

COVID-19 The New Norm

May 2020



Post-COVID-19: a New Normal awaits

The Coronavirus epidemic, and the global economic crisis that it has created, will eventually pass. However, it is unlikely that things will quickly return to the same state as before:

- Movement restrictions and forms of social distancing are likely to continue until there is a way of controlling transmission of the virus, or a vaccine is developed
- Evidence from affected countries suggests that consumers will, for some time, adopt defensive behaviours to avoid infection, even after social distancing restrictions are lifted
- Consumers will learn different behaviours concerning how to interact with each other, and the purchasing and servicing of vehicles will need to be done with PPE and social distancing
- Consumers will want to rebuild their savings to provide financial resilience against another wave of Coronavirus or a similar event happening in future

Initial overstocking of vehicles remains a concern, and once stock levels are under control, there is the risk that supply chain issues may mean a shortage of vehicle stock

In this context, we are unlikely to see a rapid bounce-back in the automotive retailers market in the form of a V-shaped return to more normal market conditions

In the New Normal, businesses will inevitably have to adjust to these changes, and do so rapidly

For automotive retailing businesses, these changes will be immediate and potentially permanent, e.g. an increase in online and social media interaction that was less common before COVID-19

In the short term, management's focus may rightly be on survival and conserving cash. But what happens when short-term support measures (e.g. furloughing, rates relief) are withdrawn?

It is vital to look beyond the immediate crisis and assess whether businesses are viable in the New Normal:

- It is a key question for capital providers: shareholders, lenders and, in the case of guarantees, Government
- It is equally relevant for other stakeholders such as employees and suppliers

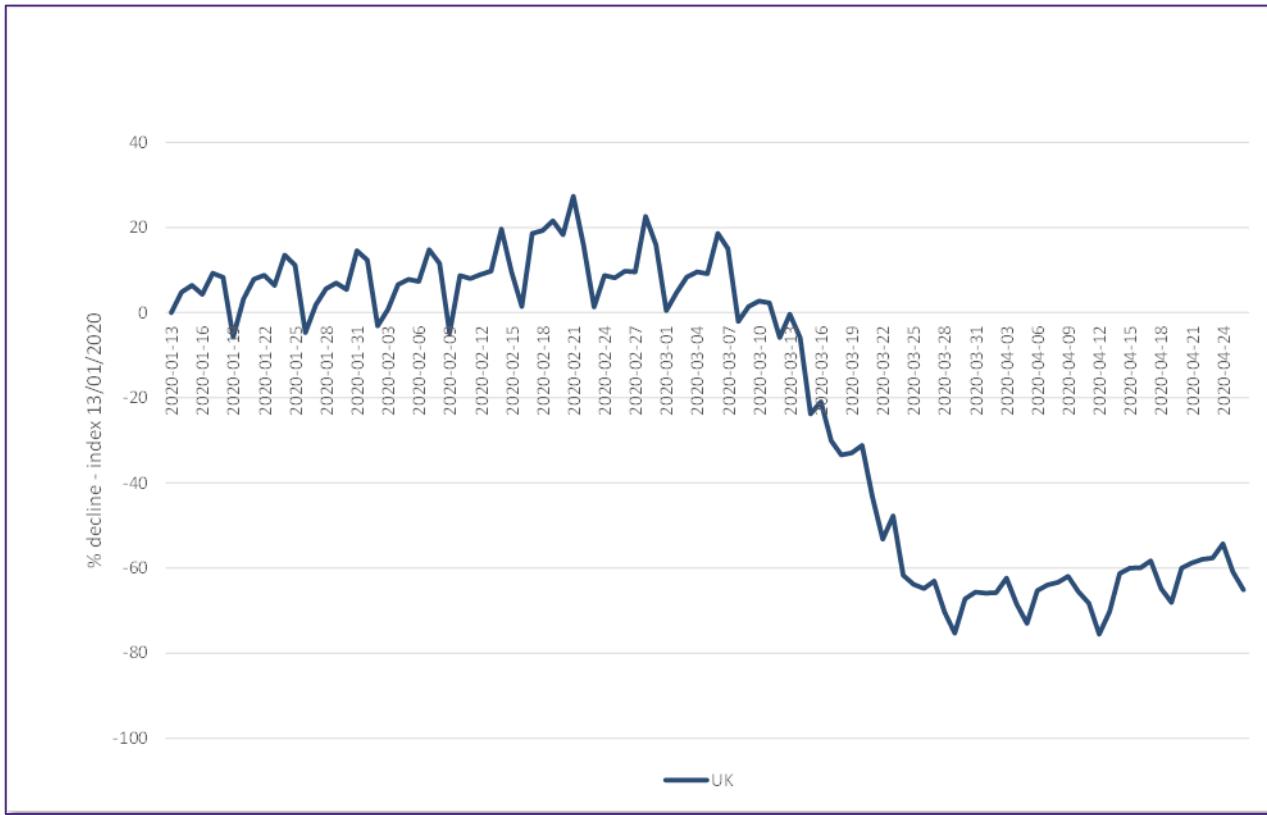
Automotive retailing businesses need to be ready to hit the ground running on the other side of this pandemic by controlling cash flow and budgeting for numerous eventualities as well as continuing to grow the business

No-one has perfect foresight, but we believe that we can assist and help you manage your business to enable resilience and flexibility in the New Normal

Changing driving behaviour – UK

There are numerous examples of how COVID-19 has changed consumer behaviours. We have reviewed some of these changes in habit, one of which is driving behaviour in the UK

UK Driving Habits - 13-01-2020 to 03-05-2020 (Index to 13-01-2020)



