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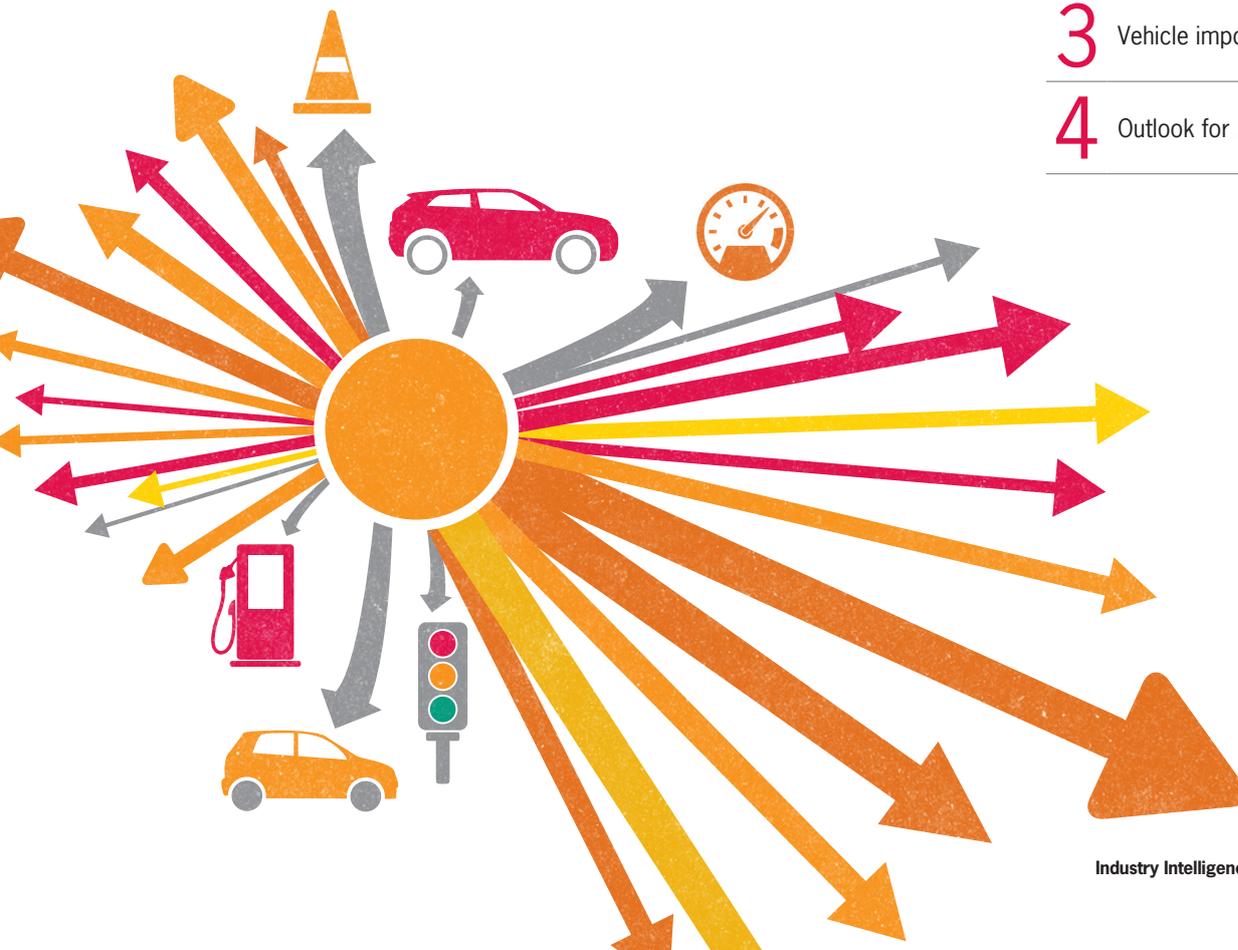
JUNE 2014

Industry Intelligence Unit *Automotive Dealership*

Welcome to the first edition of the Automotive Industry Intelligence Unit (IIU) for 2014. Internationally, Grant Thornton member firms are leaders in automotive supply chain and dealership advice, with specialist teams across the globe dedicated to this industry.

