



THE DRIVE FOR CHANGE RETHINKING MOTOR RETAIL

A MOTOR 150 SPECIAL REPORT



IDEAS | PEOPLE | TRUST

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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 key economic sector by employing almost 800,000 people, contributing £12 billion in value to the economy, and investing almost £3 billion in research and development.*

In this light, this Motor 150 Report – revealing the aggregated performance of a study group comprising the top 150 groups/ companies in the UK motor retail sector – is an important business barometer. As such, this report, which covers performance reported in the latest audit 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 Report is to provide a considered insight into recent economic events and the impact of the COVID-19 pandemic, the current and future dynamics of motor retailing, and to offer our professional views and advice for the future.

A WORD FROM STEVE LE BAS

HEAD OF MOTOR RETAIL

There is no doubt in my mind that the current sentiment in the motor retail sector is one of optimism however, in March 2020 when the country first went into lockdown, I don't think anyone would have believed where the sector currently finds itself.

From the end of March to 31 May 2020 businesses were for all intents and purposes closed and directors were forced to make significant strategic decisions to get them through the lockdown. Yet now the current trading picture is one of record profitability and the listed groups continue to issue profit upgrades. There has been a remarkable transformation and resilience shown by the sector.

These results have been driven by the economics of reduction in new car supply which has fuelled used car pricing and sales, together with a consumer who saved money over the course of the pandemic and has looked to a car purchase in the absence of being able to go on a foreign holiday or other significant expenditure.

Although we appreciate that manufacturers have a need and desire to increase production to more normalised levels, it will be interesting to see what lessons they have learnt through the pandemic. The reduction in cars has led to a reduction in the historic pre-registration issues where dealers often had to discount vehicles, allowing more sensible margins to be made.

Our analysis of the Motor 150 group performance from their 2020 results reflects this resilience and depicts a sector able to adapt to unexpected challenges. However, it should not be forgotten that the Government has played a very important part in sustaining the industry through its rates and furlough support, which undoubtedly protected jobs. Without this support the sector would be in a significantly different place now.

CONTINUED OVERLEAF



A WORD FROM STEVE LE BAS

CONTINUED

Manufacturers and funders have also played their part in the form of guaranteed bonuses and funding holidays. I believe such support continues to demonstrate how important this sector is to the UK economy and the wider public.

Looking at 2021 there will have been less support in terms of monetary value compared to 2020, but based on the profit announcements issued to date by the various listed groups in the UK, and our own conversations with dealer groups, my view is that 2021 could be a record trading year for the sector. This has been fuelled by continued low interest rates, pent-up consumer demand and used car prices, which (at the time of writing) have hit record levels and seem unlikely to fall any time soon. Many groups are now sat on significant levels of cash reserves that could fuel acquisitions in 2022. Marshall Motor Group recently completed the largest acquisition in the sector for several years and this may just be the start.

We now find ourselves at what some are calling a pivotal moment for motor retail. The past 18 months have forced dealers to embrace digital sales and change operating models much faster than anticipated. The potential shift to an agency model has also moved more rapidly up the agenda than envisaged and the transition to electric vehicles is now becoming a reality.

So, what does the motor dealership of the future actually look like? In this special edition of our Motor 150 Report, we give our perspectives on some of the fundamental drivers for change and practical steps motor retailers should be considering right now.

We have spoken to a number of leading players in the sector ranging from the NFDA, to suppliers to the sector and CEOs and FDs of motor groups. I thank them for their time in discussing the future of the sector with myself and my colleagues and also thank the wider BDO motor team for their analysis and the preparation of this report.



THE MOTOR 150 GROUP PERFORMANCE

A TALE OF TWO HALVES



FALLING BEHIND

Whilst 2020 might have started off like any other year, you would have been told to see a doctor if you had predicted then that showrooms would fully close for two months whilst the Government subsidised the wages of the majority of your staff. Furthermore, this period of closure would then usher in a period of unprecedented used car value growth which would carry through into 2021.

Considering the showroom closures in early 2020 and further disruption towards the end of the year, it is no surprise that the Motor 150 suffered its first fall in turnover for over a decade, particularly due to the impact of the first lockdown. In previous editions of this report, we have seen the largest groups in the Motor 150 achieve better turnover results compared to previous periods however, the opposite was true in 2020. Whilst the total fall was 13.1%, the largest 75 groups saw a reduction of 13.8% while for the next 75 groups it was only 8.0%. This was most keenly felt by the top 15 who saw a combined decrease in sales of 17.3%.

As a result of the pandemic the sector experienced not only an unwinding of working capital but it also completely focussed groups on cash management and control. This is evident in the 2020 balance sheet where the net debt position (cash less loans and overdrafts) has reduced by £1,845 million compared to 2019.

Whilst sales might have taken a hit, gross margins did improve from 2019 to 10.9% (up from 10.8%), mostly as a result of the unexpected but welcome sector tailwinds from June 2020 which saw the start of price inflation in the used vehicle market. Operating expenses also fell by 7% as dealers sought to control their costs in the face of the restrictions on trading. However, the operating profit actually increased from £624m to £710m. This also followed in the profit before tax which increased by £80m to £449m, a return on sales of 0.74%, up from 0.53% the previous year. Similarly, to the movements in turnover the largest 75 groups saw a lower increase in their net margin, which was just 0.66%, whereas the bottom 75 groups collectively achieved an average margin of 1.29%.

One of the reasons for the positive results on the bottom line was the support received from the Coronavirus Job Retention Scheme which was the driver behind the significant increase in other income. This support was crucial to the survival of many businesses and the protection of employment in the year.

MOUNTING A COMEBACK

Whilst it might be easy for those outside the motor industry to suggest that the Government has contributed to the 2020 profit in the sector this would be to take a narrow view and ignore its performance in the second half of the year. From when showrooms were able to reopen on 1 June 2020 demand returned immediately and, in part constrained by new vehicle supply, this led to a small increase in the value of used vehicles at a time of the year that historically when they have tended to fall. The cumulative increase from July to October was 1.3% which compares to a fall of 4.8% and 1.4% in 2019 and 2018 respectively over the same period. This meant that dealers could not only capitalise on the upturn in demand after the first lockdown but also trade at better margins than they might have expected.

Attributing the profit for the year achieved by the Motor 150 is also borne out by evidence provided by the listed groups and the snapshots their interim results provided when compared to their year-end figures. For example, Marshall posted a loss before tax of £10.7m in the first half of 2020 before ending the year with an annual profit before tax of £20.4m. Of the support received from the Government during the year, 80% of this was claimed in March to June (source: published financial reports by Marshall Motor Holdings plc).