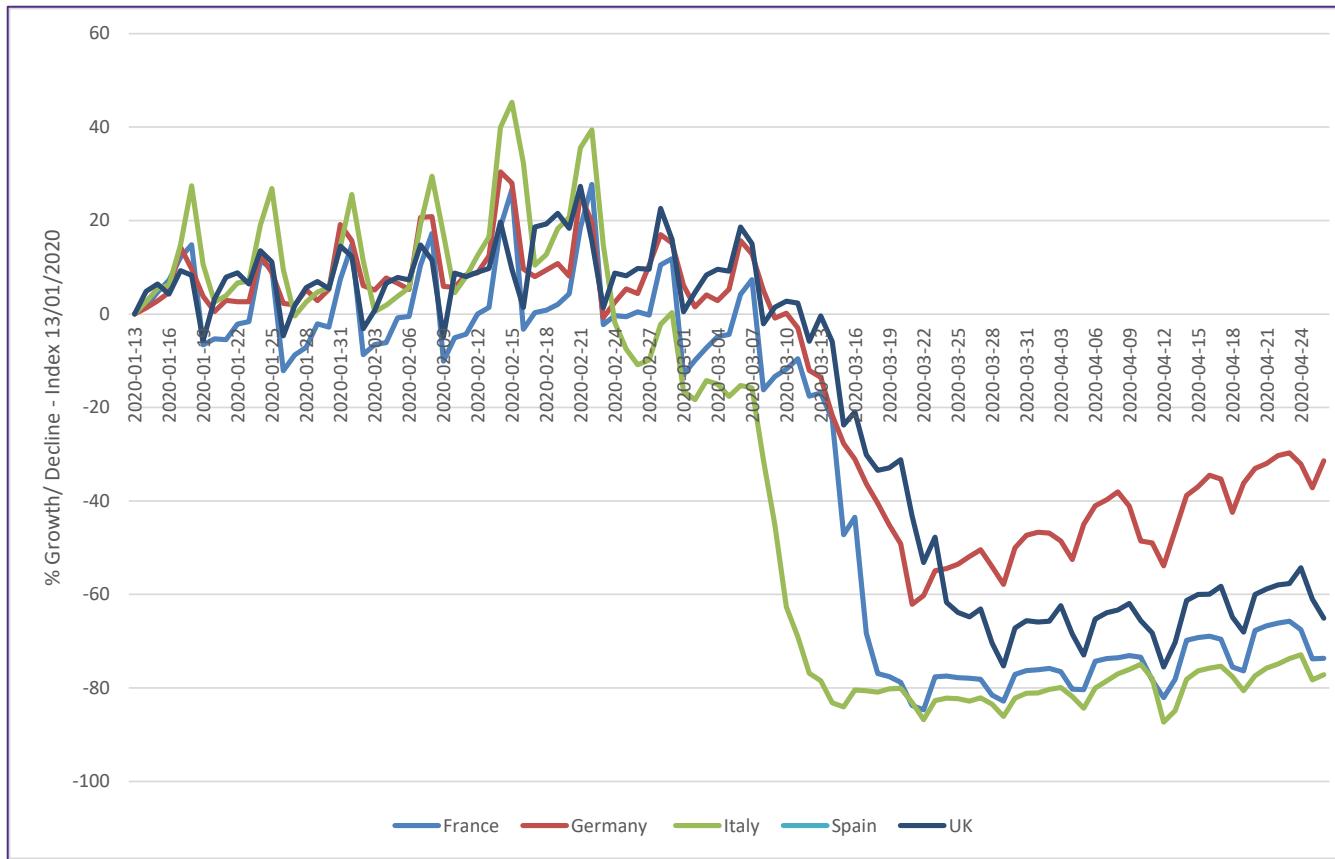
Comments

- Even before the lockdown which was instigated on 23 March 2020, people's driving behaviours changed with fewer people starting to drive from 7 of March
- By 23 March, driving had fallen by close to 80%
- There has been a slow increase in the number of people starting to drive and we believe that this is for the purposes of work as the weekend shows sharp downward spikes
- Under the new government plans people are allowed to use their car to take trips and to go to work if they are unable to work from home; therefore we would expect driving behaviour to increase.

Driving behaviour – UK and Europe

Comparing UK driving behaviours to other countries in Europe, the UK is driving less than Germany, but more than other European countries

Driving Behaviours 13-01-2020 to 03-05-2020 (Index to 13-01-2020)



Comments

China

First case 17 Nov 2019

Italy

- Italy was one of the first countries in EU to be impacted by COVID-19
- First case 31 Jan 2020
- 21 Feb, virus takes hold in six provinces of Italy
- 9 March total lockdown

Spain

- 31 Jan first case
- 14 March all regional provinces had COVID-19
- 30 March total lockdown

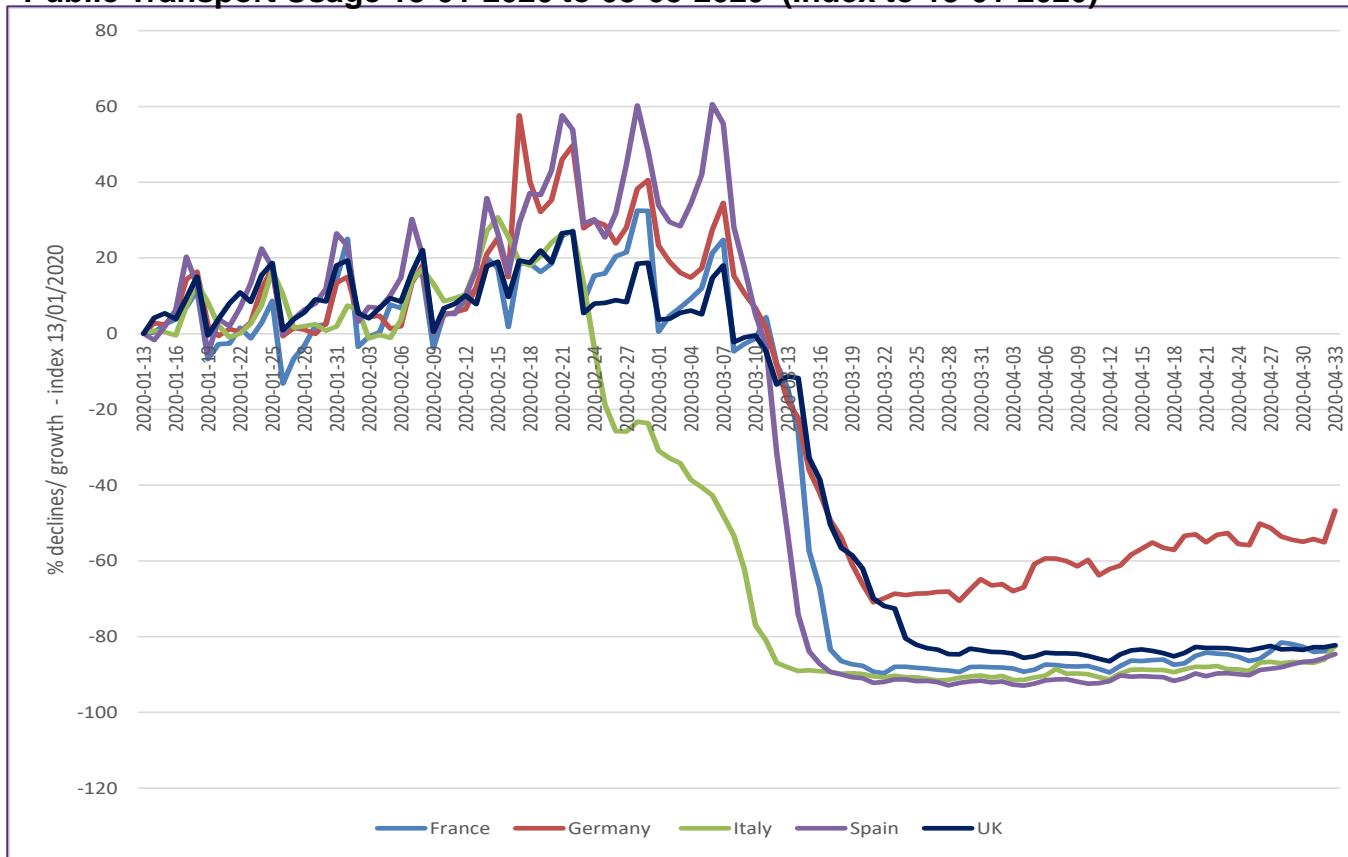
Germany

- 27 Jan first case
- 13 March close of school
- 14 March cross border movement stopped
- 22 March lockdown
- Lockdown started to release w/b 20 April

Use of public transport

Across Europe, people are moving away from using public transport – might demand for vehicle ownership increase?

Public Transport Usage 13-01-2020 to 03-05-2020 (Index to 13-01-2020)



