

MHA Automotive Forum Executive Summary November 2023

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Introduction from Steve Freeman

Introduction

I was delighted to welcome such an impressive audience of finance and other executives from the sector to our recent Automotive Forum.

The event covered a number of topical matters for the sector, and it was pleasing to see a consistent theme being delivered by each of the very impressive presenters around:

- The importance of being aware of the significant changes in the sector and their impact on your business and its strategy, operations, property and financial and tax matters;
- The need to be prepared for the short, medium and long term and to plan accordingly;
- The benefit of taking advice from experts in each of these areas.... they offer a "window on your business"; and
- The fundamental importance of doing all the basics excellently. This is why we have such a robust sector, it is the people within it and their unrelenting focus on being successful.

If anyone would like to receive a full copy of the presentation slides and/or request a call or meeting with the MHA team or any of our presenters, then please do let me know.



Steve Freeman

MHA
Head of Automotive
and Transport

Industry Update



Marc Palmer

Head of Strategy and Insights
Autotrader

Marc Palmer gave an insight of key trends and themes as preparation for 2024 begins including:

- Overview of car buyer confidence
- Drivers in the new car market
- How 2023 sets us up for next year
- Impact of electrification and the ZEV Mandate
- Used Car market outlook
- Review of the latest supply, demand and pricing data
- Impact of supply constraints
- How the market is shifting and what 2024 will look like



Summary

- 1** New retail market under pressure - manufacturers responding with consumer offers and short cycle channels.
- 2** Manufacturers need to hit volumes as supply returns - but ZEV mandate brings a new dimension. 2023 has seen retail demand for EVs falter so brands have big push factors to consider.
- 3** Return of short cycle channels in new impacts the younger used market - nearly new is back after a four year absence.
- 4** Used demand will remain as the market is insulated from macro factors.
- 5** Retail pricing expected to hold up given how supply, demand and pricing dynamics vary across the market.
- 6** A very different looking 0-3 cohort compared to pre-pandemic - 3-5 will see supply 40% lower than in 2019.

Automotive Property



Bill Bexson

Head of Automotive
Savills

Who are Savills?

Founded in 1855, Savills is one of the world's leading property agents with over 700 offices across the globe providing wide-ranging specialist and local knowledge to help individuals, businesses and institutions make better property decisions.

The Automotive Team

The Savills Automotive team is a specialist property advisor group dedicated to the franchised motor retail property sector. Clients include leading dealer groups, manufacturers, and property investors. The focus on the franchised dealer market has enabled the team to develop market leading sector knowledge and provide clients with a bespoke motor retail property service. Over the last 10 years the team have originated, transacted, or advised on approximately 42% of all car dealership investment sales.

Presentation Summary

Bill's presentation looked at the current market conditions and their implications for car dealership property. It also covered all the following aspects of property:

- Current state of the wider property market
- Influences that macro economic trends are having on the sector
- Specific implications for car dealership property.
- A guide to pricing trends
- Highlighted the need to identify the enduring attractions of the sector to investors and lenders.
- Introduced pointers as to how to maximise the performance of property assets and curate property for optimal pricing and liquidity.

Corporate Finance - Industry Update



Nathan Sutcliffe

Tax Partner
MHA



Rob Dando

Corporate Finance Partner
MHA

The MHA Corporate Finance team gave an overview of some of the transactions that they have worked on in the industry over the last 18 months and highlighted the below.

- Cross border elements
- Third party funding
- Complex group structures
- Private Transactions
- Share sales / acquisitions
- Public Transactions
- Asset transactions
- Multiple brands vs single brands
- Fleet, retail etc
- Carve out considerations
- Property
- Valuation methodologies



Summary

- 1** Whether on the buy or sell side, understanding the structure of the transaction including how the parties wish to deal with property is crucial. Making alternative structuring arrangements in a tax efficient way can be time consuming and challenging in the context of an imminent transaction.
.....
- 2** The automotive retail sector has specific tax diligence risk issues which need to be scoped and reviewed to ensure potentially material tax risks are captured.
.....
- 3** From a vendor perspective, being prepared is key. Some documentation which a buyer will need is not readily accessible so collating information and understanding any potential issues before going through any marketing process is very valuable.
- 4** Engage advisors early. The most successful and accretive transactions are well planned, whether that be from the buying side or selling side.
.....
- 5** Be prepared, whether that be for succession planning, optimising acquisition opportunities as they arise, or purely so you have an up to date handle on your business.
.....
- 6** Thorough due diligence is key to ensuring risks of a target are identified early in a process and mitigated. When selling a business, being 'diligence ready' goes a long way to making a buyer comfortable and there are no surprises. This all helps make an efficient process and adds real tangible value.