The impact of the Coronavirus Job Retention Scheme cannot be overstated as it continued to keep the industry on life support whilst closures were enforced and without it there would have been a significant level of redundancies. This support allowed dealers to match the demand after showrooms re-opened and provided the foundation for the bounce back that occurred. What then helped the Motor 150 to complete its comeback was the rapid adaptation shown. This not only included making premises COVID-secure but also the speedy investment in digital marketing, websites, click and collect services, automation and online sales capabilities. This ensured that the motor retail industry could continue to effectively service their customers and capitalise upon the trading conditions.



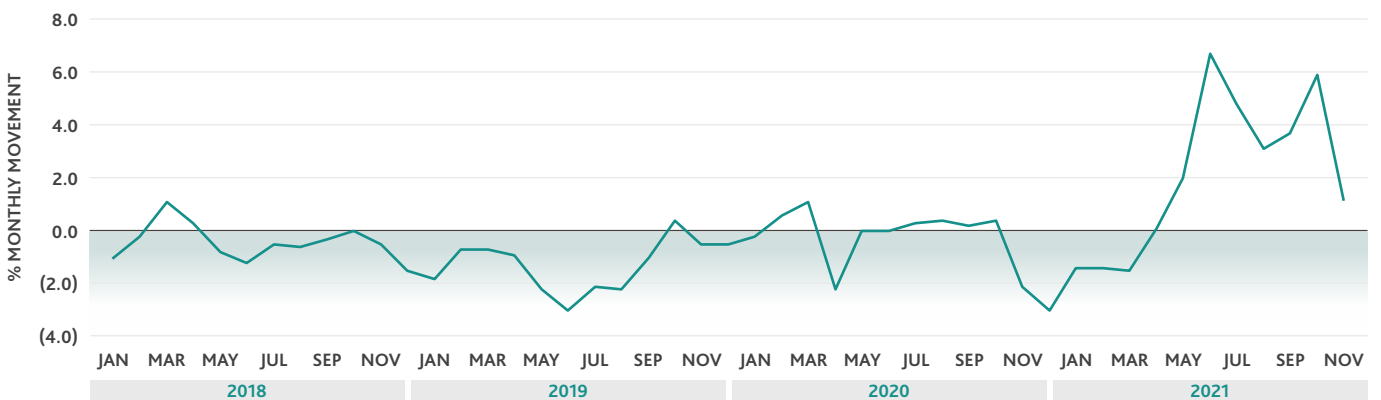
CHALLENGES TO COME

The industry showed great resilience in overcoming the immediate challenges faced in 2020, proving once again how agile motor retailers can be in adapting to issues they face. To date 2021 is shaping up to be a rather different affair with predictions of record results for the Motor 150. Used vehicle values continue to amaze and dealer groups have been enjoying the gross margins achievable (those that can get their hands on stock at least). Trading updates from the listed groups certainly suggest 2021 could see the Motor 150's best return.

However, to toast a job well done would be premature as there remain challenges ahead. High on the agenda is the continuing shortage of semi-conductors which looks like it could impact the new vehicle market through 2022 and into 2023. Close behind is the fear that the used vehicle honeymoon has to end eventually with potential evidence of this in a slowing of the value increases seen throughout the summer. We don't expect any significant corrections whilst new vehicle supply issues remain, but a return to more 'normal' gross margins will mean dealers will have to work a lot harder again for their profitability.

Looking further ahead there are changes in consumer habits, increasing environmental pressures and manufacturers to tackle. With the latter having provided assistance to their retail partners throughout 2020, and greatly impacted by the new vehicle constraints, there is a sense that they will seek more control with the introduction of the agency model on the horizon in the UK. Not only will the way dealers transact potentially change but the cars being sold are changing as electrification continues at a fast pace. Despite the changes to come, the Motor 150 can look back on 2020 and take confidence from the resilience shown in dealing with the impact of COVID-19. When backs are against the wall the industry has proven it has the adaptability to respond, step up, and take on any challenge.

MONTHLY CHANGE IN USED VEHICLE VALUES



SOURCE CAP HPI

ANALYSIS OF TURNOVER

	2020 TURNOVER	2019 TURNOVER	CHANGE 2019-2020	CHANGE
	£	£	£	%
Positions 1-15	30,407,317,000	36,783,056,003	(6,375,739,003)	-17.3%
Positions 16-30	9,770,177,967	10,328,733,170	(558,555,203)	-5.4%
Positions 31-45	6,104,670,047	6,858,415,532	(753,745,485)	-11.0%
Positions 46-60	3,890,973,229	4,364,752,570	(473,779,341)	-10.9%
Positions 61-75	2,866,623,656	3,213,371,223	(346,747,567)	-10.8%
Positions 76-90	2,315,527,160	2,559,764,748	(244,237,588)	-9.5%
Positions 91-105	1,830,174,613	1,961,940,189	(131,765,576)	-6.7%
Positions 106-120	1,375,004,255	1,466,127,434	(91,123,179)	-6.2%
Positions 121-135	1,123,126,018	1,223,693,976	(100,567,958)	-8.2%
Positions 136-150	897,018,084	983,891,802	(86,873,718)	-8.8%
	60,580,612,029	69,743,746,647	(9,163,134,618)	-13.1%

KEY PERFORMANCE INDICATORS

	2020	2019	2018	2017	2016
Turnover	£60.6bn	£69.7bn	£68.8bn	£67.8bn	£62.8bn
Change in turnover	-13.1%	1.4%	1.4%	8.0%	7.1%
Gross profit	£6.6bn	£7.5bn	£7.5bn	£7.3bn	£6.9bn
Operating profit	£710m	£624m	£807m	£1,032m	£1,146m
Profit/(loss) before tax	£449m	£369m	£565m	£840m	£959m
Return on sales	0.74%	0.53%	0.82%	1.24%	1.53%

WHAT WILL THE DEALERSHIP OF THE FUTURE LOOK LIKE AND HOW CAN YOU MAXIMISE THE OPPORTUNITIES?

The dealership of the future will have coped with one of the biggest transformations that the industry has ever seen in responding to the current changes happening and conflicting demands ahead. It will have a diversified offering, appealing to a bigger customer base as it operates in a world transitioning from reliance on the internal combustion engine to a new digital, electrically powered and more environmentally friendly future.

So, what might such a dealership site look and feel like, both to the customer and the staff working in it?