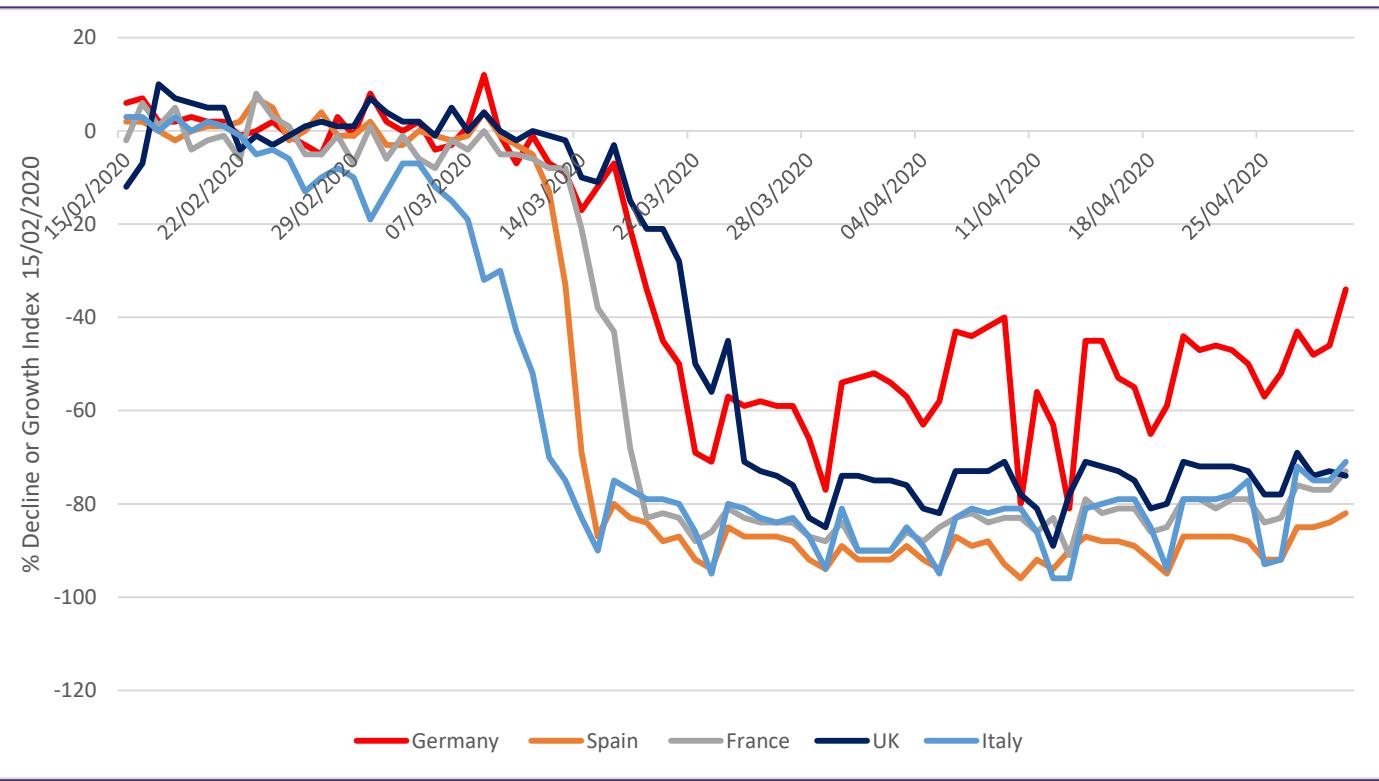
Comments

- Lockdown has generated a lack of confidence in the public transport amid fears of catching COVID-19.
- However there are signs from Germany that consumers are tentatively returning to public transport. Other European countries still show low levels of public transport usage and this trend is likely to continue as long as social distancing is part of daily life

What has happened to general retail and recreation?

Across Europe, due to the lockdown there has been a significant reduction in retail and recreational activity

Retail and Recreation 15-02-2020 to 30-04-2020



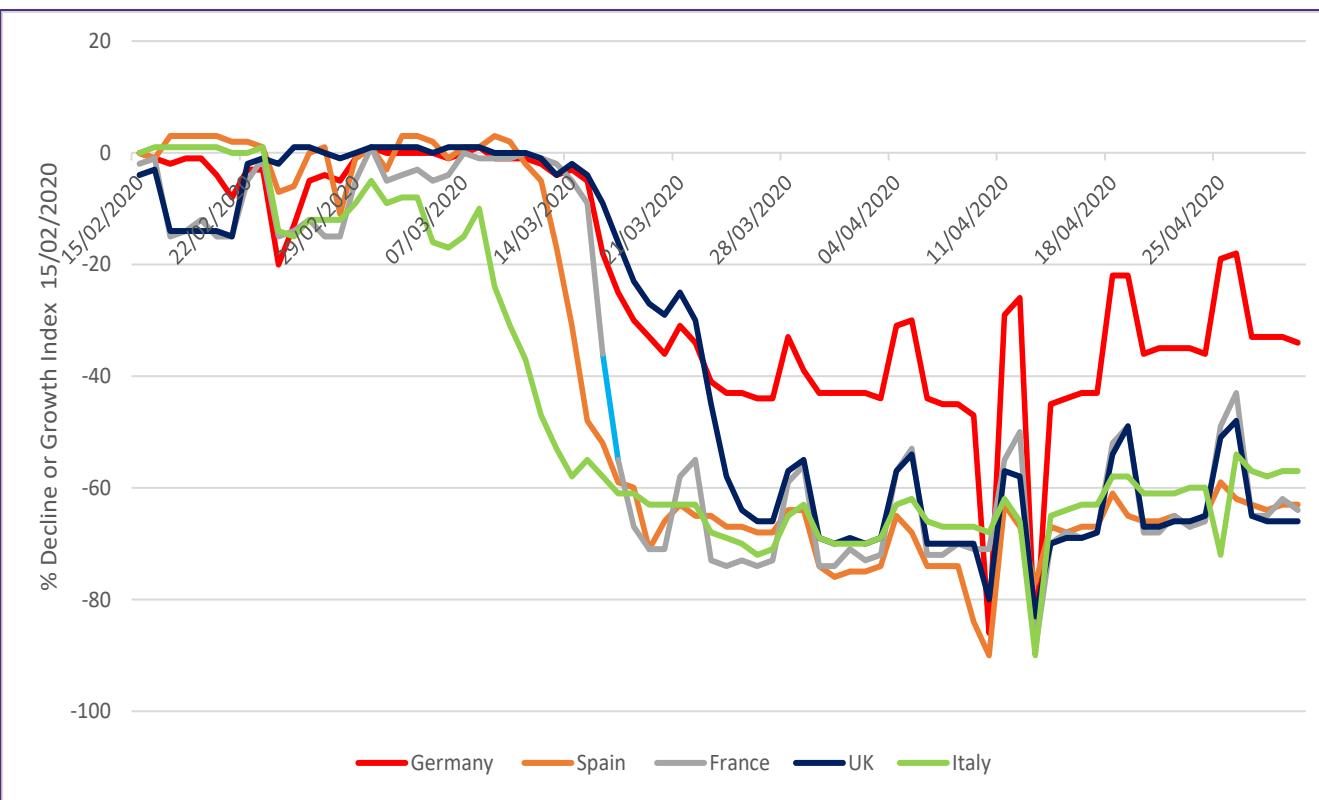
Comments

- The chart shows that once lockdown was introduced into most countries over a period of a few days, people stopped venturing out and abided by the lockdown requirements
- However there was a uptick of people venturing out for Good Friday and the following Monday, which was a Bank Holiday
- In Germany there has also been an uptick in retail and recreational movement with the part-opening of lockdown on 20 April when small shops were permitted to open
- The other European countries in the chart remain in lockdown as of 30 March 2020, with little sign of a return to normality

What has happened to people travelling to work?

The return to work has also been limited with more people working from home under the lockdown requirements

