention on the motor sector. A growing number of retailers have recently been subject to VAT audits and there appear to be a number of risk areas where underpayments of VAT are still being identified. The VAT issues associated with value manipulation ('bumping' etc.) in relation to vehicle sales through Finance Houses are well documented, but it appears that motor retailers are still receiving VAT assessments in this area. The finance documents and systems are critical in this area and we have seen examples of where the Finance House has claimed input VAT on a higher vehicle value than that shown on the retailer's sales invoice. In such cases HMRC appears to take the view that VAT is payable by the retailer on any difference.

VAT accounting for promotional cash-backs has also caused some confusion and it seems HMRC has changed its policy around cash backs funded by the retailer such that VAT adjustments (reductions) may no longer be permitted. Bonuses in respect of second hand vehicle buy-backs given by third parties (e.g. Motability) are also seen by HMRC as increasing the margin generated under the VAT Margin Scheme (and thereby the VAT payable) but these can often be missed as these bonuses are often given only periodically.

It is imperative that motor retailers ensure that their VAT compliance processes are fit for purpose and that they regularly take advice on VAT matters. The new penalty regime is an ever-present threat and businesses can help manage this risk if they can show that they take 'reasonable care' in managing their VAT compliance and put the necessary controls in place around known areas of risk.

TAX RISK MANAGEMENT

We highlighted last year the increased focus that HMRC had on larger businesses, especially within the Senior Accounting Officer (SAO) regime. 2016 has seen further emphasis placed on this area as HMRC has started to move away from its historic 'light touch' approach and apply a much more rigorous view.

It has set out clear guidelines of what it expects the duties of the SAO to include and, in particular, it expects 'reasonable' steps to be taken to ensure that a qualifying company establishes and maintains appropriate tax accounting arrangements.

Reasonable steps may involve considering the impact of internal and third party reviews, reviews of M&A activity, voluntary disclosures and HMRC activity. Essentially, qualifying businesses now need to take a more pro-active approach, and if this cannot be demonstrated then HMRC will take this as non-compliance and react accordingly.

Retailers that now fall into this regime should take professional advice - both in terms of tracking their obligations and undertaking a systematic approach to internal reviews (e.g. VAT and PAYE health-checks). If you would like guidance on SAO issues, please speak to your local BDO contact and they will put you in touch with our team of national specialists. Over time much tax legislation that targets larger businesses expands in scope to include smaller entities with the SAO scheme no exception.

Growing businesses should ensure that SAO requirements and tax risk management are considered and form part of their long term strategic people plans for future growth. In the future this will help in proving to HMRC that the business takes its tax reporting obligations seriously.

EMPLOYMENT TAXES: ALL CHANGE

PAYE and National Insurance Contributions account for nearly 50% of the Treasury's annual tax receipts and changes in this key area are coming thick and fast. With the Department for Business, Energy and Industrial Strategy working with HMRC on a number of initiatives, the pace of change shows no sign of slowing. There are some important developments of which retailers need to be aware.

THE APPRENTICESHIP LEVY

The Government aims to introduce three million new apprenticeships by 2020 which will be substantially funded by the Apprenticeship Levy.

Initially the levy will be charged at 0.5% on an employer's pay bill subject to Class 1 NIC with an annual £15,000 allowance per company or connected group to set off against the Levy. Therefore, only those companies and/or groups with a combined pay bill in excess of £3m will have any liability.

Despite this new tax being seen as a burden, it is here to stay. Those that prepare properly before 6 April 2017 can manage these additional costs and make the most of the Government top-up funding to up-skill their workforce and create an enhanced recruitment and retention proposition. From a finance perspective, immediate actions should include:

- identifying any connected employers
- testing the integrity of your Levy calculations
- ensuring your payroll provider will incorporate a Levy RTI module in time
- ensuring that anti-avoidance provisions are not breached if steps are taken to reduce amounts currently subject to Class 1 NIC.

On the HR side, businesses should review their existing training provision and strategy going forward against business needs. They can then consider what can be done in the short term to utilise the Levy funds from April 2017.

In the longer term, retailers may want to make wider changes to recruitment and staffing policies to build on the opportunities that the Levy will offer.