- ▶ An easy-to-use, fully integrated digital platform for each dealer that allows for frictionless sales and after sales is now a reality, so there are more screens for customers to access and less people. Could it feel like a motor version of an Apple store? Conversations will take place in person or online across multiple devices depending on the customer's choice either in the dealership or remotely
- ▶ The permanent shift in working patterns triggered by the COVID pandemic means that there will be more staff working from home and available space will be taken up with creating an interactive experience through virtual showrooms, VR technology and fewer physical cars
- ▶ There is likely to be collaboration or more coffee shop types of area where people can mix and discuss car sharing clubs or mobility services and arrangements
- ▶ The staff that are on site are trained in all things EV from product to infrastructure and the best ways to charge your electric car both at home and whilst on the road. Possibly a representative from one of the main charging providers will be onsite to sign you up to their services and charging points
- ▶ The site now generates its own power to meet increased requirements from a mixture of solar, wind and other renewable technologies. The only external power it requires is for the charging of customers' electric vehicles which it does through the existing grid but which is carbon neutral due to the agreements in place with the power providers
- ▶ If the dealer group has managed to monetise their database, you may find different providers of services in the dealership ranging from funders to insurers to other household or leisure activity type of service
- ▶ The workshop will be spotless and accessible to customers through both physical and virtual means with you being able to watch the service on your car in real time as technicians wear head cameras. There will be fewer after-sales advisors as everything will be done online
- ▶ There will be more information available to customers about how they can improve their carbon footprint both in the way in which they use their car but also in relation to other methods of transport and how they go about their daily lives
- ▶ Alongside electric charging points there will potentially be an increasing number of hydrogen pumps as this becomes a viable alternative fuel for domestic vehicles.



With the increasing range of electric vehicles available the USPs i.e. engine performance etc., for vehicles are disappearing and it will become harder to distinguish between vehicles. As a result, manufacturers are looking to increase the quality of the vehicle interiors and this will be a key differentiator going forward to attract the customer. We are working with the OEMs on these projects and can already see the attention is shifting further to quality.

DAVID WILKINSON
Chief Financial Officer
CT Automotive Group

There will, of course, be a cost to this evolution but one that the market will demand. However, we expect a hybrid between existing and future ways of working in the short term as dealers understand the best way to implement change, to realise the benefits financially and provide the service to justify paying the price that is required. Although the level of change may feel daunting, many dealerships are in a strong position to make the transition with a number of building blocks already in place and operations already centred on customer service and satisfaction.

BDO is already working with clients to develop their strategies and shape what their dealerships will look like in the future, so that they are ahead of the game rather than behind the curve.



THE THREE DEFINING FACTORS SHAPING MOTOR RETAIL

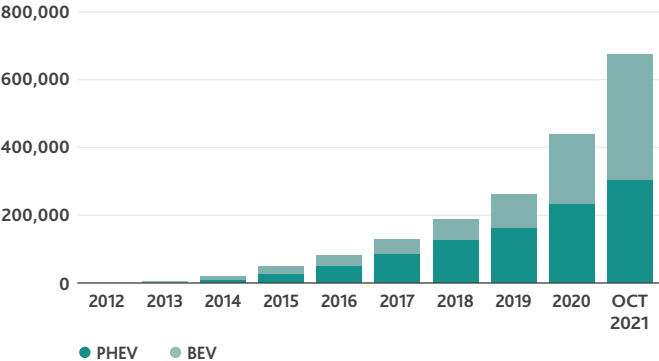
1 EV TRANSITION

Gathering pace

In November 2020 the Government announced that all cars built from 2030 will have to be electric. There can be no doubt that since writing last year's report, electric, battery and alternatively fuelled cars are gaining ever more prominence - not only in the product range available but also in customers' consciousness.

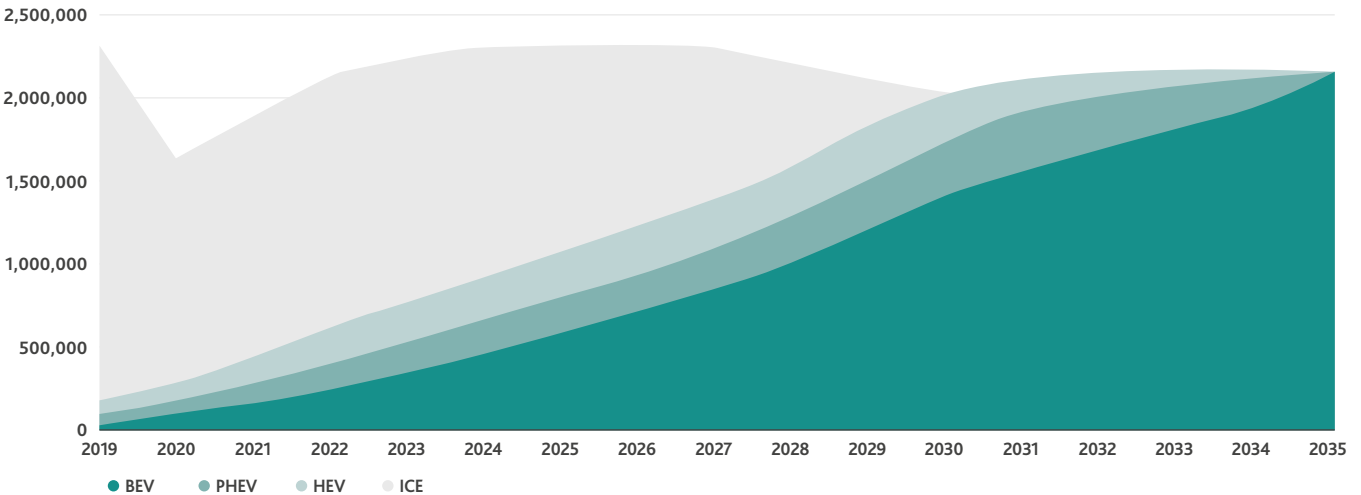
There has been a real shift in momentum in the last year as the urgency of the climate crisis has vied for headlines alongside COVID-19. Electric cars are becoming ever more prevalent on our roads and in dealers' showrooms. The % of new plugin registrations increased to over 23% in October 2021 predominantly at the expense of diesel vehicles. This means the number of electric vehicles on the road has increased by over 75% from 2020.

CUMULATIVE NUMBER OF PLUG-IN VEHICLES REGISTERED IN THE UK (2012 TO DATE)



SOURCE nextgreencar.com, SMMT, OLEV, DfT Statistics. Updated October 2021

NEW CAR MARKET OUTLOOK – SMMT CENTRAL SCENARIO





At GreenPower we believe the basic raw material of transport fuels should be renewable electricity not crude oil. Transferring electrons from the electricity grid into vehicle batteries has arrived and is flourishing. Next on the horizon for HGVs, trains, buses, and shipping is power from Hydrogen Fuel Cells (HFC). We are producing green hydrogen from the electrolysis of water, and we expect our first supplies for HFCs to be available in 2023.

Across Europe trials are underway for HFC powered vehicles, and most of the world's developed economies have already published national hydrogen strategies. We are an early mover in hydrogen production, but others will follow to help meet the scale required. Also just over the horizon are the air taxis and drones to service our cities, powered by HFC or battery. The UK should seize the opportunity to create a new vibrant clean-fuel industry and, in the process, slow down climate change for the benefit of everyone.