Travelling to Work 15-02-2020 to 30-04-2020



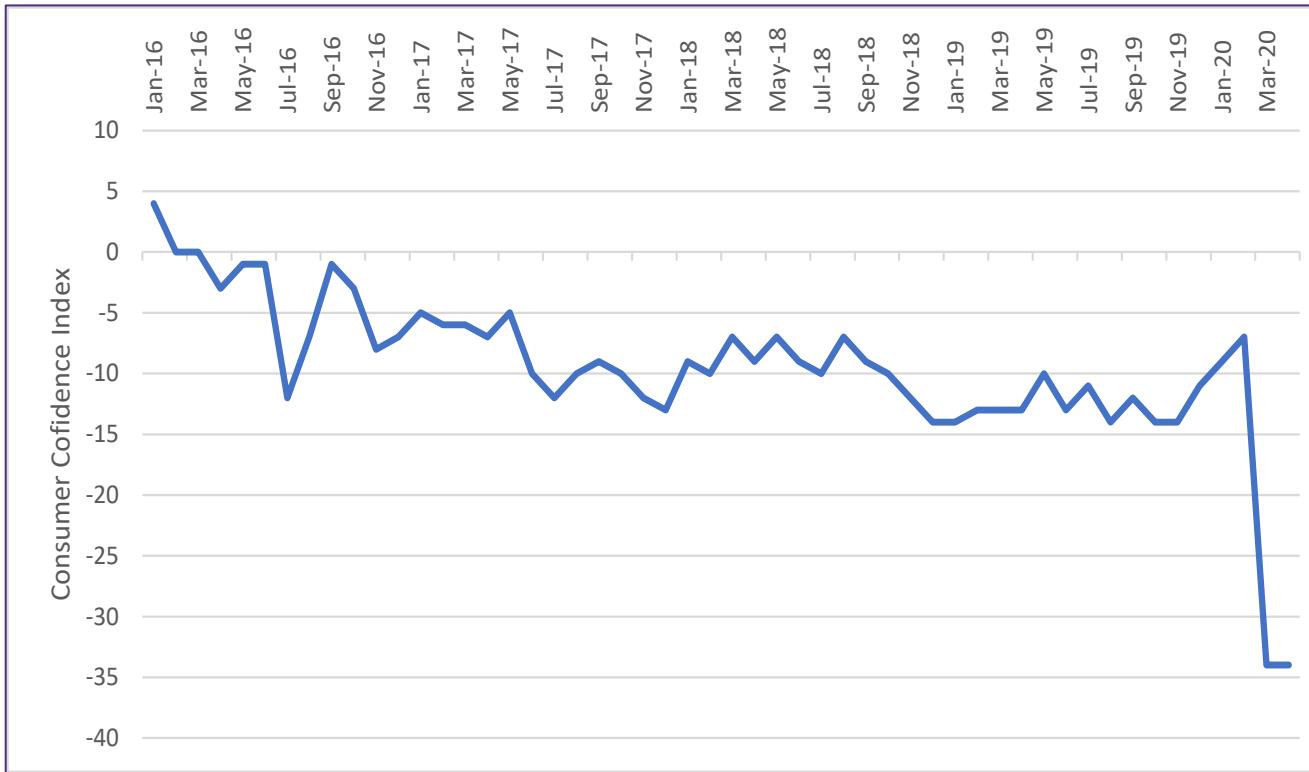
Comments

- The chart shows that once lockdown was introduced into most countries over a period of a few days, there was a sudden increase in people working from home. However for the UK the progression of people working from home was more gradual as the lockdown came quite late on 23 March
- There was a sharp change in peoples habit over 11 to 13 April due to the long Easter weekend

What has happened to UK consumer confidence?

Consumer confidence has seen a dramatic decline from -9 in February 2020 to -34 in April 2020

Consumer Confidence Jan 2016 to Mar 2020



Source GfK

Comments

- Consumer confidence has fallen over a short period of time. In a matter of two weeks, consumer confidence dropped from -9 on the GfK index to -34, hovering just 5 points above historical lows of 2008 and the Global Financial Recession
- Consumers remain concerned not only of the risk of COVID-19, but also the future concerns over the health of the UK economy and consumers financial stability in the next 12 months.
- The GfK index for Personal Finance Situation markedly down, at -44 April 2020 compared to April 2019 at -30.

Putting the fall in consumer confidence in perspective

Over the last 25 years consumer confidence has only been worse once before, during the Global Financial Recession

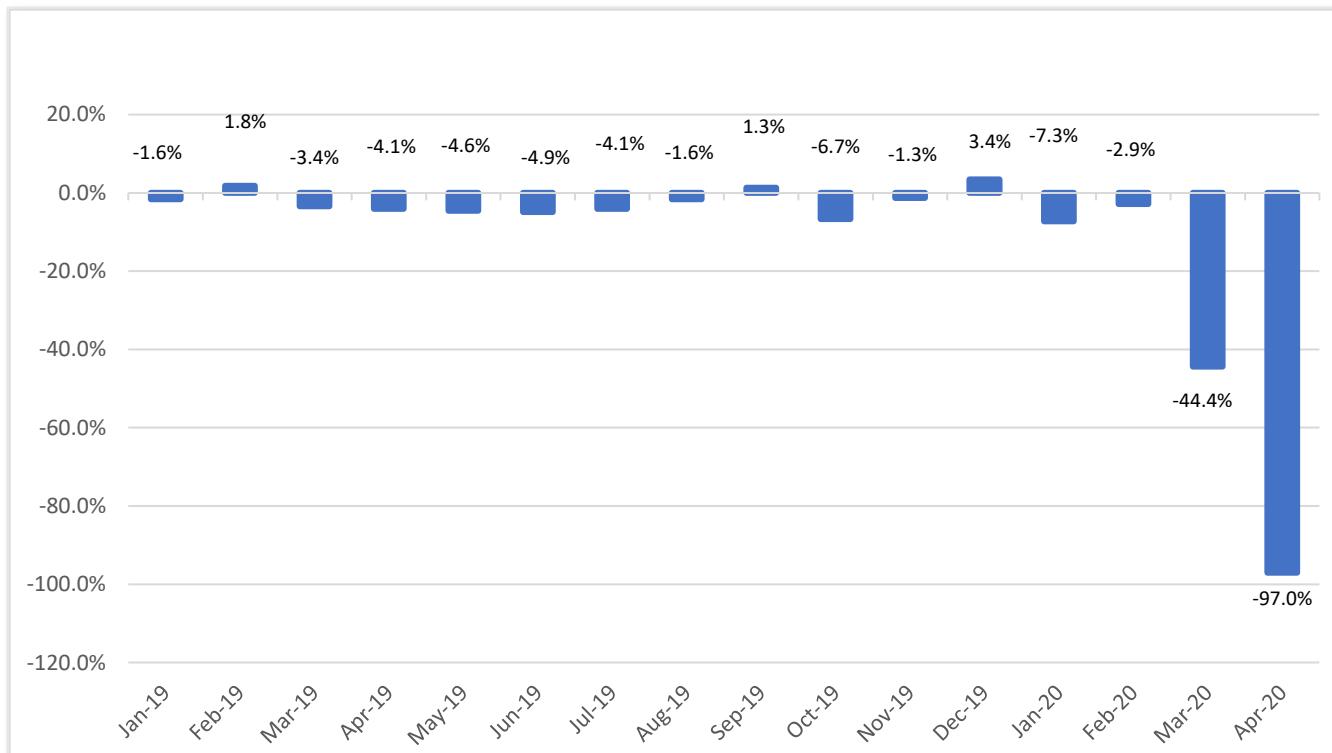


Source GfK

What has happened to vehicle registrations in the UK?

New vehicle registrations in April 2020 fell to a level not seen since 1946

New Car Registrations YoY Growth (%)

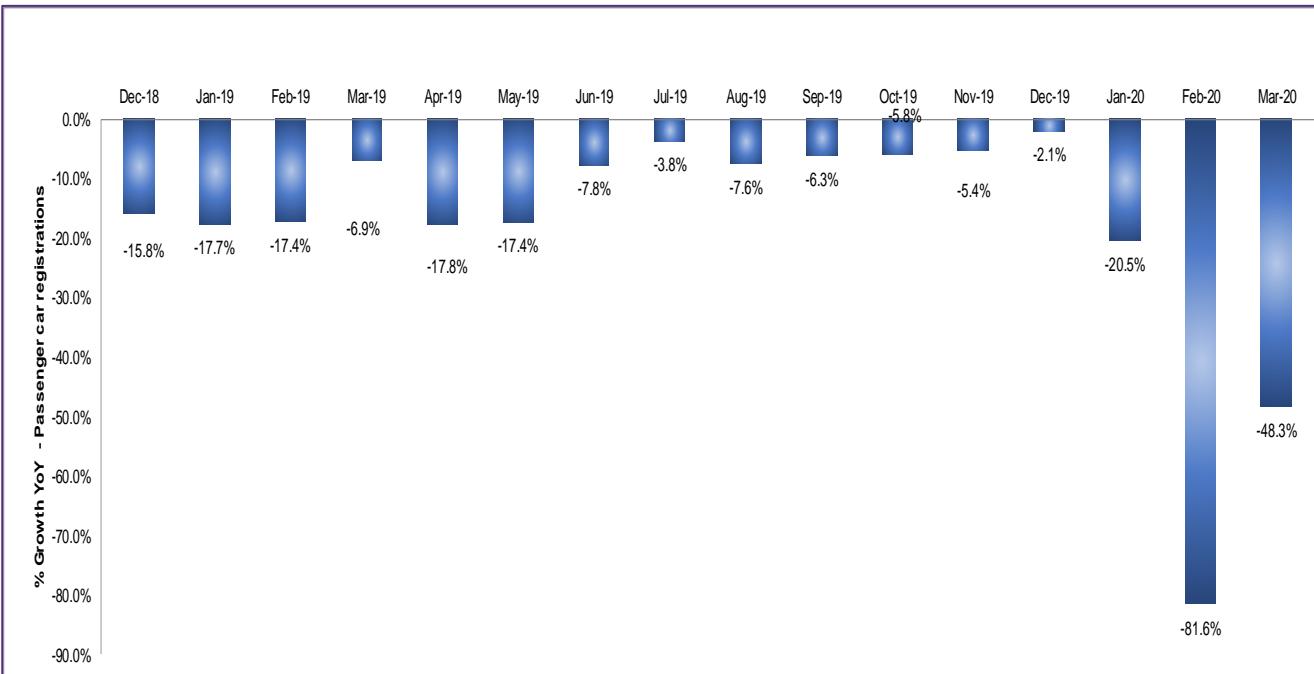


Source SMMT

What happened in China?

