

ICDP Autumn Meeting

October 2022
Geneva



Agenda

Who am I and what am I speaking about ?

Alastair Cassels



Background

Head of Automotive Advisory – MHA
MacIntyre Hudson

Head of Group Network Development
Volkswagen Group UK

Network Development Director -
Vauxhall Motors

A Review of M&A Activity in Automotive Retail

Drivers of M&A Activity in Automotive Retail

The recent deal environment

Mega deals

Valuation factors

Forecast

Summary / Predictions



Six Major challenges for UK Auto Retail

Countdown to 2030

Electrifying the passenger fleet and developing charging infrastructure represents the biggest shift in car technology ever

1. ICE to EV

New Auto Retail

OEMs look to sell online and direct to consumer to save costs of distribution and pursue a closer relationship with customers

6. ESG

ESG

The auto industry is at the core of the drive for a greener future and must transform its products and service delivery to more sustainable operations

2. Agency Sales

Network Viability / Restructuring

Lower margins, digitalisation, macroeconomic uncertainty and industry transformation will result in pressure on businesses to reduce costs, diversify and fully digitalise customer experience

UK Auto Sector Challenges

5. Mobility Solutions

Mobility Solutions

The future will be characterised by multi-modal and fully integrated mobility services where consumer do not own cars but subscribe to mobility provision

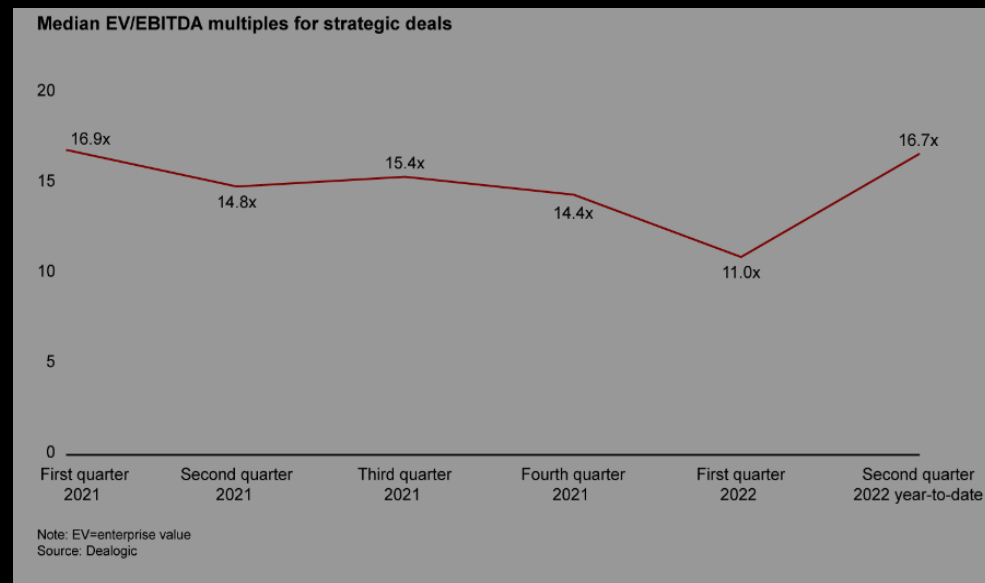
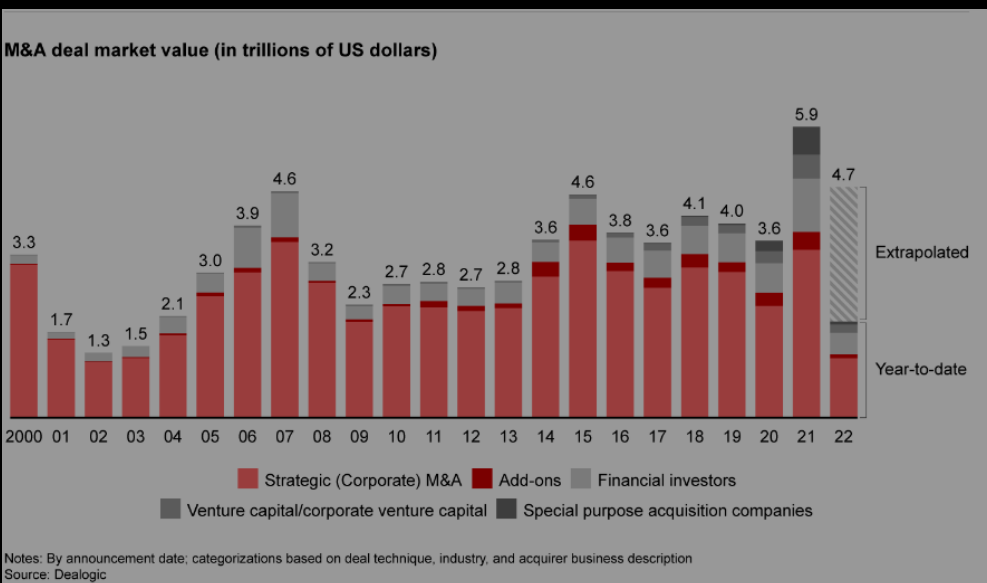
3. Network Viability / Restructuring