PAUL MINTO

Head of Low Carbon Transport
GreenPower

But what does this mean for motor retail?

There will be growing opportunities as the consumer gives even more consideration to reducing their environmental impact and how they can play their part. This will lead to customers potentially changing their cars more quickly to an electric or alternatively fuelled vehicle.

On speaking to one supplier to the motor industry they noted that a key point for manufacturers will be how to differentiate their product ranges. It will be harder to distinguish one car from another when they no longer have the distinct sound and performance delivered by a combustion engine. To this end they are carrying out work with their manufacturer clients to differentiate and distinguish vehicles by enhancing the style and interiors. There will be less attention on the driving capability and more on quality. With the current higher price point, this may lead to the electric car being considered as more of a luxury item, which in turn could lead to enhanced profitability for the dealer at the point of sale.

However, there is a significant downside. Although batteries are expected to last for up to 100,000 miles, the service intervals will increase resulting in a potential drop in the most profitable part (by margin) of a dealer's business. A two-yearly service is the likely outcome, which will have a significant impact not only on the service department but potentially on overall sales as fewer customers come into the dealership. The most successful and innovative dealer groups will already be considering other ways to engage with their customers to ensure no loss of contact and no loss of revenue.

Motor retailers will have to embrace this change and the best "electric" dealers are now doing this. Not just fulfilling the demand that already exists but looking to make a difference environmentally and embrace new technology to their own benefit. These will be the dealers that really benefit overall. Some groups are already harnessing energy from cars for other uses, such as powering the lights in their dealerships!

Groups with significant fleet operations should consider how to engage with these customers to support them in reaching their energy efficiency targets. This could also lead to relationships being fostered with a number of energy companies.



Convincing the customer

An education exercise is still required for many consumers. There remains a perception that electric cars are significantly more expensive to own. There is no doubt that this is the case on purchase, however, the costs of running an electric vehicle are significantly lower than owning a traditional combustion engine vehicle. There is also the perception that the range of an electric vehicle is limiting. This may have been the case with early models but is not the case now.

As well as educating the consumer, the requirements, knowledge and specialisms of staff are having to change so they can talk the new EV language and promote the benefits to the consumer. This is already happening but there are still many staff to be retrained and up-skilled.

Is hydrogen the future?

We have focused here on electric vehicle transition, but it would be remiss not to acknowledge the potential of further change driven by the development of Hydrogen Fuel Cells (HFCs). Currently only two HFC cars are available in the UK, but a Vauxhall van will launch here in 2023, Land Rover is developing an HFC prototype based on the new Defender SUV, and a BMW HFC SUV is scheduled to be available in 2025.

There are obvious challenges regarding current infrastructure in the UK and also potential running costs which at the moment are more expensive than electric. However, there are those that predict the UK electric grid will not be able to support vehicle charging demand and that hydrogen fuel will ultimately be the way we achieve net zero emissions by 2050.

How does this tie into the ESG agenda?

The overall ESG agenda is becoming increasingly more important and is being driven by both the Government and consumer expectations. In our experience many groups are only starting to embrace this. But it is one that will drive the best group's strategies in the future. Not only being best in class at trading but having a demonstratable focus on achieving carbon-neutrality and ultimately net zero in a group. It will also drive more diversity in recruitment and focus on the retention of staff, as well as enhancing the wider governance of the business. All these areas will be critical to the market-leading motor retailer of the future.



The motor industry has been facing a shortage of technicians and, going forward, there will be an increasing need for more EV technicians, as EV training follows on from traditional Internal Combustion Engine Level 3 apprenticeships.

As consumer demand for electrified vehicles grows, franchised dealers will continue to adapt to ensure that there are enough EV trained technicians in dealerships. This training will closely correlate with demand in the franchised dealers' aftersales departments.

Franchised dealers generally utilise manufacturer-based programmes to up-skill current technicians with formalised high-voltage/EV training. This type of training is also available through a number of providers.

NFDA's Government endorsed Electric Vehicle Approved (EVA) accreditation scheme supports and facilitates the transition to EVs. EVA standards ensure that consumers receive a high and consistent level of service, information and expertise within EV retail and aftersales. The EVA standards also ensure that accredited dealers have the correct level of cover of EV trained technicians at any point. Technicians will not only be able to service, maintain and fix EVs, they will also be able to communicate with customers to discuss any concerns.

NFDA has also been working hard through its Drive My Career initiative to help dealers expand traditional routes to employ technicians to attract different demographics and people outside of the normal talent pool, to promote diversity and continue to move the industry forward.

SUE ROBINSON

Chief Executive of the National Franchised Dealers Association (NFDA) which represents franchised car and commercial vehicle retailers in the UK



2 AGENCY MODEL

Making it work for everyone

How the motor retail sector interacts with its customers has seen a significant change over the last 18 months. Retailers have adapted to utilise online sales tools and grappled with a greater focus on used cars due to new vehicle supply issues.

The business model for some brands will continue to evolve and be accelerated partly due to the way retailers have successfully embraced technology to meet customers' requirements. One evolution is the move to retailers becoming sales agents for the manufacturer instead of franchise operators.

The agency model is not a new concept, either in the wider market or within motor retail. But it is one that is gaining traction, with major brands already stating their intention to move to such a model and with agreements already in place in some overseas markets.

As with any major change, there are concerns among many existing dealers who fear the move may be detrimental to the profitability and even viability of their business. One thing is certain, the brand will have greater direct interaction with and, therefore, potential control over the customer, removing an element of autonomy that most dealers enjoy and utilise to their advantage.



Over the next few years scale will be more important and there will be fewer but stronger relationships with the OEMs. This will help drive customer experience and choice and one of our key goals will be to keep customers in the business. However, ultimately it is our people who make the difference and the best performing groups will have the best culture running through their business.

EV has accelerated faster than anyone could have originally anticipated and will continue to increase. Our staff, customers and the next generation of employees and customers are looking to us to collectively take the lead.

DAKSH GUPTA

Chief Executive Officer
Marshall Motor Holdings Plc

Subject to the fine detail of the agency agreements, acting as an agent for new car sales places obligations on both brand and retailer. True agency agreements move the onus for brand investment onto the manufacturer, as well as the need to set prices at a level that ensures volumes are achieved across a whole nation. These are not risks taken lightly and brands will need to invest significant sums in analysing data and determining how best to position themselves in the market.

Should an agency agreement be withdrawn from an agent, compensation is likely to become payable, so picking the right agent from the start will be essential for brands. This may mean that just because a dealer holds a franchise agreement, it may not necessarily secure an agency agreement.

A reduction in competition on price between neighbouring dealers selling the same brand is expected to be one of the key outcomes of a move to agency. With set pricing, this should benefit both manufacturer and retailer as margin is not leaked as retailers pursue a volume target. The brand takes the risk in getting the pricing wrong, but so does the retailer if they cannot generate agency sales.