China was the first country to have a lockdown and new vehicles sales fell dramatically. However online sales meant that there was limited purchasing of vehicles

New Car Registrations YoY Growth (%)



Source Bloomberg

Lockdown

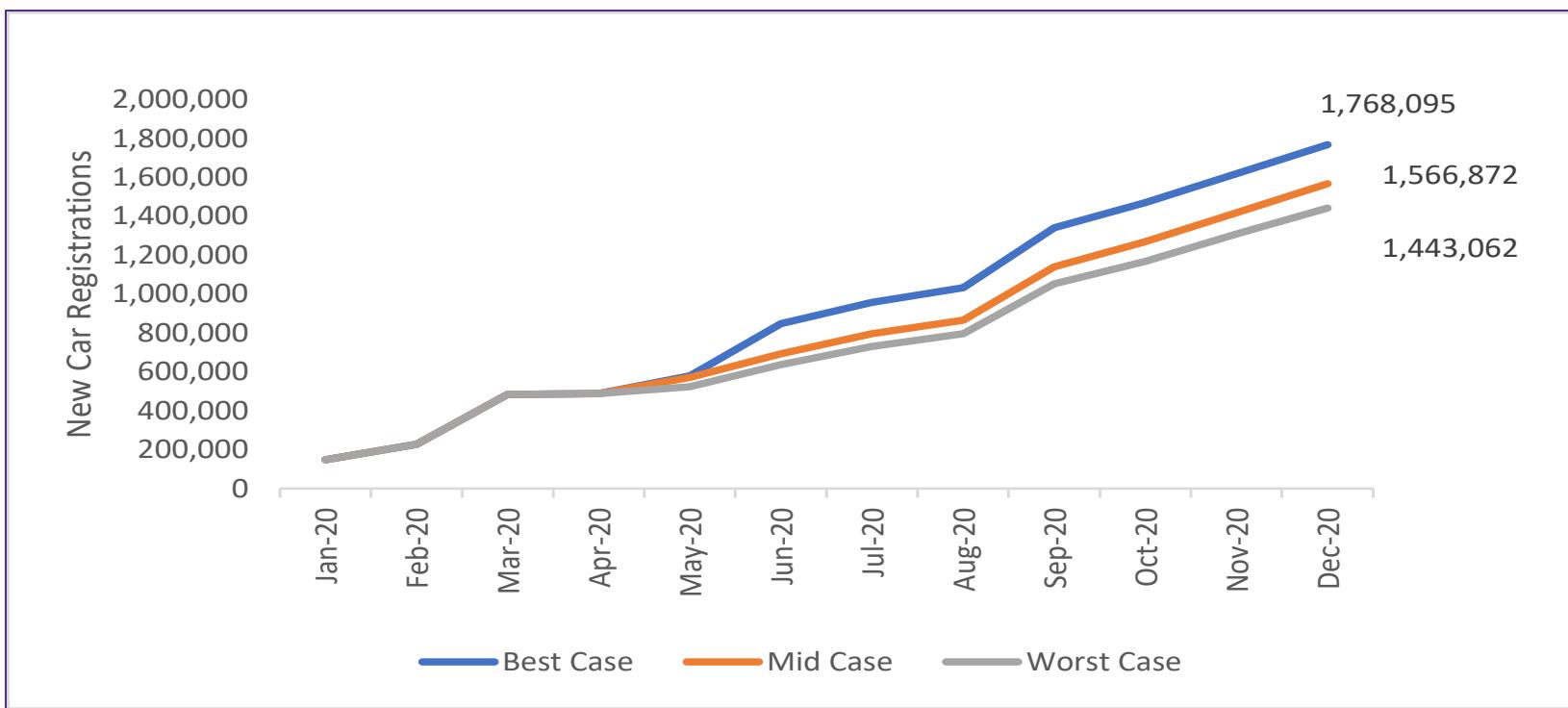
Comments

- The first case of COVID-19 in China was discovered on 17 November 2019 and China quickly locked down
- New vehicle registrations fell as expected, with an 81% decline in new passenger car registration, compared with a 97% fall in a full lockdown month in the UK in April. Indications from the Chinese market suggest that it is more advanced in selling vehicles online.
- Lockdown was released by 20 of March – when the UK went into lockdown, 91% of all dealers were open in China. However showroom traffic remains down 53% year on year. (Source: China Automotive Dealer Association - CADM)
- According to a survey undertaken by CADM, showroom footfall for mass brands climbed to 54% and luxury brands climbed to 57% of normal levels for this time of the year (source CADM)
- China, Association Automotive Manufacturers (CAAM) release preliminary figures for April, with new vehicle registrations up approximately 1% YoY, c2m vehicles. Showing positive news China's new car market might be returning strongly

Potential outcomes for UK new vehicle registrations

What is the potential outcome for UK new vehicle registrations? We believe that there are three potential scenarios: best, mid and worst case scenarios

UK New Car Registrations 2020

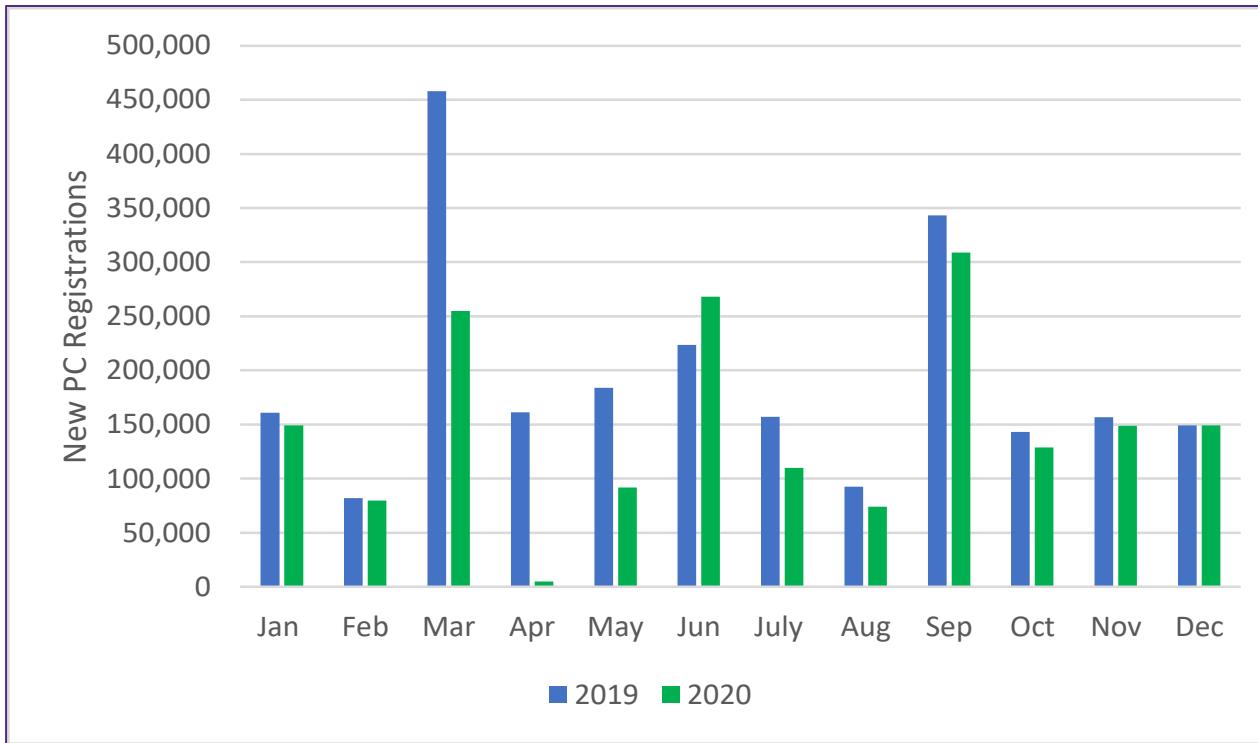


Source SMMT and Grant Thornton UK LLP

Different scenarios for the UK new vehicle market – best

With such a dramatic YoY drop in new vehicle registrations in March and April, a strong return to the market norm has to take place