MHA Caves Wealth - Introduction

The MHA Wealth team have been part of the wider MHA group since April 2022 and offer a comprehensive range of investment management, stockbroking, and independent financial planning services. We provide truly independent financial advice - this means that we consider a wide range of financial strategies, services and products, from many different providers, and are constantly reviewing the market to ensure that the services and products we offer are appropriate for clients.

Our team of experienced financial advisers can provide clarity on all areas of financial planning; pensions & retirement planning, tax mitigation,

intergenerational wealth planning, investments, and protection products. We provide private and corporate clients with a completely confidential service, professional advice, and continued support.

Working in tandem with MHA, we endeavour to further enhance the services that we are able to provide to clients, leveraging their expertise in areas such as personal tax and corporate advice.

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Tax Update



Anthony McFarlin

Tax Director
MHA

Introduction

Anthony McFarlin from MHA's automotive specialist tax team covered a number of current tax governance topics we are seeing in dealer groups, including:

- Corporate Criminal Offence rules;
- Tax Strategy requirements

Corporate Criminal Offence rules

The CCO rules state that all businesses (that are not sole traders) may be subject to prosecution for facilitating tax evasion, without the need for prosecution of any individual, potentially leading to unlimited fines, public record of the conviction and significant reputational damage.

Per the latest published information, HMRC has 34 CCO investigations which are live or under review spanning 10 different business sectors including automotive and transport. As part of this they have completed a number of office dawn raids where they interview staff to see what they know of CCO, what actions they are aware the business is taking in response and to see if personnel know what to look out for to identify tax fraud.

The Offences

Broadly, a business may be guilty of an offence if an associated person facilitates a UK tax evasion facilitation offence.

This can occur even if the management of the business have no knowledge at all of the underlying offences.

Examples include:

- A motor dealer or leasing company providing a prestige vehicle to a business owner on non-commercial terms to help with the sale or leasing of a fleet of vans or company cars to the business facilitating employment tax or personal tax evasion.
- A motor dealer selling and registering the ownership of a car to a child with the parent being invoiced to help with 'keeping wealth away from the taxman' facilitating Inheritance Tax evasion.

Defence and MHA support

The law gives the organisation involved the defence that it had procedures in place to prevent the facilitation, or that it was not reasonable for that organisation to have procedures to prevent the facilitation.

Our support in support of dealers can broadly be split into two categories (combined with ad-hoc advice)

1. CCO Risk Assessment Toolkit - aimed primarily at lower risk SMEs, this is designed to give you the tools needed to start to proactively build your own CCO response.
2. CCO Workshop - aimed at low-medium risk SMEs and larger corporates, we will help you assess the risks and build a defence to the CCO legislation.

Tax strategy requirements

There is a requirement to publish a Tax Strategy with specific detailed information specific to the company on an external website each year, for:

- Groups > €750m global turnover, and/or
- A company / Groups with >£200m UK turnover.

A £7,500 penalty may be levied for not publishing a strategy. A second £7,500 penalty can then be levied if the strategy has not been published 6 months after it should have been, and further £7,500 penalties may be levied for each following month until the strategy is published.

VAT - the partial exemption impact of agency



Glyn Edwards

VAT Director
MHA

Agency reduces the value of taxable supplies made by franchised dealers. Instead of realising the full value of a vehicle sale, a much smaller commission is made. By contrast, VAT exempt income from insurance sales and finance commissions is likely to be retained by dealers and this can create a fundamental change in the taxable-exempt turnover mix. As most dealers use the partial exemption standard method, this change could have significant impacts.

- 1 VAT recovery on general overheads will be depressed - 98-99% recovery rates using the standard method could be replaced by much lower rates.

- 2 This may have a retrospective negative effect on property held in trading companies which are within the adjustment period for the capital goods scheme.

- 3 Future acquisitions of property may become more complex - the decision on whether to buy into a property company or trading company might be less obvious than it has been in the past.

We recommend an early review of the position, with consideration being given to making applications for partial exemption special methods which preserve historic VAT recovery rates. Agency shouldn't change the way in which assets are used, but the standard turnover method is a blunt instrument which might no longer be fit for purpose.

Employment Taxes



Kamran Bagol

Tax Assistant Manager
MHA

National Minimum and Living Wage (NMW/NLW)

NMW/NLW is a historical issue within the Motor Industry, which is an area of concentration for HMRC. Low base pay, with no commissions in a month could represent an issue for minimum wage regulations, where the employee is working beyond their contracted hours. If an employer fails to meet their obligations under minimum wage regulations, HMRC have the power to do the following:

- Issue a notice to pay money owed, going back to a maximum of 6 years
- Issue a penalty notice of up to 200% of any underpayments identified.
- Legal action including criminal legal proceedings
- Name and shame the employer on a public list

Given the potential penalty implications, we would recommend that dealers should conduct a review of payments made to employees, to ensure they are meeting their obligations under the minimum wage regulations.