SALARY EXCHANGE

Using salary exchange arrangements, employees agree to give up a proportion of their annual salary in return for a non-cash benefit. This results in a saving of income tax and/or NICs for both employee and employer as the actual salary being paid is lower. Typical benefits offered are pensions, childcare vouchers, bicycles, life insurance, medical insurance, mobile phones and buying additional holiday – although a myriad of other benefits are available.

However, the Government has recently commenced a consultation on the future of salary exchange arrangements. It has confirmed that pensions, childcare vouchers and cycle to work will remain valid salary exchange arrangements but everything else is up for review. The consultation is open until mid-October and findings will follow in due course. It is hoped any proposed changes would be delayed until at least April 2018.

OTHER CHANGES

There have been a number of announcements in recent months, which will have an impact on all employers. The Government is continually looking at ways to 'simplify' the tax system for employers and recent proposals include:

- termination payments – the tax and NIC treatment payments is to be overhauled, including subjecting amounts over the £30,000 threshold to NIC as well as treating all pay-in-lieu-of-notice payments to tax and NIC in full
- reviewing the tax treatment of Ultra Low Emission company cars for the long term
- simplifying the process for entering into and submitting a PAYE Settlement Agreements.

MOTOR UK LIMITED REVIEW OF TOP 150 ACCOUNTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	2015	2014	2013	2012	2011
		£'m	£'m	£'m	£'m	£'m
Turnover		58,640	55,238	47,725	42,568	40,672
Cost of sales		(52,170)	(49,070)	(42,229)	(37,629)	(35,945)
Gross profit		6,470	6,168	5,496	4,939	4,727
Gross profit %		11.03%	11.17%	11.52%	11.60%	11.62%
Operating expenses		(5,601)	(5,362)	(4,848)	(4,464)	(4,295)
Other operating income		238	192	154	133	117
Operating profit	1	1,107	998	802	608	549
Exceptional items		3	5	12	(8)	16
Interest paid	4	(200)	(187)	(182)	(193)	(213)
Interest received		12	9	16	50	47
Profit before tax		922	825	648	457	399
Taxation	5	(185)	(188)	(146)	(123)	(81)
Profit after tax		737	637	502	334	318
Minority interest		(6)	(5)	(2)	(3)	(1)
Net profit		731	632	500	331	317

CONSOLIDATED BALANCE SHEET

	Note	2015	2014	2013	2012	2011
		£'m	£'m	£'m	£'m	£'m
Fixed assets						
Intangible	7	953	839	802	754	706
Tangible	8	5,124	4,840	4,313	3,909	3,755
Investments		194	268	253	238	213
		6,271	5,947	5,368	4,901	4,674
Current assets						
Stock		10,020	8,420	7,191	6,352	5,864
Debtors	9	2,720	2,839	2,708	2,595	2,156
Deferred tax asset		11	17	18	23	24
Cash		748	524	486	364	831
Other		362	136	117	113	110
		13,861	11,936	10,520	9,447	8,985
Debtors due after more than one year		35	33	42	23	39
Total assets		20,167	17,916	15,930	14,371	13,698

CONSOLIDATED BALANCE SHEET cont.

	Note	2015	2014	2013	2012	2011
		£'m	£'m	£'m	£'m	£'m
Current liabilities						
Loans and bank overdrafts	10	3,645	2,988	2,438	2,534	2,369
Trade and other payables	11	9,263	8,116	7,101	6,000	5,774
Current tax liabilities		135	158	140	104	99
		13,043	11,262	9,679	8,638	8,242
Non-current liabilities						
Loans and bank overdrafts	12	1,106	1,024	1,238	1,163	1,150
Trade and other payables	13	554	604	518	488	397
Pension liabilities		163	199	176	181	140
Provisions		40	69	55	62	67
Deferred tax		105	74	71	78	75
		1,968	1,970	2,058	1,972	1,829
Total net assets		5,156	4,684	4,193	3,761	3,627
Capital and reserves						
Share capital		744	751	772	759	727
Share premium		386	367	351	293	287
Profit and loss account		3,669	3,220	2,761	2,380	2,298
Revaluation reserve		164	164	152	153	155
Other reserves		167	158	140	127	113
		5,130	4,660	4,176	3,712	3,580
Minority interest		26	24	17	49	47
Total equity		5,156	4,684	4,193	3,761	3,627

