AUTHOR: Adele Ferguson SECTION: GENERAL NEWS ARTICLE TYPE: NEWS ITEM AUDIENCE : 38,015
PAGE: 40 PRINTED SIZE: 628.00cm² REGION: National MARKET: Australia ASR: AUD 12,689
WORDS: 1150 ITEM ID: 1263817123

20 APR, 2020

Australia's $55b car dealers teeter

Australian Financial Review, Australia

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The massive stimulus and relief packages to help businesses hibernate during the coronavirus shutdown are doing little to protect the $55 billion car dealership industry, with many expected to collapse within months.

The car dealership sector is a behemoth. Until COVID-19 hit, it directly employed 55,000 workers including 4446 apprentices, paid $5 billion a year in wages, $2 billion in tax and collected $1.6 billion in duties.

But the economics of dealerships – high turnover but margins of less than 1 per cent – precludes most of them from the various state and federal government assistance packages even though they are in dire need of them.

According to Deloitte, car dealers made an average return on sales of 0.9 per cent in 2019 and 36 per cent of dealers made no profit in 2019. Another 20 per cent managed to break even.

Figures released to *The Australian Financial Review* show that between March 16 and April 15 car sales in Victoria among a sample of 70 car dealers fell 69 per cent. Car servicing also plummeted.

The survey of 70 Victorian Automotive Dealer Association (VADA) members showed that in the March portion the average downturn was 61 per cent.

The fall in sales is being mirrored across the country as foot traffic and car servicing has fallen off the cliff – with worse to come.

The survey was conducted as part of a submission by the Victorian Automobile Chamber of Commerce (VACC) to state and federal politicians to demonstrate the impact of COVID-19 on the trading and welfare environment of its 640 dealership members.

"The effect of COVID-19 on new-car dealers has a greater impact on this industry as it has suffered from more than two years of uninterrupted negative sales," the paper says.

Listed dealer groups AP Eagers and Autosports have been hammered. Since the start of the year, shares in AP Eagers have plunged 60 per cent, while Autosports has lost 50 per cent of its value. Over the same period, the S&P/ASX 200 Index dropped 18 per cent.

On March 20, AP Eagers announced it would slash its final dividend from 22.5¢ a share to 11.25¢ a share. Non-executive directors agreed to forgo fees while managing director Martin Ward took an effective 46 per cent reduction in his remuneration package and asked landlords for a three-month rent holiday.

Speculation is rife that the industry will undergo closures, mergers and buyouts as private equity operators and hedge funds crunch the numbers on distressed businesses.

It could also trigger more overseas withdrawals, similar to a decision in February this year by General Motors to terminate more than 200 Holden dealerships in Australia, more than two years earlier than the franchise agreements were due for renewal.

On March 26, Honda announced plans to reduce the number of dealers on its books and change its model to an "agency style" of business offering set prices on cars.

The government has announced a Senate inquiry into General Motors' handling of its dealers, including the size of compensation payments, but the inquiry won't begin until later in the year.

Still, the sector's call for help amid the COVID-19 economic shutdown has largely fallen on deaf ears.

The Australian Automotive Dealer Association (AADA), the Federal Chamber of Automotive Industries and the National Automotive Leasing and Salary Packaging Association wrote to various politicians in March imploring them to consider the unique situation the industry is in given its high turnover and low profit margins.

"Excluding our businesses from access to programs intended to protect apprentices could have consequences for the thousands of apprentices dealers employ," the letter says.

It says the industry was in the middle of a prolonged downturn far worse than the global financial crisis. "We fear that the effect of pandemic mitigation measures will further erode sales in the automotive industry which has already suffered 23 months of contraction and is thus in a deep and sustained recession."

Nick Strauss, the boss of a multiple dealership company, Berwick Motor Group, and a director of AADA, put it more bluntly.

In a letter dated April 2 to politicians including Prime Minister Scott Morrison, Treasurer Josh Frydenberg and Victorian Treasurer Tim Pallas, he says: "We have very few customers entering our dealerships, given the instruction by the government to stay home or face fines or even jail time".

He says turnover wasn't a good indicator of the health of the car industry and it precluded many dealers from accessing some of the state and federal relief programs. He told the *Financial Review* that rent was another issue as the recently introduced mandatory code for commercial tenancies doesn't apply to most car dealers as turnover must be under $50 million.

In the Victorian Automobile Chamber of Commerce's submission to government, research showed that about 70 per cent of VADA members don't qualify for the Morrison government's cashflow assistance package, subsidy for apprentices and benefits announced by the Victorian government in relation to payroll tax.

The research reflects that the average aggregated turnover of grouped dealerships is $128 million and therefore they do not qualify under the federal government's $50 million-turnover threshold.

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It says the average staff level of a dealership is 39, which means many don't meet the apprentice subsidy criteria of having fewer than 20 employees.

VACC created a focus group of 70 regional and metropolitan dealerships between March 16 and April 15. It found that at March 16 dealers averaged 38.6 staff per dealership and by April 15 it had fallen to 28.6 due to terminations and stand downs. It said that each dealership car service department, which is usually a key profit centre, had lost more than 11 service bookings a day.

Average car sales per dealer was 20 a day on March 16, compared with an average of six a day on April 15. Sales of finance contract by dealership were 72.3 per cent lower, parts were down 41 per cent. "Most expect that parts sales will decline even further over the next week and continue to slide as sales continue to weaken and aftermarket repairers wind down."

It's a vexed question as the government has to draw a line somewhere. But it does raise questions about the randomness of picking revenue as the defining criteria for assistance. It is why car dealers are set to lobby loud and hard.

"After 25 years of running successful automotive dealerships, employing thousands of staff over the journey, I now find myself completely lost for answers," Strauss wrote in his April 2 letter. "Can someone please reach out to me ASAP as I find myself in a very vulnerable position?" He is still waiting.

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Nick Strauss

Running on empty: AP Eagers chief executive Martin Ward is asking landlords for a three-month rent holiday. PHOTO: ATTILA CSASZAR