So how does this translate into cash for the retailer?

The division of the spoils will be critical and can be expected to form a key part of agency agreement negotiations. Retailers are not powerless here. Brands are pursuing agency agreements because they value the service provided by the dealer network, from product knowledge, physical presence for test drives or after sales servicing. If these aspects were not valued by brands then why not just pursue a direct sales model and cut the dealers out altogether.

With this in mind, agency fees must be set at a level that appropriately compensates the retailer for the service it provides, potentially partly irrespective of actual volumes where the retailer cannot influence actual selling prices. We do not see a situation where retailers are demotivated to such an extent that service and standards decline, ultimately impacting brand value.

If we assume overall net income can be maintained at levels comparable to the current franchise model, there will be movements in both income (from agency fees) and costs.

Labour is one of the main costs for a retailer, especially skilled salespeople with an ability to manage stocks, mould customer buying decisions and shift units. These skills, for new cars at least,



are likely to be less in favour with a customer service, less sales focussed offering. Such staff cannot be expected to be volume driven and so will operate on a more fixed salary basis. Whether this allows the retailer to reduce cost or introduce a less success-based model will be determined by the agency fee structure, people and any relevant incentive structures put in place.

One cost that will reduce will be that of funding new stock, which will now fall into the hands of the manufacturer.

The experience of visiting a dealership (if that is still needed at all) will change and the terms of the agency agreement will have an impact. A generous agency fee will see customer service at a high level as the agent wishes to ensure the customer chooses their brand. Less generous and the customer may be directed towards a used car or even to an alternative brand within a dealer group portfolio with a more generous agency fee.

Should volume targets be removed, dealer loyalty to a brand is likely to diminish, with deal-by-deal profitability driving retailer focus to maintain the level of profit generation required and drive shareholder value.

The structure of retailer balance sheets will also change, alongside the values that are not recorded on the balance sheet. New car stock will become a thing of the past, alongside the funding obligation that goes with it. Intellectual property values will be under scrutiny. Whether a franchise agreement would be valued higher by a buyer than an agency agreement remains to be seen as many factors such as brand, agency fee, brand investment and volumes all come into play.

An agency model will give brands far greater control over the customer but can convey significant benefits to the retailer provided the agency agreement is drawn up fairly to remunerate each party for what they bring to the customer journey.

There will be winners and losers. Local independent retailers will be able to compete on a more level playing field with price competition taken out of all retailers' hands. Larger groups will have the resources to provide a slick customer experience and maintain a larger used car operation to supplement the agency income.

Many questions still unanswered

The transition to agency will be an interesting journey. There remains uncertainty over so many areas on the side of both brand and retailer.



I have always believed a close working relationship with BMW is vital to our success, as they are an incredible company with a huge depth of resource. This is reinforced through times of change when it is important for both parties to understand the vision and the future being created whilst having very clear lines of responsibility. I have always felt, and continue to feel, this is best achieved with close links and good dialogue, so no surprises and clear lines of expectation. As retailers we must remember our responsibility to deliver this. Today this feels more relevant than ever.

TOBY PARTRIDGE

Managing Director

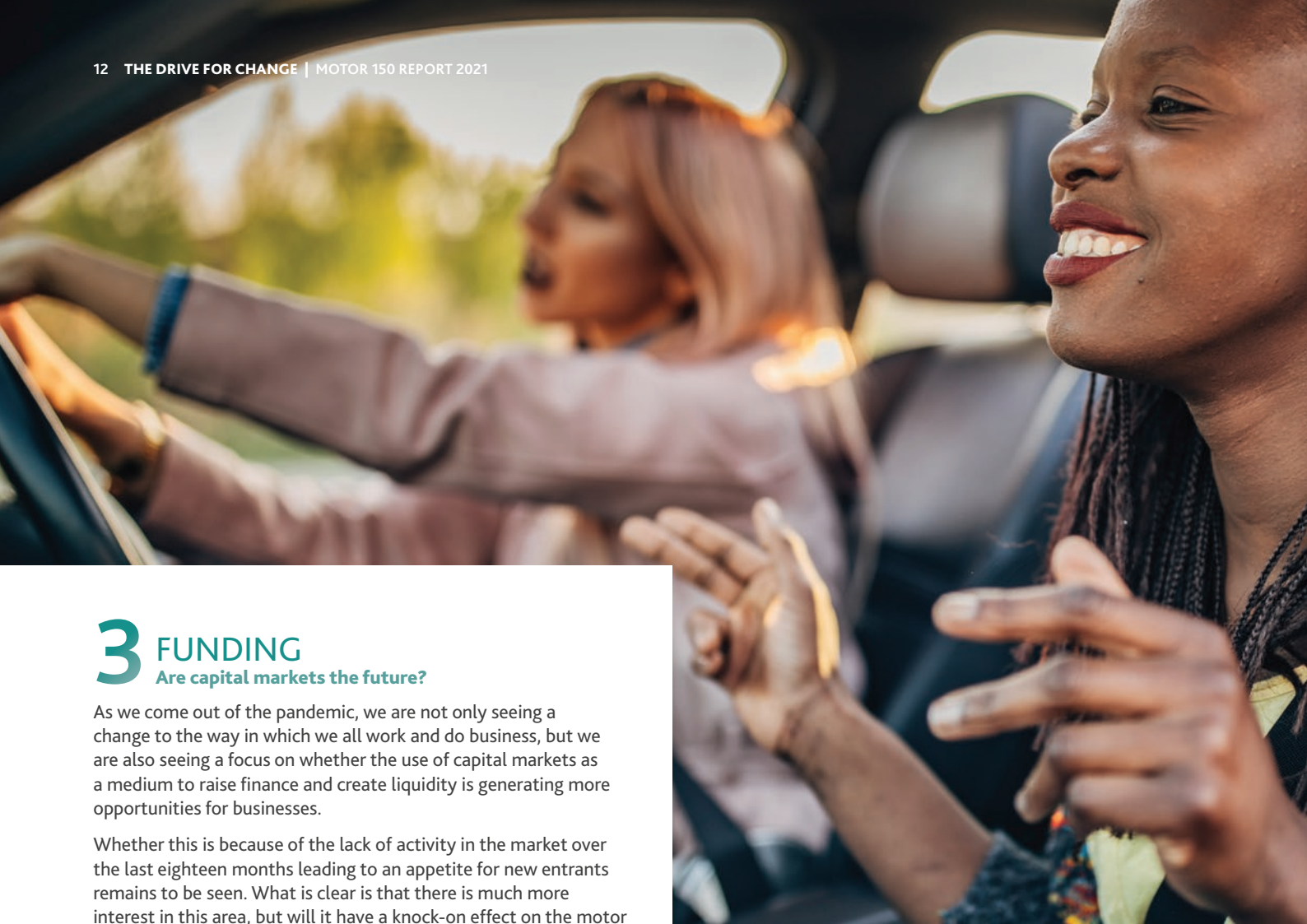
Partridge of Hampshire

How can and will pricing react when there is agency and non-agency competing brands in close proximity, or even within the same group? At which point does an agent earn its fee? Test drive, customer product session, order take, fulfilment or a combination? Who determines which agent will fulfil an order where no actual customer engagement has taken place? Postcode? Customer preference?