NOTES TO THE ACCOUNTS

	2015	2014	2013	2012	2011
	£'m	£'m	£'m	£'m	£'m
1. Operating profit					
Depreciation of tangible fixed assets	466	453	407	368	363
Amortisation of intangible fixed assets	40	3	32	34	31
Audit fees	8	7	8	8	8
Non audit fees	3	2	3	3	4
Operating leases - land & buildings	181	195	197	221	262
Operating leases - other	26	17	9	11	13
2. Staff costs					
Wages and salaries	3,321	3,166	2,887	2,667	2,629
Social security costs	309	320	294	269	266
Share based payments	7	5	4	2	11
Pension costs	76	66	66	60	47
	3,713	3,557	3,251	2,998	2,953
Total number of employees	116,180	113,458	106,861	102,582	100,302
Average pay per employee (£000)	32	31	30	29	29

MOTOR UK LIMITED REVIEW OF TOP 150 ACCOUNTS

NOTES TO THE ACCOUNTS cont.

	2015	2014	2013	2012	2011
	£'m	£'m	£'m	£'m	£'m
3. Directors emoluments					
Salaries and fees	104	99	94	82	86
Bonuses	3	3	2	2	1
Compensation for loss of office	1	1	–	–	–
Pension contributions	5	5	4	5	5
	113	108	100	89	92
Average emoluments per highest paid director (£000)					
	258	285	246	227	237
4. Interest payable					
Bank loans and overdrafts	34	36	48	57	65
Other interest payable	116	115	133	136	152
Other finance expense	50	36	1	–	(4)
	200	187	182	193	213
5. Taxation					
Corporation tax and income tax current year	182	176	148	105	95
Prior year	(12)	1	1	1	(11)
	170	177	149	106	84
Deferred tax current year	17	12	(2)	19	(4)
Prior year	(2)	(1)	(1)	(2)	1
	185	188	146	123	81
6. Dividends					
Dividends paid in the period	210	190	165	82	80
7. Intangible fixed assets					
Cost b/fwd	1,229	1,148	1,101	1,078	979
Additions	84	74	53	55	49
Acquisitions	64	9	16	31	3
Disposals	(24)	(2)	(7)	(4)	(3)
Other	–	–	(1)	–	(11)
Cost c/fwd	1,353	1,229	1,162	1,160	1,017
Amortisation b/fwd	367	347	327	372	280
Charge	40	42	32	34	31
Transfer	–	–	–	–	–
Impairments	5	1	4	1	1
Disposals	(12)	–	(3)	(1)	(1)
Amortisation c/fwd	400	390	360	406	311
Net book value at year-end	953	839	802	754	706

	Freehold property	Leasehold property	Motor vehicles	Plant and fixtures	Total
	£'m	£'m	£'m	£'m	£'m
8. Tangible fixed assets					
Cost b/fwd	2,970	744	1,290	1,466	6,470
Additions	274	80	890	280	1,524
Disposals	(81)	(12)	(816)	(109)	(1,018)
Acquisitions	98	31	(7)	26	148
Revaluations	(8)	1	–	34	27
Other	15	6	(36)	(104)	(119)
Cost c/fwd	3,268	850	1,321	1,593	7,032
Depreciation b/fwd	287	178	382	934	1,781
Charge	42	28	242	154	466
Disposals	(10)	(3)	(222)	(92)	(327)
Other	(2)	(1)	10	(19)	(12)
Depreciation c/fwd	317	202	412	977	1,908
Net book value at year-end	2,951	648	909	616	5,124

	2015	2014	2013	2012	2011
	£'m	£'m	£'m	£'m	£'m
9. Debtors - current					
Trade debtors	1,329	1,210	1,070	912	912
Group and related party loans	520	859	799	1,050	682
Corporation tax	6	4	6	10	7
Other debtors	484	423	481	308	275
Prepayments	381	343	352	315	280
	2,720	2,839	2,708	2,595	2,156

10. Loans and overdrafts - current					
Bank loans and overdrafts	579	512	383	503	485
Stocking loans	1,499	1,200	1,286	1,065	1,274
Group loans	1,539	1,245	744	934	579
Other loans	28	31	25	32	31
	3,645	2,988	2,438	2,534	2,369

MOTOR UK LIMITED REVIEW OF TOP 150 ACCOUNTS

NOTES TO THE ACCOUNTS cont.