New Car Registrations Best Case – Monthly 2019 and 2020



Comments/assumptions

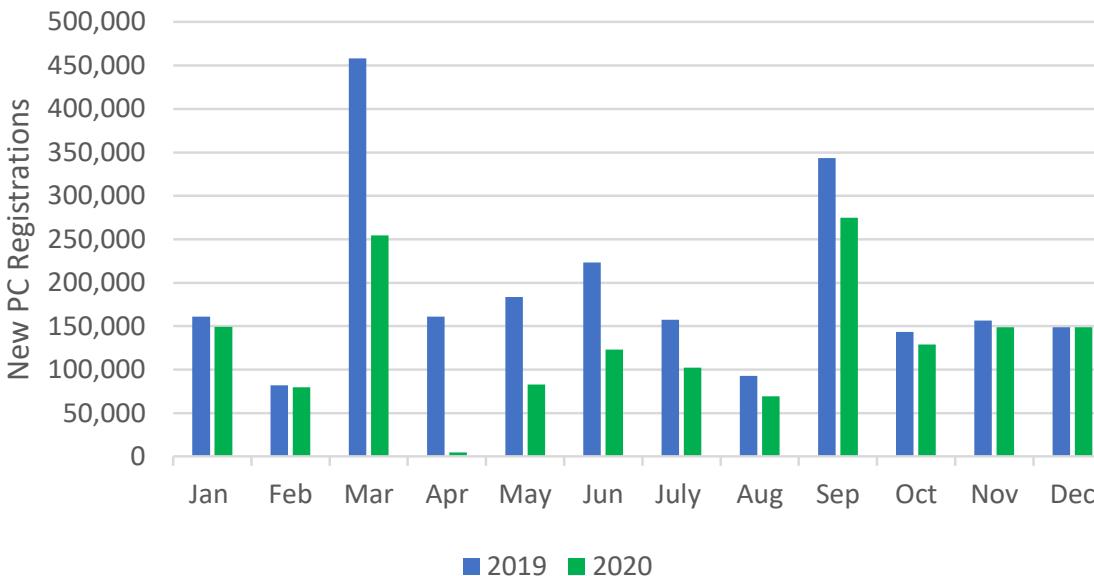
- April has the greatest decline of 98% due to a whole month of lockdown (source SMMT)
- In our best case scenario, we are expecting only part of May to be in lockdown – many of the national sales companies in the UK are planning for dealer door to open on 11 May
- Consumer confidence returns and with 80% plus penetration of PCP renewals of these contracts will support the long term recovery of the new car market.
- Used cars historically have sold c7-8m units per annum are likely to return, but used car pricing volatility will take place as the market aim to find equilibrium between demand and supply
- Aftersales care will grow with time / mileage warranty servicing driving the aftersales markets
- All dealers will need to exercise social distancing and communicate their procedures for social distancing in order to instil confidence for consumers to return to dealerships
- Best case scenario: full year registrations 1.76m vehicles – a 23.4% YoY decline

Best Case Scenario	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec	Total units
Monthly YoY changes	-7.3%	-2.9%	-44.4%	-97.0%	-50.0%	-40.0%	-30.0%	-20.0%	-10.0%	-10.0%	-5.0%	0.0%	
Units	149,279	79,594	254,684	4,832	91,862	268,105	110,039	74,058	308,930	128,926	148,790	148,997	1,768,095

Different scenarios for the UK new vehicle market – mid

Lockdown is expected to end in May and sales are expected to start and consumers once again to venture into dealerships; however consumer confidence remains weaker than in our best case scenario

New Car Registrations Mid Case – Monthly 2019 and 2020



Comments/assumptions

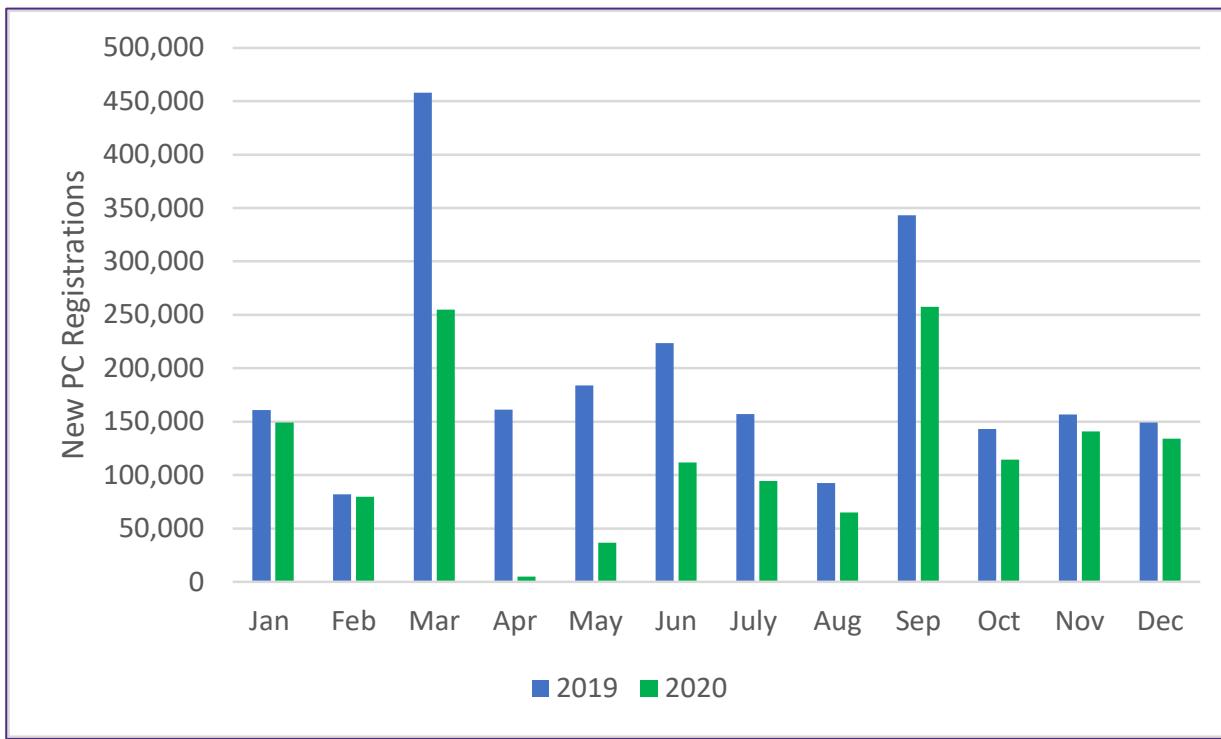
- April has the greatest decline of 98% due to a whole month of lockdown (source SMMT)
- In our mid case scenario, the lockdown loosens in May. We believe that the improvement in May versus April could be similar to that of China. China's new passenger car registrations at full lockdown fell to 81% (YoY) and the following month fell by 48% - a 33 percentage point (pp) improvement
- The UK in April declined by 97%. A similar decline to China of 33 pp would mean that May would be down 64% YoY
- We believe that the online sales of vehicles will continue to increase; however the costs of social distancing, home delivery and increase PPE cost will reduce margins on what are already low gross profit per unit margins
- Mid case scenario: full year registrations 1.55m vehicles – a 32.9% YoY decline

Mid Case Scenario	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec	Total units
Montly YoY changes	-7.3%	-2.9%	-44.4%	-97.0%	-64.0%	-45.0%	-35.0%	-25.0%	-20.0%	-10.0%	-5.0%	0.0%	
Units	149,279	79,594	254,684	4,832	66,141	122,882	102,179	69,430	274,604	128,926	148,790	148,997	1,550,336