In this Automotive IIU we concentrate on the following key areas of automotive dealership industry:

- 1** Overview of Australian automotive market in 2013
- 2** General update on vehicle sales for first four months of 2014
- 3** Vehicle imports
- 4** Outlook for 2014

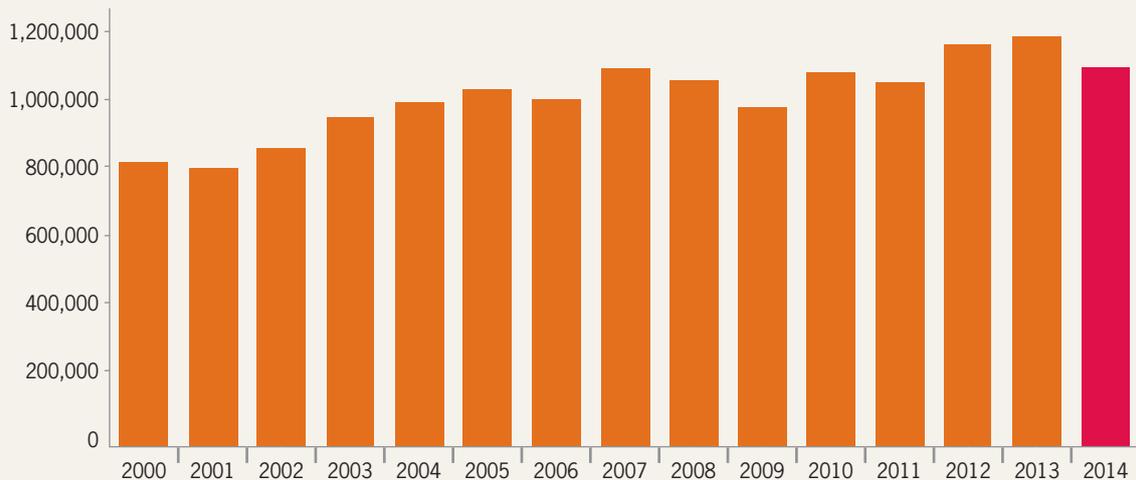


Calendar year 2013 in review

Year on year growth has been strong since 2001 for automotive dealership vehicle sales in Australia, with the exception of 2008 and 2009 where the market fell 10.7% for the combined period as demonstrated in Figure 1 – Annual vehicle sales from 2001 to 2014.

The Global Financial Crisis (GFC) was a welcome relief for the dealership industry. Prior to the GFC there was a large amount of stress in the market due to high interest rates, low manufacturer bonuses and excess supply of vehicles resulting in lower margins. The GFC allowed dealerships to increase profitability due to lower interest rates, lower stock levels, higher manufacturer bonuses and better management practices. At the same time, dealers have enjoyed the benefits from the GST on holdbacks ruling and government incentives.

Figure 1 – Annual vehicle sales from 2001 to 2014



Source: Vfacts

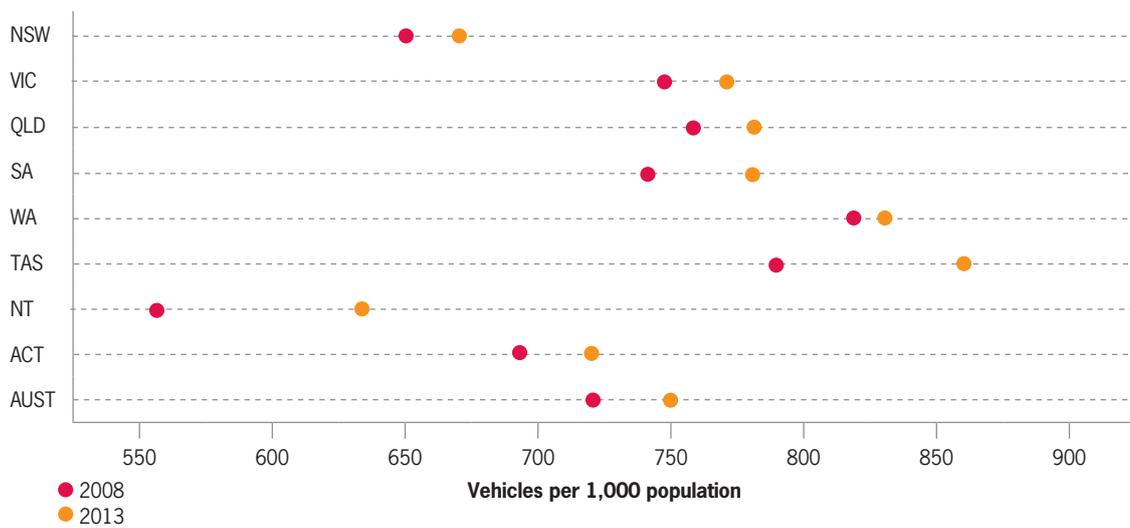
2013 produced a record result for the industry with annual sales totalling 1,136,227. This figure is inflated due to dealers having registered cars in stock that have not been sold in order to meet manufacturer targets and to achieve bonuses.

Interestingly, the market changed over the 2013 calendar period. For the first seven months of the year the market was up 4.6% (29,451 vehicles) but it closed the year only 2.2% up (24,195 vehicles). This was due to the market experiencing a fall from 1 August 2013 onwards.

This change in market conditions combined with continued optimistic targets from individual manufacturers has placed pressure on the dealer network, leaving dealers overstocked.