Given the direction of travel, it is likely that agency agreements will form a major part of the motor retail landscape in the near future. While retailers may question the motives of such a move and resist strongly, securing a seat at the table from the outset to ensure any agreements reflect their interests would be advisable.

At the centre of this movement must be the customer and retailers need to be vital to this relationship. While retailers remain relevant to, and valued by, the customer then an appropriate agency fee can, and will, be earned. Maintaining relevance must, therefore, be one of the key objectives of retailers irrespective of trading model.

Agency agreements are likely to become standard in the future. The motor retailer will, as always, adapt but the handing over of price and customer control to brands with no direct experience does introduce risk that dealerships need to manage alongside the brands in close partnership.



3 FUNDING

Are capital markets the future?

As we come out of the pandemic, we are not only seeing a change to the way in which we all work and do business, but we are also seeing a focus on whether the use of capital markets as a medium to raise finance and create liquidity is generating more opportunities for businesses.

Whether this is because of the lack of activity in the market over the last eighteen months leading to an appetite for new entrants remains to be seen. What is clear is that there is much more interest in this area, but will it have a knock-on effect on the motor retail sector? There are just six listed groups in this year's Motor 150 (although Cambria are currently de-listing) but they account for 20% of the revenue. However, does the market view the sector as an area to focus on given the differential in valuations between traditional, privately owned groups and those that are already on the market?

Why list?

We should remember that the reasons businesses list on a stock exchange is because they perceive that this will generate greater liquidity in their shares (over and above being in private ownership) as well as providing greater access to funding and markets.

When we look at the new entrants to the market from a motor retail perspective and try and compare them, we start to see a difference in how the market perceives each business.

The starting point is that the valuation basis for the listed market looks forward to the potential for future growth, whereas the private market looks more at historic performance. This is a key driver in valuations as can be seen by the move in share price when a new acquisition is announced (as was the case recently with the Marshall Motor Group acquisition of Motorline).

The market, therefore, sees a new entrant such as Cazoo as having greater growth potential and is clearly different from a typical motor retail group, although time will tell as to whether it ends up with more similar characteristics than it does today. It is also because of what it does not have i.e. a large property portfolio or complex leasing arrangements that allows it to have more flexibility and, therefore, potential to grow.

What is different?

Perhaps the most defining opportunity that the market sees is that businesses with a digital platform can be leveraged such that more products and services can be introduced to a ready and waiting audience. This audience will grow over time as the demographic of car buyers changes to buyers that are comfortable with the way that they acquire lease, share or use cars in the future. It, therefore, aligns itself to be more of a technology business rather than a retail one and so can access the double-digit types of multiples for valuations around fund raising that are not normally associated with the typical listed motor retail groups.

It also helps that the management team of Cazoo have a track record of success in previous listed entities that the market takes comfort from and is prepared to back. This will also attract investors who back the individual rather than the sector.

How to take the lessons that the market rewards?

The question then is how can traditional motor retail businesses (both listed and private) benefit from this view by the market. The building blocks are already in place for most businesses and it is just a case of looking at the assets of the business in a different way. The key is to have a strategy to monetise the digital assets of the business and to ensure that you have a digital platform to make the online buying process as frictionless as possible. If you can generate value out of your online presence and database then this is where potential investors can start to see the value in your business.



We should also not forget the ESG agenda as many listed businesses are now focusing on this as being one of the main drivers as to how future investors will make their buying decisions. This goes well beyond the statutory reporting requirements, as listed entities look to make a positive impact in this area and investors look to be associated with this kind of positive aspect of society. We are already starting to see funders giving more credit and opportunity to those businesses that have positive ESG credentials and this will only increase in terms of the type of business that they will want to be associated with.

The pandemic also allows us to see into the future with regards to what the further opportunities might be in terms of change and, therefore, generating value. The way in which dealerships use property in the future could transform as more and more online sales are generated. For example, it might be the case that retailers look at diversifying into related activities such as cycle shops, finance centres (not just the usual opportunities), travel accessories, electric scooter or car sharing clubs and electric vehicle charging centres.

A final word of warning though is that capital markets reward growth and, therefore, never stand still. The continued increase in current activity will see share prices stay strong, but if that growth stagnates or does not come to fruition then you will see valuations stand still or even decline as the market moves into other areas and opportunities where it sees more potential.



We believe there will always be a need for 'bricks and mortar' dealerships, although they will evolve to a space providing a more interactive experience for the customer.

The prospect of the Agency model of car sales will likely lead to more multi-franchise dealerships, which will inevitably lead to some consolidation. However, we do not see any rationalisation being as extensive as first imagined and may only affect dated facilities or satellite locations. Major cities and towns will always require brand representation.

The availability and cost of bringing additional power to a dealership may also have an impact and motor retailers should be looking to upgrade sooner rather than later as this will become an ever more expensive and lengthy process.

Dealerships, generally speaking, are located in prime locations, with good frontage and a significant amount of external space. For those sites that are not viable for investment or fall redundant in terms of OEM requirements, these may still be suitable for non-franchise used car sales, to meet likely demand for alternative uses such as budget gyms and veterinary practices, or for redevelopment for residential/care homes, supermarkets and even drive thru restaurants, which may achieve strong land values.

If alternative uses for a property are to provide the best opportunity, then dealers should look to investigate the Local Authority planning policy sooner rather than later and perhaps make an outline application for an alternative use, as in practice, the planning process is taking much longer since the pandemic and can take many months or even years.

PETER NICHOLAS

Partner
Rapleys LLP

TOP FIVE THINGS YOU SHOULD BE DOING NOW

1

REVIEW YOUR CASHFLOW & BALANCE SHEET STRUCTURE

A good cash flow forecast is primarily an essential tool for management use but when designed and communicated well, it will also be valuable in interactions with external shareholders.

A good cash flow should:

- ▶ Be simple to update and read
- ▶ Be of a sufficient period to cover a working capital cycle
- ▶ Include an explanatory narrative on what the forecast is showing, suggested actions and key risks or uncertainties
- ▶ Be built on clear assumptions with capacity to easily amend and test scenarios
- ▶ Include references to source material, such as aged creditor reports, historical KPIs, sales targets. This would ideally be linked directly to the dealer management system
- ▶ Clearly show the level of headroom management have available.