Different scenarios for the UK new vehicle market – worst

Worst case scenario: lockdown is expected to last for two consecutive months

New Car Registrations Worst Case – Monthly 2019 and 2020



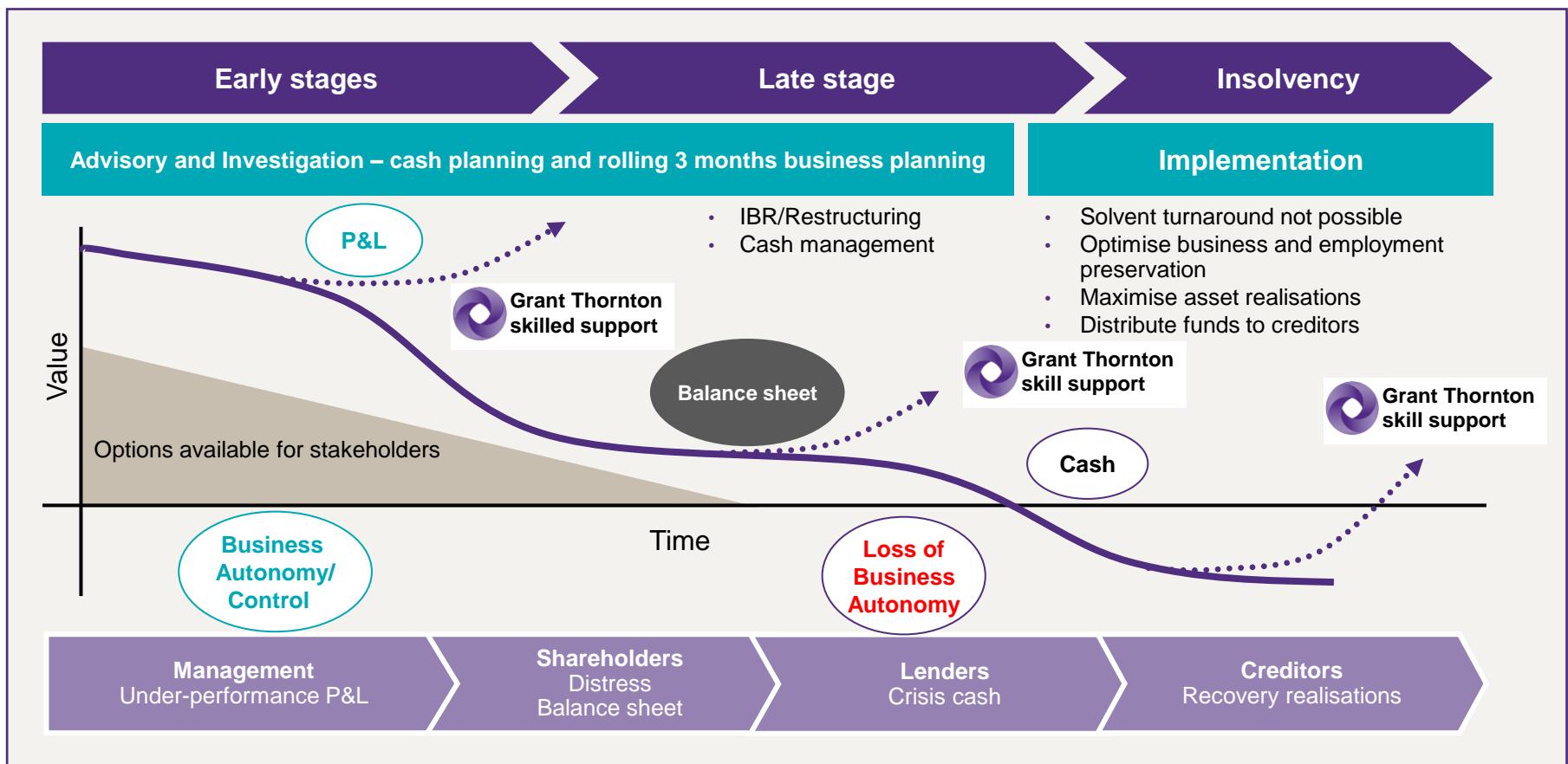
Comments/assumptions

- April has the greatest decline of 98% due to a whole month of lockdown (source SMMT)
- In our worst case scenario, lockdown restrictions last for two full months, new vehicle sales remain online, and deliveries only take place within social distancing protocols, making it difficult to trade efficiently
- Lockdown ends in June and dealers start to increase face-to-face sales.
- If we have dealerships with limited trading for two consecutive months, there is a risk that consumer confidence will remain weak. It remains unclear how quickly the economy will return to pre-COVID-19 levels which in turn could reduce demand for new and used vehicles
- Mid case scenario: full year registrations 1.44m vehicles – a 37.2% YoY decline

Worst Case Scenario	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec	Total units
Montly YoY changes	-7.3%	-2.9%	-44.4%	-97.0%	-80.0%	-50.0%	-40.0%	-30.0%	-25.0%	-20.0%	-10.0%	-10.0%	
Units	149,279	79,594	254,684	4,832	36,745	111,711	94,319	64,801	257,441	114,601	140,959	134,097	1,443,062

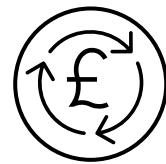
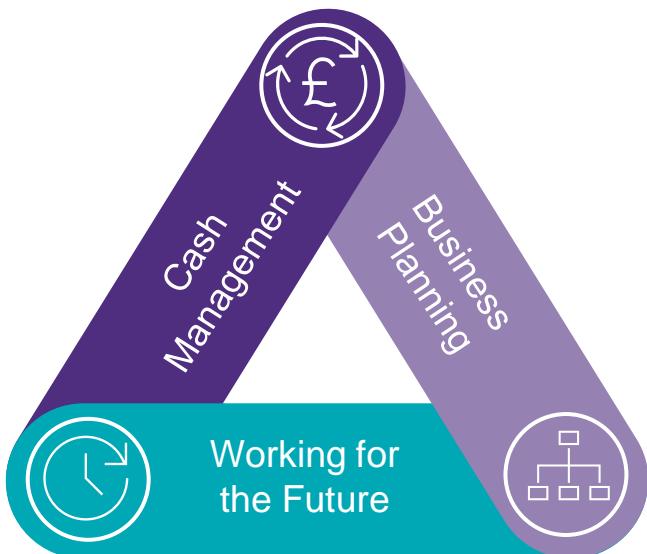
What does this mean for dealers?

This is a pictorial view of the stages in which a dealer can find itself in when revenue falls, costs remain high and cash resources are limited

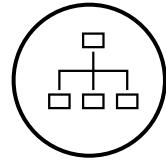


Act early, manage cash, business plan and grow your business

Preparation for the end of lockdown is critical for success for both dealers and National Sales Companies. Grant Thornton provides a wide range of services, specialising in the following areas:

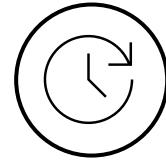


Cash Management – setting up operational working capital and daily cash management models in order to help secure credit lines



Business Planning – rolling three-month budgeting and business planning until recovery is well under way

- Grip and vision - varies over performance curve



Working for the future – driving revenues and profits using the following Grant Thornton services:

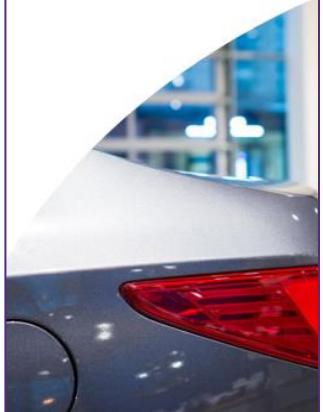
- Dealers Revenue and Profit Clinics – improving new and used vehicle sales and aftersales
- National Sales Companies – interim and crisis dealer management services when required