Automotive Property

Digitalisation will drive consolidation in the property market and the traditional dealer model will need re-imagined to support the omni channel customer experience

4. Re-imagining Automotive Property

Global M & A Overview



2021 was a record-breaking year for Global M&A activity with Strategic (Corporate) M&A driving the market post pandemic. 2022 has seen a reduction in activity but is still forecast to be one of the strongest in the last 20 years.

Q1 2022 was slow due to the geo-political uncertainty.

Valuations have been more volatile in 2022 and this looks set to continue against the backdrop of

- doubling cost of capital
- ongoing supply chain challenges
- looming global recession
- increasing geo-political fragmentation

Drivers of M&A Activity



Macro-economic environment

Post recessionary phase of consolidation was a key driver of M&A activity in the previous decade, however we have had a period of benign risk and little distress thanks to government support during the pandemic and "super profits" driven by shortages.



OEM Network Planning

All OEMs have a mid-term representation plan that details locations and operators. Many of these have not been redrawn to reflect the shift to agency and there seems limited appetite for aggressive restructuring



Globalisation

Successful dealer groups who have outgrown their "home " markets and whose shareholders are supporting growth. A weak domestic currency can make investments look more attractive and help offset market entry costs.



Access to capital

Traditional Auto retail is not viewed as an attractive investment. Margins are low and there is much uncertainty in the sector. The shift to EVs, contemplation of sales Agency models and threat of new entrants makes it more difficult to balance risk and reward.



UK Overview....who's buying? - not the big boys

AM100: the largest 100 UK automotive retail groups by turnover.

Rank 2022	Company	Turnover (£,000)	Rank 2021
1	Sytner	£4,916,206	1
2	Arnold Clark Automobiles	£3,798,200	4
3	Lookers	£3,699,900	2
4	Pendragon	£2,924,600	3
5	Vertu Motors	£2,547,665	5
6	Marshall Motor Holdings	£2,154,415	7
7	Group 1 Automotive	£1,537,101	8
8	TrustFord	£1,406,437	10
9	Jardine Motors Group	£1,357,829	9
10	JCT600	£1,279,405	11
11	Inchape	£1,083,241	6
12	Listers	£1,018,133	12
13	Motus UK (incl. Pentagon Group)	£963,874	47
14	PSA Retail UK	£894,593	14
15	Stoneacre Motor Group	£825,718	15
16	Park's Motor Group	£812,919	20
17	Greenhous Group	£812,863	18
18	Hendy Group	£732,778	16
19	John Clark Motor Group	£721,785	17
20	Swansway Garages	£711,878	22

Low activity from the biggest UK groups

Sytner the most active with acquisitions in BMW and Mercedes.

Arnold Clark exit Toyota but huge investment continues in digital and EV offer

Pendragon to be sold?

Vertu – more vertical than horizontal

Inchcape focussing on BravoAuto

Marshall Motor Group have driven significant consolidation in recent years. Their sale to Constellation leaves 1 less consolidator.