According to the 2013 Motor Census, there were almost 17.2 million motor vehicles (including motorcycles) registered in Australia. In 2013, there were 750 vehicles per 1,000 residents in Australia which is an increase of 27 vehicles from the 2008 figure of 723. Tasmania had the highest rate with 853 vehicles per 1,000 residents while the Northern Territory had the lowest rate with 627 vehicles per 1,000 residents. Figure 2 – Motor vehicle registrations by population shows the movement by state between 2008 and 2013.

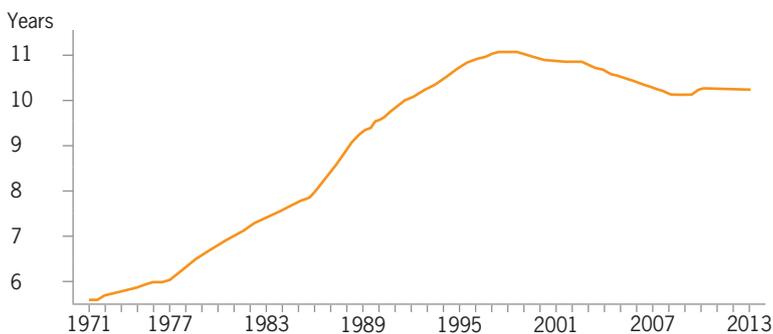
Figure 2 - Motor vehicle registrations by population



Source: 2013 Motor Vehicle Census

The average age of all vehicles registered in Australia in 2013 was 10 years which has been consistent for the last four years. Figure 3 – Average vehicle age of registered vehicles shows the average age for the period from 1971 to 2013.

Figure 3 - Average vehicle age of registered vehicles



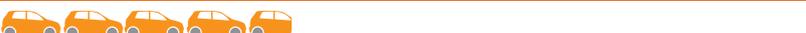
Source: 2013 Motor Vehicle Census

Calendar year 2013 in review

State summary

Vehicle sales in Australia are led by New South Wales (30.9%), Victoria (27%) and Queensland (20.5%) as shown in the Table 1 – Vehicle sales by state.

Table 1 - Vehicle sales by state

New South Wales	30.9%	
Victoria	27.0%	
Queensland	20.5%	
Western Australia	11.0%	
South Australia	6.2%	
Tasmania	1.7%	
Australia Capital Territory	1.6%	
Northern Territory	1.0%	

Source: Vfacts

The market improved by 2.2% in 2013 on the back of strong growth in New South Wales (2.9%) and Victoria (4.6%) whilst Queensland sales fell by 0.8%. As mentioned earlier, the market changed in August 2013.

Table 2 – Sales figures July 2013 – April 2014 outlines the last ten months (including January, February, March and April 2014). It can be seen that sales have experienced negative growth in eight of the last ten months and that the Queensland market has fallen for the last nine months straight.

Table 2 - Sales figures July 2013 - April 2014

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
New South Wales	4.50	1.80	-0.5	-0.9	1.6	4.70	3.40	0.80	2.5	-1.4
Victoria	6.90	2.10	0.70	-0.40	7.00	4.30	-5.70	-4.10	3.8	-8.3
Queensland	2.10	-3.50	-5.50	-7.90	-9.80	-2.00	-1.70	-5.70	-5.70	-3.5
National	4.10	-0.20	-2.10	-3.10	-1.40	1.40	-3.70	-3.80	-0.1	-5.2

Source: Vfacts

Brand comparison

Toyota continues to lead the market with 18.9% market share followed by Holden on 9.9% and Mazda at 9.1% as detailed in Figure 4 – Brand comparison by market share.