The forecast will be used by management to ensure the business has sufficient liquidity, but also to identify where improvements to liquidity can be made and act as an early warning where standards may be slipping.

Critical to accurate cash flow management is designing a robust process that can be routinely followed and will highlight deviations. This requires detailed understanding of the levers that trigger both inflows and outflows. For example, this may be logging of a used car on the stocking plan, the registration of a new vehicle or the placing of a parts order.

With the advances in dealer management systems, retailers have an abundance of data on expected delivery dates, leads and workshop activity. This should be utilised in full to create an integrated cash flow forecast that can be easily updated. Underpinning the numbers should be a practical set of procedures that optimises positive cash flow.

2

REASSESS CYBER SECURITY

With increasing focus on online sales comes increased risk. Cyber criminals are quick to exploit opportunities to make fraudulent gains. We are working with organisations to raise awareness amongst employees warning them of the heightened risk of phishing attacks and, where practical, conducting an internal phishing exercise.

An increase in social engineering attacks and dependence on IT makes it an area that should be at the forefront of all motor retailers' minds. Ensuring that staff are aware of cyber threats, have had relevant training and monitoring threats on an ongoing basis are the building blocks to ensuring a secure environment.

Motor retailers should carry out a cyber risk and control assessment to understand and document the key cyber security controls in place and align these controls to the industry security standards.

3

MANAGE USED CAR STOCK LEVELS

The UK is seeing a surge in used car prices as the semi-conductor chip shortage reduces the supply of new cars. As a result, UK average used car prices rose by unprecedented amounts during the first nine months of 2021.

Higher demand is also hitting used car stock levels in the trade, with stocks lower at dealers now compared with at the beginning of August.

Motor retailers are seeing an increased demand for used cars meaning that dealers are holding on the part exchanged stock to retail. The key question is whether this trend in increased used car prices will continue and, if so, for how long? Motor retailers should consider the short-mid term impact on stock levels now and how this will impact strategies going forward.

4

UP-SKILLING AND RETAINING STAFF FOR FUTURE NEEDS

Motor retailers need to be looking at their training programmes and apprenticeships now as the skillsets required for traditional combustion engines decline, and adapt service and maintenance areas with increased charge points and new layouts to accommodate the changing automotive landscape.

They need to find innovative ways to retain their best people, whether through benefits packages or other practices that support overall wellbeing in the workplace.

CONCLUSION

5

TAX PLANNING

The proposed increase in the main rate of corporation tax to 25% in April 2023 was confirmed in the Chancellor's latest Budget. We give some thoughts below as to the key areas of focus to reduce not only the impact of this increase but also other areas:

- ▶ Make use of the Super Deduction for capital allowances which provides a 130% uplift on certain new main pool and 50% on special rate expenditure in the period to 31 March 2023. Linking this with the other existing rates of relief for capital expenditure should be reviewed each year in much greater detail to maximise the benefits that are available
- ▶ Review all your expenditure for any element of qualifying R&D, such as IT integration and development, workshop systems and processes as well as any building work
- ▶ Review your staff benefits and establish what people really want through flexible benefits as the pandemic will have changed your staff's attitude to some of these. They can then potentially be made even more efficient through salary sacrifice arrangements
- ▶ Tax relief for the acquisition of goodwill needs to be considered in a business acquisition that includes an element of intellectual property, so structuring acquisitions in the right way is now more important than ever
- ▶ Before the NIC levy increase comes into force you should check all staff are paying the right amount of NIC and are treated in the correct way, remember certain apprentices and staff under a certain age are exempt
- ▶ Review all your historic PAYE Settlement Arrangements to make sure they have been calculated accurately and have not just been estimated, which could provide a refund opportunity if you re-calculate the agreement correctly.

From lockdown at the end of March 2020 to the strong trading environment at the end of 2020 which has continued into 2021, it has been an incredibly turbulent period for the Motor 150 group. But a period that no one would have envisaged two years ago and the return to continued trading has been remarkable. One thing for certain is that the sector and the Motor 150 group is never dull. There are always opportunities and challenges and the sector is able to adapt to these as they arise. There are significant potential changes on the horizon, not only in the trading model and the types of vehicles but also as a result of the ESG agenda. Those groups that can action and deal in the present but are able to strategise for the future will be the ones that continue to lead the way.

SO WHAT DO WE PREDICT FOR 2022?



Continued and enhanced acquisition activity in the sector.



Increase in new car production and supply from mid-2022. This will dampen used car prices and profitability.



Fight for talent intensifies and pay packages will reflect this.



Continued good levels of profitability but at lower levels than 2021.

THE MOTOR 150 GROUP

THE NUMBERS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	2020	2019	2018	2017	2016
	£m	£m	£m	£m	£m
Turnover	60,581	69,744	68,762	67,831	62,778
Cost of sales	(53,976)	(62,206)	(61,245)	(60,565)	(55,904)
Gross profit	6,605	7,538	7,517	7,266	6,874
Gross profit %	10.90%	10.81%	10.93%	10.71%	10.95%
Operating expenses	(6,627)	(7,097)	(6,934)	(6,416)	(5,929)
Other operating income	732	183	224	182	192
Operating profit	710	624	807	1,032	1,137
Interest paid	(270)	(269)	(255)	(211)	(198)
Interest received	9	14	13	19	20
Profit before tax	449	369	565	840	959
Taxation	(185)	(116)	(147)	(161)	(184)
Profit after tax	264	253	418	679	775
Other comprehensive income	(72)	32	49	24	(12)
Net profit	192	285	467	703	763

CONSOLIDATED BALANCE SHEET

	2020	2019	2018	2017	2016
	£m	£m	£m	£m	£m
Fixed assets					
Intangible	1,141	1,203	1,218	1,270	1,196
Tangible	7,759	7,278	6,467	6,222	5,562
Investments	100	296	282	225	339
	9,000	8,777	7,967	7,717	7,097
Current assets					
Stock	11,075	12,501	12,034	11,708	10,417
Debtors	3,209	3,362	3,331	3,320	2,953
Cash	1,968	896	707	714	709
Other	522	414	405	300	311
	16,774	17,173	16,477	16,042	14,390
Debtors due after more than one year	27	37	33	29	39
Total assets	25,801	25,987	24,477	23,788	21,526