EV Salary Sacrifice

The ZEV mandate puts pressure on OEM's to register new EVs, leading to a potential for dealers to have excess EV stock. The commercial and tax efficiencies afforded by Salary Sacrifice may increase the demand for vehicles in the fleet vehicle market. These efficiencies could also be mirrored internally for dealers, allowing them to provide company cars to employees that may otherwise not be entitled to a vehicle, with a minimal cost to the employer. Before implementing a Salary Sacrifice scheme, businesses are strongly advised to take appropriate advice.

The intricacies of the process encompass legal, financial, and HR considerations, making it essential to engage the expertise of professionals who specialise in these complexities.

Employee's private travel

Travel to a permanent workplace from an employee's home is widely known to be private mileage for an employee. However, many employers overlook the possibility for an employee to have multiple permanent workplaces, where their duties require them to attend various locations on a regular basis.

This presents a risk of employers reimbursing employees for private mileage, thus creating a fuel benefit in kind or a taxable income source. These complexities are further exacerbated for field-based staff, as their permanent workplace may be a region or area. We would recommend that employers review travel payments made to employees, to consider whether the payments represent private mileage.

Construction Industry Scheme (CIS)

The Construction Industry Scheme (CIS) requires businesses to submit monthly returns to HMRC, confirming payments made to subcontractors in the period, within the construction industry. However, there is deeming provision that can bring those outside of the Construction Industry into CIS. This applies to businesses that spent more than £3million on construction activities (i.e. repairs, refurbishments and improvements) in the last 12 months (on a rolling basis). This is often overlooked and could result in the accumulation of late filing penalties. There is a potential exemption from the need to register under the deemed contractor rules, if expenditure on construction activities relates to trading premises of the business. However, this should be reviewed regularly to avoid any compliance issues.

Automotive NED Perspective



Chris Roberts

Independent Advisory

Chris Roberts shared multiple learnings and insights from his experience as an automotive non-exec Director and business advisor.

With his unique experience on both OEM and dealer operations we heard about guidance on the key things businesses should consider as they face the automotive transformation of the next 3-5 years.

This included some background on the business relationship of the NED / Advisor, plus upcoming challenges facing dealer businesses with regard to strategic footprint, franchise mix and existing opportunities.

In addition, Chris also discussed some key self help thoughts for the audience.



Where next for OEMs?



Alastair Cassels

Partner and Head of Automotive Advisory
MHA

Alastair Cassels led us through some analysis of the largest OEMs and how they are placed to deal with the disruption of the sector that will take place over the next few years. This included a comparison of key financial measures and the most important strategies that each OEM is employing. Whilst the post pandemic period has been profitable for the majority of OEMs the challenge to decarbonise products and production would be the greatest challenge they have faced. Competition from new entrants would be disruptive and whilst not all entrants would survive there was also a chance that a major OEM will fail or be required to merge in order to build a sustainable operation.



Summary

- Post pandemic trading has been incredibly profitable for most.
- Sustainability becoming core to OEM strategies so expect it to filter down to distribution partners.
- Universal focus on Pricing Power has worked until now but EV transition will impact.
- Stellantis shows what is possible in volume sector.
- Japanese OEM under pressure with BEV transformation.
- The next decade will be incredibly challenging for traditional car manufacturers.
- Expect to see mergers or high-profile failures.

Rank	Company	Market Cap (\$B USD)	Today's Change (\$B USD)	Today's Change %
1	Tesla	706.29	-	-
2	Toyota	257.20	-0.07	-0.00
3	BYD	95.92	-0.46	-0.00
4	Porsche	87.25	+0.37	+0.00
5	Mercedes-Benz	65.62	+0.16	+0.00
6	BMW	64.67	+0.62	+0.01
7	Ferrari	60.23	+0.05	+0.00
8	Volkswagen	59.80	+0.34	+0.01
9	Stellantis	59.55	-	-
10	Honda	50.77	-0.03	-0.00
11	Ford	40.71	+0.04	+0.00
12	Li Auto	40.37	-	-
13	GM	38.91	-	-
14	Maruti Suzuki	37.55	+0.25	+0.01
15	Hyundai-Kia	31.64	-0.24	-0.01
16	Great Wall	28.46	-0.78	-0.03
17	Tata	28.35	-0.05	-0.00
18	SAIC	23.89	-	-
19	Mahindra	22.19	+0.09	+0.00
20	Suzuki	19.85	-	-
21	Changan	18.62	-0.32	-0.02
22	Rivian	16.52	-	-
23	Nissan	16.19	+0.28	+0.02
24	Xpeng	15.17	-0.02	-0.00
25	NIO	14.81	-	-

The Team



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