Other Plc are reshaping and waiting until there is more "value" in the market

Regional Groups go for local scale

News

Snows snaps up long-serving Vauxhall dealer Picador

- Deal, for an undisclosed sum, sees Snows expand its presence in south of England
- Vauxhall now joins roster of brands Snows represents
- Picador celebrated its 60th anniversary this year

News

Family-run Lloyd Motor Group buys Volvo Cars business from P. V. Dobson

- Lloyd Motor Group strengthens its presence in north of England

News

Steven Eagell Group purchases Toyota Oxford from Inchcape for undisclosed fee

- Steven Eagell Group buys Toyota Oxford from Inchcape
- Boss says site is a 'great fit' for dealer group
- Inchcape says deal is 'in line with Toyota's overall strategy to reshape their market areas'

News

Dealer group Yeomans buys Haywards Heath Nissan showroom from SLM

News

Wales's Sinclair Group moves into England after snapping up Shukers

- Deal for an undisclosed sum sees Sinclair purchase Shuker and its three sites

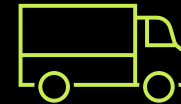
News

Car dealer group Endeavour Automotive buys out family-run Turners Hyundai in East Anglia

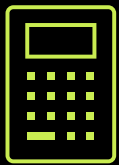
- Car dealer increases its Hyundai dealership portfolio to seven sites with move
- Turner brothers sell up and leave the car industry altogether
- Price of deal undisclosed by firms



Succession in some owner driver businesses



Chance to grow scale and lower CPU key if agency model is followed



Viability challenge for smaller dealerships in the digital / agency world



Increase strength of partnership with OEM ahead of consolidation phase



High water mark for valuations driven by pandemic and post pandemic supply issues



Balancing of franchise risk as industry moves into Agency phase

The view from Europe

Anecdotal evidence is that the major European markets are similar to the UK.

"The consolidation process is underway in Germany but at a far slower pace than expected. Dealers have been earning well on Used cars and service and everybody is looking very carefully on bigger developments and decisions"

"We understand that BMW is trying to reshape its investor network and increase throughput per site, this is driving some activity with groups like Alphartis SE"

Director, Network Development Major OEM

"A large part of the market is paralysed due to contract uncertainty from major OEM groups. This has caused a problem on valuations and dealers are maximising short term profits instead of M&A activities"

Regional Manager, Network Development Major OEM Group

Car dealership: Alphartis takes over Autohaus Märtin



Consolidation

Kühnert Group acquires BMW auto dealership Strauß

11.05.2022 | By [Andreas Wehner](#)

With the takeover of two locations in Saxony, the Thuringian BMW dealer is expanding to a total of eight companies.

Acquisition of Auto Gscheidle: Alphartis strengthens Skoda business



Mega Deals #1 – Constellation Group acquires Marshall Motor Holdings

— (plus, a bit of Lookers)

Marshall Motor Group

164 franchise dealerships, 27 brand partners

£325m

400pence per share
Share premium of 40% over the pre-bid ask price

Lookers Plc

144 franchise dealerships, 32 brand partners

£80m

102pence per share
Share premium of c20% over the pre-bid ask price

Constellation Automotive Group is the largest vertically integrated digital car marketplace in Europe, combining the leading digital brands across the segments of consumer to business, business to business and business to consumer.



Marshall provided scale, good geographical coverage, cash generation and access to multi-brand stock. Remarketing capacity taken away from Mannhiem. Scale opportunities in F&I pricing. Huge stock boost for Cinch and key access to OEM disposals.

Lookers widely perceived as a blocking stake to prevent a competitor gaining traction in the market and a pre-cursor to further industry consolidation