CONSOLIDATED BALANCE SHEET CONTINUED

	2020	2019	2018	2017	2016
	£m	£m	£m	£m	£m
Current liabilities					
Loans and bank overdrafts	3,907	5,363	4,804	4,430	4,092
Trade and other payables	11,614	11,207	10,589	10,756	9,585
Current tax liabilities	58	61	66	75	105
	15,579	16,631	15,459	15,261	13,782
Non-current liabilities					
Loans and bank overdrafts	2,893	2,210	1,788	1,501	1,385
Trade and other payables	527	556	450	518	458
Pension liabilities	250	149	135	171	228
Provisions	97	134	108	66	55
Deferred tax	102	150	166	124	132
	3,869	3,199	2,647	2,380	2,258
Total net assets	6,353	6,157	6,371	6,147	5,486
Capital and reserves					
Share capital	931	861	835	853	778
Share premium	347	432	441	435	409
Profit and loss account	4,695	4,530	4,768	4,541	3,965
Revaluation reserve	170	146	144	156	142
Other reserves	205	173	170	135	158
	6,348	6,142	6,358	6,120	5,452
Minority interest	5	15	13	27	34
Total equity	6,353	6,157	6,371	6,147	5,486

MOTOR 150 COMPANY NAMES

Allen Ford (UK) Limited	Desira Group plc	Helston Garage Group Limited	Motus Group (UK) Limited	Stephen James Automotive Limited
Ancaster Group Limited	Dick Lovett Companies Limited	Hendy Automotive Limited	O.M.C. Motor Group Limited	Steven Eagell Limited
Aprite (GB) Limited	Donnelly Bros Garage (Dungannon) Limited	Heritage Automotive Limited	Ocean Automotive Limited	Sutton Park Motor Company Limited
Arnold Clark Automobiles Limited	Drift Bridge Garage Limited	Horizon Motor Company Limited	Park Lane Limited	Swansway Group Limited
Barretts of Canterbury Limited	Drive Motor Retail Limited	Howard Garages (Weston) Limited	Parks of Hamilton (Holdings) Limited	Sytner Group Limited
Baylis (Gloucester) Limited	Eastern Western Motor Group Limited	Inchcape Retail Limited	Parkway Derby Limited	T. Hayselden Limited
Bells Motor Group Limited	Eden Automotive Limited	J.T. Hughes (Oswestry) Limited	Partridge of Hampshire Holdings Limited	T.C. Harrison Group Limited
Birchwood Motor Group Limited	EMG Anglia Limited	Jacksons (C.I.) Limited	Pendragon plc	T.G. Holdcroft (Holdings) Limited
Brayleys Cars Limited	Endeavour Automotive Limited	Jardine Motors Group UK Limited	Peoples Limited	Tanner Automotive Limited
Breeze Motor Company Limited	F.G. Barnes & Sons Limited	JCB Medway Limited	Perrys Group Limited	Thames Motor Group (Slough) Limited
Bugle Inn Motor Company (Holdings) Limited	F.R.F. South Wales (Holdings) Limited	JCT 600 Limited	Peter Cooper Motor Group Limited	TMS Limited
Burrows Motor Company Limited	Fish Brothers (Holdings) Limited	Jemca Car Group Limited	Peter Vardy Holdings Limited	Trust Group UK Limited
Bussey & Sabberton Bros. Limited	Foray Motor Group Limited	John Clark (Holdings) Limited	Porsche Retail Group Limited	Underwoods Garage (Tiptree) Limited
C.E.M Day Limited	Ford Retail Limited	John Grose Group Limited	PSA Retail UK Limited	Vantage Motor Group Limited
Caffyns plc	Furrows Holdings Limited	Johnsons Cars Limited	Reliance Garage (Ryedale) Limited	Vertu Motors plc
Cambria Automobiles plc	Gates Group Limited	L&L Inc Limited	Renault Retail Group UK Limited	Vindis Group Limited
Cameron Group (Perth) Limited	George Thurlow and Sons (Holdings) Limited	Listers Group Limited	Renrod Holdings Limited	Vospers of Plymouth Limited
Carco Group Limited	Glyn Hopkin Limited	Lloyd Motors Limited	Richmond Cars Limited	W Brindley (Garages) Limited
Cars 2 Limited	Grafise Limited	Lookers plc	Ringways Garages (Doncaster) Limited	W.H.Bowker Limited
Cathedral Motor Company Limited	Gravell's Limited	LSH Auto UK Limited	Riverside Motors Holdings Limited	W.J.King (Garages) Limited
Central Garage (Uppingham) Limited	Greenhous Group Limited	Marriott Motor Group Limited	Rybrook Holdings Limited	W.R. Davies (Motors) Limited
Chapel House Holdings Limited	Grevan Cars Limited	Marsh Wall Limited	S.G. Petch Limited	Walter E Sturgess & Sons Limited
City West Country Limited	Group 1 Automotive UK Limited	Marshall Motor Holdings plc	Saftdwin Limited	Waylands Automotive Limited
Citygate Automotive Limited	Guildford Portfolios Limited	Marubeni Auto Investment (UK) Limited	Sandal Motors (Bayern) Limited	Wessex Garages Holdings Limited
Cotswold Motor Group Limited	H. R. Owen plc	McLean & Appleton (Holdings) Limited	Sandcliffe Motor Holdings Limited	William Morgan Group Limited
Cox Motor Group Limited	Halliwell Jones Limited	Mercedes-Benz Retail Group UK Limited	Sandown Motors Limited	Williams Motor Co. (Holdings) Limited
Currie Motors Limited	Hartwell plc	Mike Pulman Limited	Sinclair Motor Holdings Limited	Wilmoths Holdings Limited
D. M. Keith Limited	Harwoods Limited	MJ T Securities Limited	Snows Business Holdings Limited	Wilson & Co. (Motor Sales) Limited
Decidebloom Limited	Hawco & Sons Limited	Mon Motors Limited	Specialist Cars Holdings Limited	Worcester Carsales Limited
Delgarth Limited	Hawkins Motors Limited	Motorline Holdings Limited	St Leonards Motors 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 2020 to 31 March 2021 being the most recent accounts filed at Companies House at the time of the compilation of this report. For companies with December year ends (123 in the population) the 'current period' will be the year ended 31 December 2020. For January to March year ends (9) the current period is that ending in 2021. 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 2020.

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, ten have prepared their accounts under IFRS and the remainder under UK GAAP. However, as those companies represent 29% 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

You could benefit from the advice and insight of an adviser who has a real depth of knowledge of the car industry and motor dealerships. Whether it is tackling the Apprenticeship Levy, the Corporate Criminal Office legislation or trying to refinance banking facilities, our goal is to help you make the right decision that will benefit your motor retail business.

The BDO Motor retail team represents 50 senior professionals led by a Centre of Excellence based in Southampton which provides training and support to the other 17 BDO offices across the UK. Wherever you operate, there is a BDO partner or specialist with the knowledge and experience to make a real difference to your business.

Our clients include franchised dealerships and used-car operations and range from single to multi-franchised groups. We work with each motor retail business to address their unique needs and opportunities. This combination of breadth and depth of experience and commitment to exceptional client service has made us one of the top advisers to motor dealerships in the UK.

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