	2015	2014	2013	2012	2011
	£'m	£'m	£'m	£'m	£'m
11. Trade and other payables - current					
Trade creditors	7,453	5,781	5,114	4,363	4,137
Other taxation and social security	150	193	160	154	157
Finance leases	438	583	397	336	328
Other creditors	648	580	483	408	367
Accruals	574	979	947	739	785
	9,263	8,116	7,101	6,000	5,774
12. Loans and bank overdrafts - non current					
Bank loans	603	640	633	628	574
Group loans	173	54	357	397	355
Other loans	330	330	248	138	221
	1,106	1,024	1,238	1,163	1,150
13. Trade and other payables - non current					
Accruals	80	67	19	9	25
Finance leases	322	274	414	383	347
Other creditors	152	263	85	96	25
	554	604	518	488	397
14. Net debt and gearing					
Net debt comprises:					
• Loans and bank overdrafts due within one year	(579)	(512)	(383)	(503)	(485)
• Loans and bank overdrafts due after more than one year	(603)	(640)	(633)	(628)	(574)
• Stocking loans	(1,499)	(1,200)	(1,286)	(1,065)	(1,274)
• Finance leases	(760)	(857)	(811)	(719)	(675)
• Other loans	(330)	(330)	(248)	(138)	(221)
	(3,771)	(3,539)	(3,361)	(3,053)	(3,229)
Cash and cash equivalents	748	524	486	364	831
Net debt	(3,023)	(3,015)	(2,875)	(2,689)	(2,398)
Total equity	5,156	4,684	4,193	3,761	3,627
Debt/equity	59%	64%	69%	71%	66%