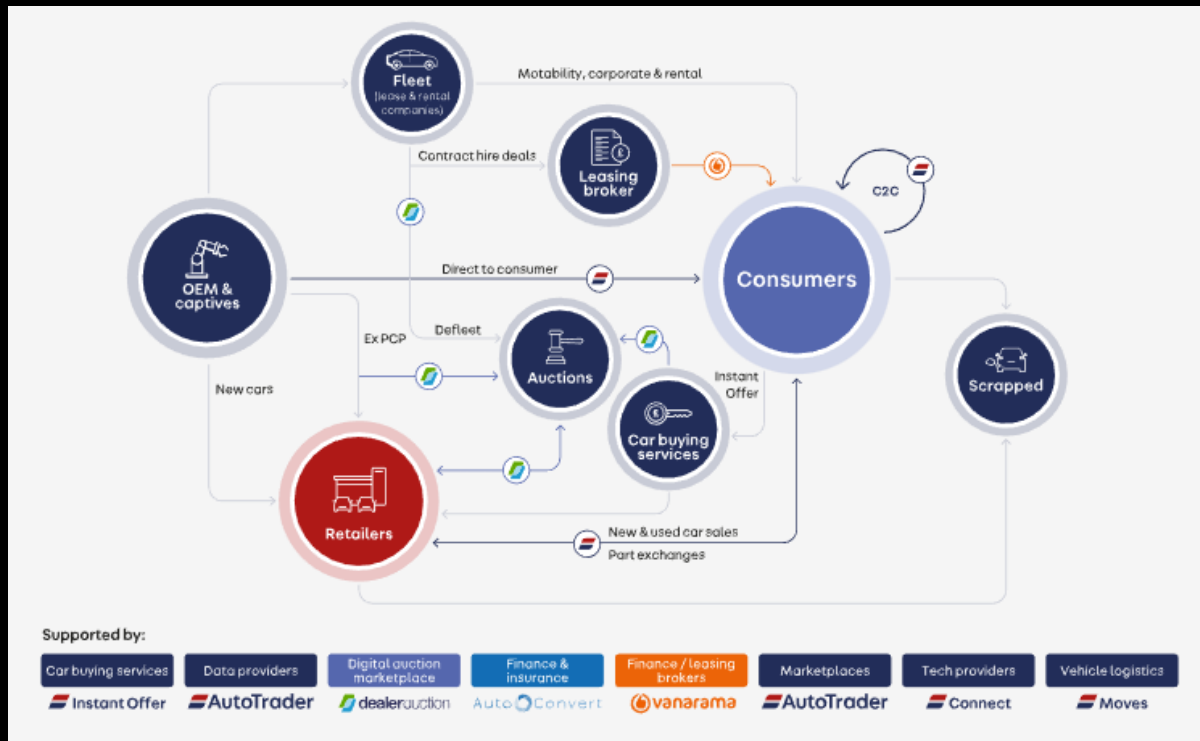
Mega Deals #2 – Autotrader Group plc acquires Autorama (Vanarama)

Autorama

Leasing Brokerage, £26m revenues, (£6m) EBITDA

£200m

Huge valuation for non-profitable broker business
£150m +£50m in shares



Autotrader knows how the market functions. They have unrivalled consumer data and recognise the importance of developing the digital capability.

Leasing looks set to grow and was identified as a weakness in the Autotrader platform. Vanarama identified as having the best "tech stack" and established brand name.

>90%

of consumers know who we are

63.8m

cross platform visits each month

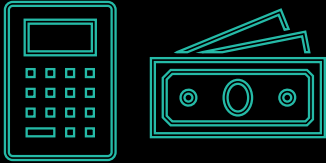
8x

larger than our nearest competitor for share of cross platform minutes

>75%

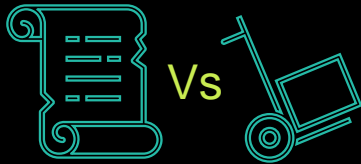
of all time spent on automotive classified sites is on Auto Trader

Valuations and negotiations



Valuations have varied hugely but the trend is now downward. Up to 7 times EBIT seen but motivated by favourable currency exchange for overseas investment

Competitive tension key to maximising value, However some signs of OEMs beginning to influence this process by leveraging the contract.



We've seen a greater bias to share purchases in the UK largely due to

1. favourable taxation - "Entrepreneur relief"
2. lack of distress and low risk environment for several years

Automotive property values are declining particularly if there is no future alternative use. Dilapidations are still a key negotiation point and environmental ratings adding complexity



"Dealers coming out of the most successful two years trading in their history are demanding top dollar for their business and its unrealistic.

"We have looked at a number of businesses and what we are prepared to offer and what they are willing to accept remains some way apart."

Peter Smyth, MD Swansway Group

What's hot and what's cold?



STELLANTIS

KIA



HYUNDAI



Some correlation with contractual uncertainty of brands who have announced migration to a sales agency model

What happens next?