Our Services



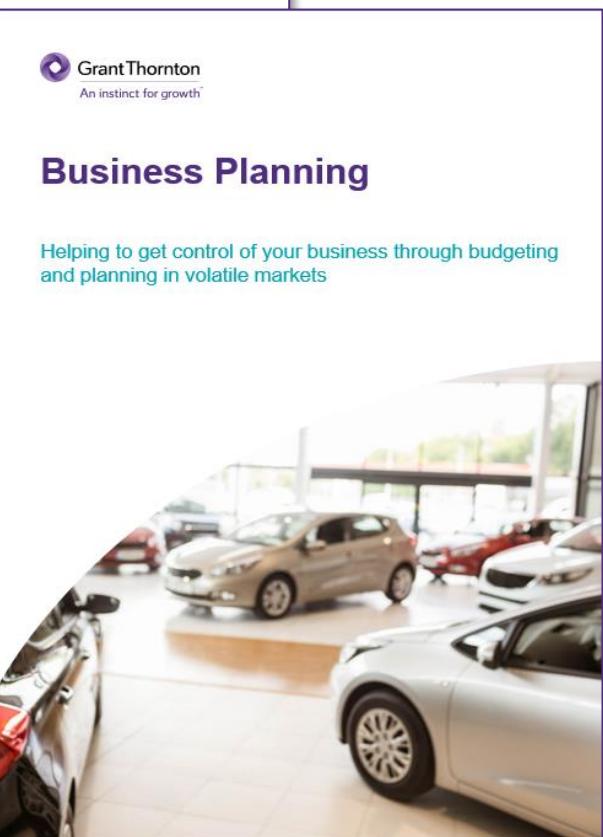
Cash Management

Setting up operational working capital and daily cash management models in order to help secure credit lines in volatile markets



Business Planning

Helping to get control of your business through budgeting and planning in volatile markets



Working for the Future

Helping you to maximise your revenue and profits in volatile markets

- Dealer New Car Improvements
- Dealer Used Car Improvements
- Dealer Aftersales Improvements



Interim and Crisis Management

Providing National Sales Companies with dealer network consistency and security in volatile markets





Grant Thornton

An instinct for growth™

Our Team



Selected CVs from our team



Oliver Bridge

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Experience

Oliver has 18 years of advisory and industry experience. For the past ten years Oliver has worked on complex international advisory assignments, including operational cost reduction, simplification and process improvement

Prior to joining Grant Thornton Oliver worked for Ernst & Young and KPMG, delivering operational advice and operational transaction support to international companies

Oliver also has seven years industry experience with Anglo American where he managed a large multi site manufacturing facility through a turn around process

Some of Oliver's previous experience includes:

- Cost reduction and restructuring of an automotive plastics manufacturer
- Optimisation of Tier 1 automotive manufacturing site supplying to JLR
- Operational due diligence for the purchase of a UK automotive supplier on behalf of a growing Global industrial conglomerate
- Multiple cost optimisation programmes for large multinationals including Unilever and bp



Owen Edwards

Business Consulting

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Experience

Owen is a member of the Grant Thornton Automotive Advisory practice, with responsibility for mergers and acquisitions

He worked for seven years at Inchcape Plc, the world's largest independent motor retailer and distributor. For four years, he was the Director of Business Development, undertaking acquisitions and focusing on the strategic positioning of the business across the globe. Prior to this, as Group Strategy Manager, his projects included introducing new brands into emerging markets, restructuring a number of the groups overseas underperforming operations, and compiling the group's five-year strategy plan.

Prior to joining Grant Thornton he recently advised Marshall Motor Holdings Plc on their floatation on the London Stock Exchange

Owen has a large range of experience in:

- Automotive distribution and retail
- Global composite, dashboard and KPI analysis
- Company and financial analysis
- Strategic 5 year planning

Selected CVs from our team (continued)



David R Bovis
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Experience

- David has 30 years industry experience. For the past 15 years he has worked on complex multi-site assignments across the EU delivering culture change, strategy deployment, turnaround and (lean) process improvement. Prior to joining Grant Thornton David led the turnaround of two companies, one as General Manager, the other as Operations Director, with full P&L responsibility in both
- David has extensive OEM and Tier 1 experience in Automotive, Transport, Aerospace, Defence, Food, Yellow Goods, Quarrying, etc.
- David has delivered results and led improvement projects in:
 - Technical sales,
 - R&D, product development and test (incl. Tribology)
 - Design, NPI/NPD, Technical authoring / translation and configuration management
 - Engineering, maintenance, tooling (incl. Automation) and facilities
 - H&S, OHS, EHS and Risk
 - Procurement, stores & material control (tactical and strategic)
 - Quality, Certification, CE & Compliance covering a range of standards



Kevin Wilson
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Experience

Kevin is a results focussed manager with extensive experience in demand planning and supply chain management gained through a range of food and distribution industries. He has over 15 year experience in demand management, factory planning, and procurement. Within Grant Thornton has:

- Led a procurement and planning project in a manufacturer to deliver cost savings in excess of £250,000 per annum and a finite, capacity constrained, planning system which resulted in a reduced finished goods and raw materials inventory releasing up to £500,000 in working capital
- S&OP and cost reduction for a Tier 1 truck parts manufacturer
- Developed and ran a bespoke MRP setup for the company including all inventory and reorder levels
- Increased service level from 87% to 97% generating a £300k per annum working capital saving by focusing on stock turnaround and demand levels

Example of our additional support

To supplement our capabilities, we also retain consultants who have many years of automotive retail experience of operating in dealerships and dealer groups.



Bernard Wharam

**Automotive Specialist
Business Consulting, Automotive**

Experience

Bernard is an automotive industry generalist with an outstanding record of executive leadership in global environments. A record of directing large national PLCs and operating high-performing dealerships as a sole proprietor. Utilising expert sector knowledge to deliver coaching, training, and consultancy that maximises business objectives for clients across the world.

He has a strong commercial acumen and credibility, enabling him to influence decision making at the most senior levels. Proven change manager with demonstrable success driving profitability, optimising customer and staff retention whilst improving organisational performance.

He has established strong working relationships and communication channels with Manufacturers and key stakeholders both in the UK and overseas.



Darrell Grimshaw

**Automotive Specialist
Business Consulting, Automotive**

Experience

Darrell has over 35 years' automotive experience. He has held many senior roles in both family groups as well as large PLC's. He has also a strong record of turning around underperforming dealerships with many different manufacturers. Utilising the experience gained over many years, delivered consultancy functions as well as coaching/training, to manufacturers specific requirements, enabling clients to take advantage of all opportunities, maximising business objectives and ultimately profitability.

He has also proven track record in change management which includes the following areas:

- Profitability improvement
- optimising customer retention and satisfaction
- organisational performance.

Darrell has worked with many clients globally, build a strong relationships and understanding different brands in different markets.

Example of our additional support

To supplement our capabilities, we also retain Senior Executives from the automotive industry including the former Chairman and CEO of General Motors UK



Bill Parfitt C.B.E.

Automotive Consultant



Lawrence Davis M.B.E

Automotive Consultant

Experience

Bill works with the Automotive Advisory group as a consultant, providing industry insight and expertise. One of the UK Automotive Industry's most respected leaders, Bill has extensive experience in the Global Automotive Manufacturing and Distribution Sector. Bill was appointed Commander of the Order of the British Empire (C.B.E.) in 2011 for services to the Automotive Industry

Bill has a strategic understanding of the Global Automotive Industry, especially relating to product segments and regional and customer trends. He has an ability to develop global brand positions and regional communication plans to support and develop the brand positioning, distribution channels and sales growth. Bill spent five years as Vice President of General Motors, responsible for over one million vehicle sales across 24 European Markets and Countries and 11 assembly and manufacturing facilities across 6 countries

Bill has experience of high level positions within UK Automotive companies, including Regional Director for Goodyear Tyre and Rubber Company, responsible for setting up and operating the "All Makes Fast Fit" business in over 100 tyre outlets. He joined Vauxhall Motors in 1998, rising to become Chairman and CEO of General Motors UK from 2008 to 2011

Experience

Lawrence Davies has had a 35-year career in the automotive industry. He started at General Motors (GM) in the UK within purchasing and supply chain after which he spent 4 years at Opel in Germany and spells in France and the USA. He became Director of GM UK Purchasing and Supply Chain in 2006

In 2013 Lawrence joined UK Trade & Investment's Automotive Investment Organisation (AIO), later becoming its CEO. The AIO is now the Automotive Team in the Department for International Trade (DIT), and Lawrence its Chief Advisor. He was made a fellow of the Institute of Purchasing in 2015

Auto express car magazine have named Lawrence in their top 50 most influential brits in 2016, 2017, 2018 and 2019

Lawrence was awarded the MBE in the Queens 2016 New Year's honours list

We are here to help



Grant Thornton's Automotive Team would be pleased to discuss and expand on any elements in this document, and qualify how our team can help your business recover and grow. Please feel free to contact any member of the team or myself.

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