MOTOR 150 COMPANY NAMES

- Allen Ford (UK) Limited
- Ancaster Group Limited
- Aprite (GB) Limited
- Arnold Clark Automobiles Limited
- Barretts of Canterbury Limited
- Baylis (Gloucester) Limited
- Beadles Group Limited
- Bestodeck Limited
- Birchwood Motor Group Limited
- Blade Motor Group Limited
- Bolton Car Centre Limited
- Border Cars Limited
- Bugle Inn Motor Company (Holdings) Limited
- Burrows Motor Company Limited
- Bussey & Sabberton Bros. Limited
- C.E.M. Day Limited
- Caffyns plc
- Cambria Automobiles plc
- Cathedral Motor Company Limited
- Central Garage (Uppingham) Limited
- Chapel House Holdings Limited
- Citygate Automotive Limited
- Clare James Automotive Limited
- Collier Motor Group Limited
- Cotswold Motor Group Limited
- Currie Motors Limited
- CWC (UK Holdings) Limited
- D J Cox Limited
- D. M. Keith Limited
- Decidebloom Limited
- Desira Group plc
- Dick Lovett Companies Limited
- Donnelly Bros. Garages (Dungannon) Limited
- Drift Bridge Garage Limited
- Drive Motor Retail Limited
- Eastern Holdings Limited
- Eden (GM) Limited
- EMG Anglia Limited
- Endeavour Automotive Limited
- Essex Auto Group Limited
- F.G. Barnes & Sons Limited
- Fish Brothers (Holdings) Limited
- Foray Holdings Limited
- Ford Retail Limited
- Furrows Holdings Limited
- Gates Group Limited
- George Thurlow and Sons (Holdings) Limited
- Glyn Hopkin Limited
- Go Motor Retailing Limited
- Gordon Lamb Holdings Limited
- Greenhous Group Limited
- Greenoaks (Maidenhead) Limited
- Grevan Cars Limited
- Group 1 Automotive UK Limited
- Guildford Portfolios Limited
- H. R. Owen plc
- Halliwell Jones Holdings Limited
- Hartwell plc
- Harwoods Limited
- Hawco & Sons Limited
- Hawkins Motors Limited
- Helston Garages Group Limited
- Hendy Investments Limited
- Heritage Automotive Limited
- Howard Garages (Weston) Limited
- Hughes of Beaconsfield (Holdings) Limited
- Inchcape Retail Limited
- Jardine Motors Group UK Limited
- JCB Medway Limited
- JCT600 Limited
- John Clark (Holdings) Limited
- John Grose Group Limited
- Johnsons Cars Limited
- Knights North West Limited
- L & L Inc Limited
- Lifestyle Europe Holdings Limited
- Listers Group Limited
- Lloyd Motors Limited
- Lookers plc
- Macrae & Dick Limited
- Marriott Motor Group Limited
- Marsh Wall Limited
- Marshall Motor Holdings plc
- Marubeni Auto Investment (UK) Limited
- McLean & Appleton (Holdings) Limited
- Mercedes-Benz Retail Group UK Limited
- Mill Garages North East Limited
- MJT Securities Limited
- Mon Motors Limited
- Motorline Holdings Limited
- Now Motor Retailing Limited
- Ocean Automotive Limited
- Parks of Hamilton (Holdings) Limited
- Parkway Derby Limited
- Partridge of Hampshire Limited
- Pendragon plc
- Pentagon Motor Holdings Limited
- Peoples Limited
- Perrys Group Limited
- Peter Cooper Motor Group Limited
- Peter Vardy Holdings Limited
- Peugeot Citroen Retail UK Limited
- Porsche Retail Group Limited
- R. Robinson & Co. (Motor Services) Limited
- Regent Automotive Limited
- Renault Retail Group UK Limited
- Renrod Holdings Limited
- Ridgeway Garages (Newbury) Limited
- Rybrook Holdings Limited
- S G Petch Limited
- S Jennings Group Limited
- Saftdwin Limited
- Sandiccliffe Motor Holdings Limited
- Sandown Motors Limited
- Sherwoods (Darlington) Limited
- Simon Bailes Limited
- Sinclair Motor Holdings Limited
- Snows Business Holdings Limited
- Specialist Cars Holdings Limited
- Spire Automotive Limited
- Stephen James Group Trading LLP
- Steven Eagell Limited
- Sutton Park Motor Company Limited
- Swansway Group Limited
- Sytner Group Limited
- T C Harrison Group Limited
- T. G. Holdcroft (Holdings) Limited
- Tanner Automotive Limited
- The Harratts Group Limited
- The Phoenix Car Company Limited
- Thompson Motor Company (Preston) Limited
- Toyota Tsusho Automobile London Holdings Limited
- Trust Group UK Limited
- Underwoods Garage (Tiptree) Limited
- Vantage Motor Group Limited
- Vertu Motors plc
- Vindis Group Limited
- Vitiris Limited
- Vospers of Plymouth Limited
- W Brindley (Garages) Limited
- W. J. King (Garages) Limited
- Walter E Sturges & Sons Limited
- Warwick Holdings Limited
- Wessex Garages Holdings Limited
- Westover Holdings Limited
- WH Bowker Limited
- Williams Motor Co. (Holdings) Limited
- WLMG Limited
- Worcester Carsales (Holdings) Limited
- Yeomans 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 2015 to 31 March 2016 being the most recent accounts filed at Companies House at the time of the compilation of this report. For companies with December year ends (120 in the population) the 'current period' will be the year ended 31 December 2015. For January to March year ends (12) the current period is that ending in 2016. For April to November year-end companies (18), 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 2015.

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, seven have prepared their accounts under IFRS and the remainder under UK GAAP. However, as those companies represent 22% 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.

DISCLAIMER

The financial information in this report has been compiled exclusively from publicly available information under the key assumptions and limitations outlined above. It has been designed solely for illustrative purposes to highlight trends in the financial performance of a representative sample of companies in the sector.

BDO has made a number of judgments in aggregating the information into a consistent format BDO does not, and cannot, warrant the completeness or accuracy of such adjustments. Furthermore in adjusting the presentation adopted in published accounts to meet the specific requirements of this report, BDO is not making any judgement nor giving any opinion on the presentation adopted in those published accounts.

BDO has not carried out any verification work on the financial information in this report and gives no opinion on the financial information. The financial information was not compiled with the intention that it should be used for any purpose save for that described above. We do not accept responsibility for the financial information to any person or for any purpose other than that for which it was prepared.

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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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