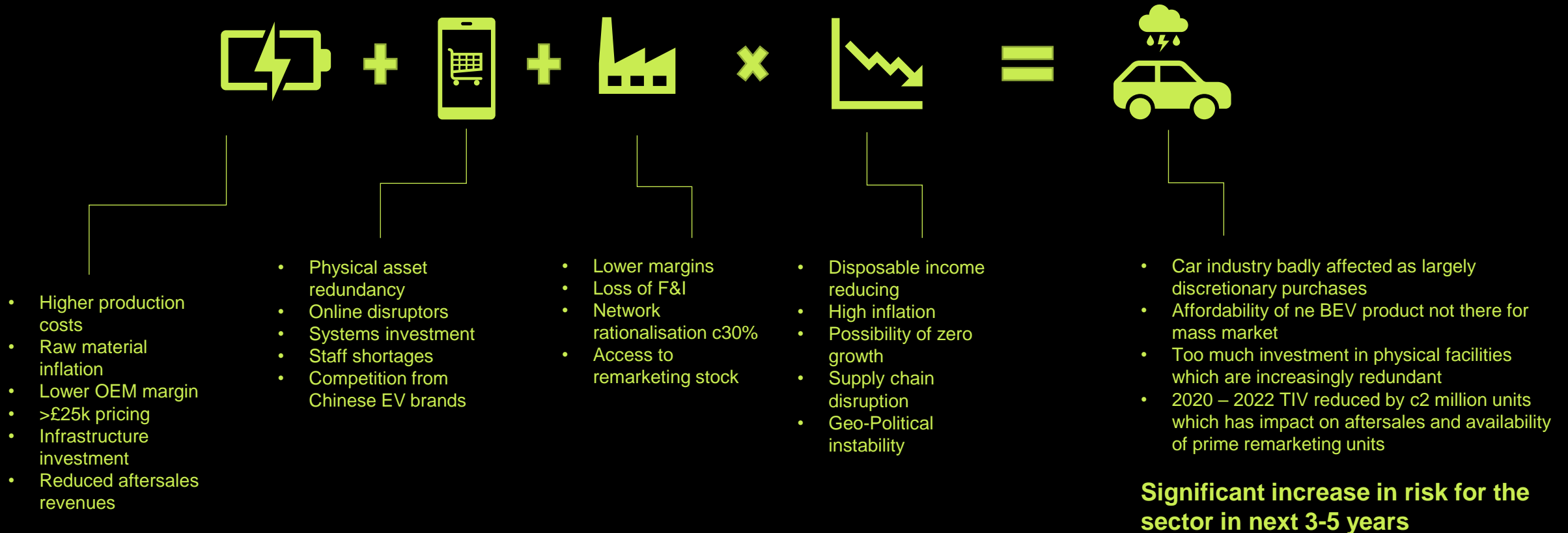


The last recession prompted significant activity in the market. Plc and large dealer groups expanded significantly through solvent and insolvent acquisition activity

Pending recession not forecast to be as severe as 2009-10 but industry structural issues may force more consolidation.

Risk Management, Turnaround and Restructuring

Government support during the pandemic coupled with supply constraints have resulted in the most benign risk environment of the last two decades. Retailers have enjoyed “super profits” largely driven by the appreciation in Used Car inventories and ongoing new vehicle shortages. However, signs are emerging that the market is slowing in line with the macroeconomic conditions affecting the UK. We expect to see some distress in H2 2022 and into 2023 as economic conditions squeeze household disposable incomes and inflationary pressures drive vehicle pricing higher.



Summary and predictions



M&A activity in European automotive retailing has been slower than the Global multi sector trends. Driven by,

- Pandemic "super profits" and under supply
- Uncertainty on business model and future cash flows
- Inertia from manufacturers on future network plans
- A lack of any distress within the sector



Vertical integration driving the largest deals and highest multiples

- Plc share prices still low suggesting the market has little faith in the current model



Recession and low growth will drive activity levels as valuations become more realistic vs potential future profits and the transformation risk factor. 2024 onwards.



OEMs will influence next round of consolidation more than in the past as they attempt to keep balance in their distribution



Influx of Chinese EV brands will drive more multi-branding of existing dealer facilities



Structural overcapacity in traditional retail will be addressed by reducing dealer sites which may be a temporary barrier to some consolidation