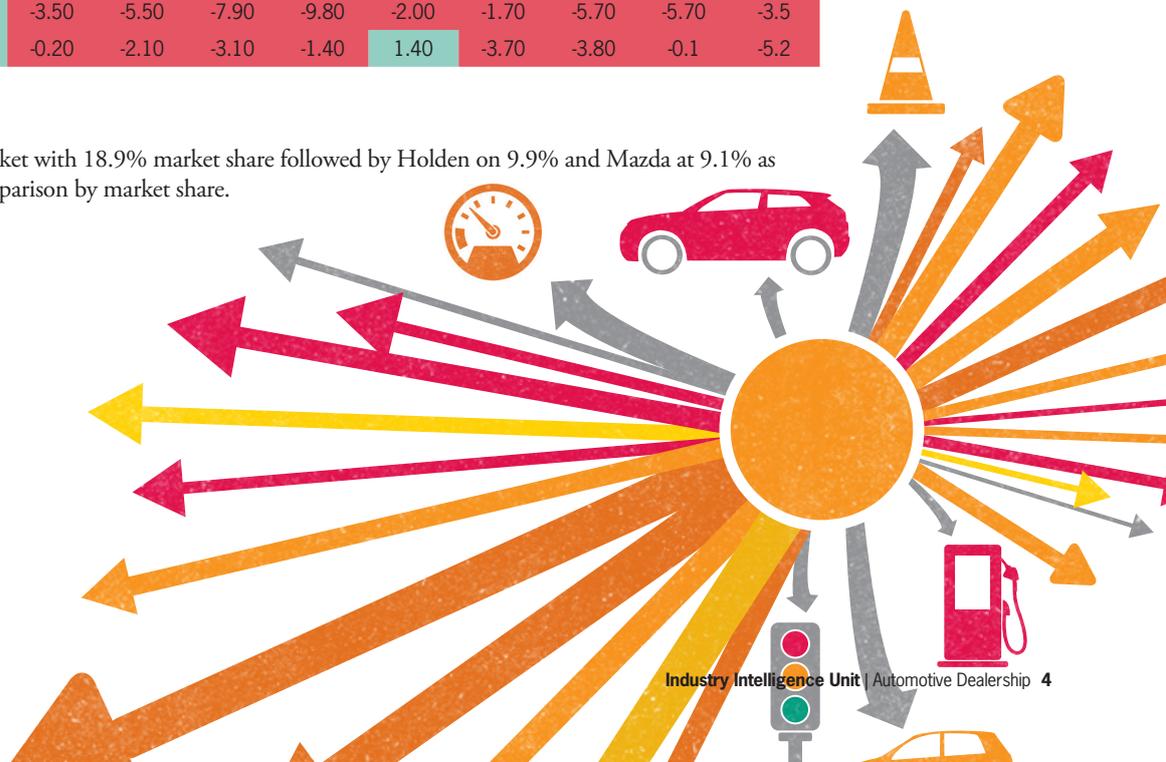
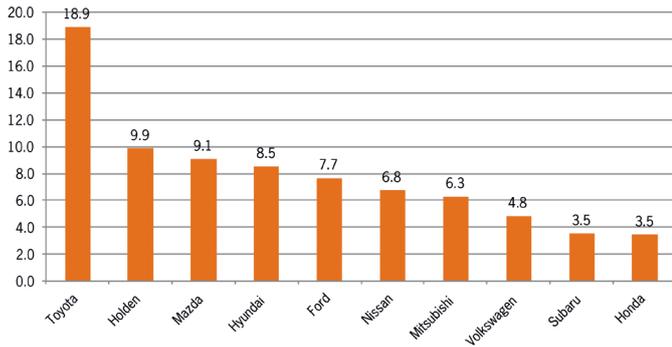


Figure 4 - Brand comparison by market share



Source: Vfacts

Table 3 – Market share 2008-2013 looks at the changes in market share over the last five years. The key change has been the slide in market share of the key players – Toyota, Holden and Ford - since 2008. These three manufacturers accounted for 46.8% of the market share in 2008 but only 36.5% in 2013. Both Ford and Holden have been effected by the declining popularity of the large car segment as Holden Commodore and Ford Falcon sales have fallen by 46% and 67% respectively. As a result, Ford has lost significant ground falling from third position (10.3% market share) to fifth position (7.7% market share). The key winners over the last five years have been Hyundai (increased from 4.5% to 8.5%) and Mazda (increased from 7.9% to 9.1%), whose growth has been assisted with new model releases by both manufacturers.

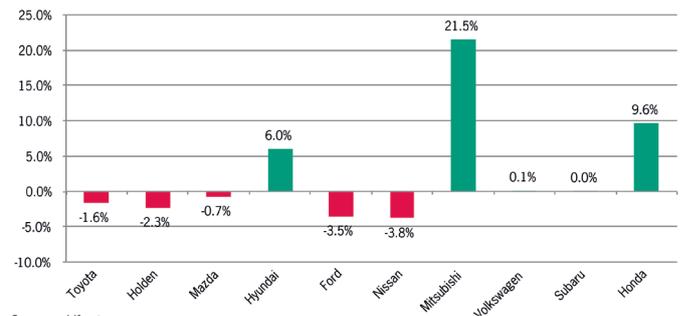
Table 3 - Market share 2008-2013

Major movements	2008	2009	2010	2011	2012	2013
Toyota	23.6	21.4	20.7	18.0	19.6	18.9
Holden	12.9	12.8	12.8	12.5	10.3	9.9
Mazda	7.9	8.3	8.2	8.8	9.3	9.1
Hyundai	4.5	6.7	7.7	8.6	8.2	8.5
Ford	10.3	10.3	9.2	9.0	8.1	7.7
Nissan	5.9	5.6	6.1	6.7	7.2	6.8
Mitsubishi	6.0	6.1	6.0	6.1	5.3	6.3
Volkswagen	3.0	3.2	3.7	4.4	4.9	4.8
Subaru	3.8	3.2	3.9	3.4	3.6	3.5
Honda	5.2	4.4	3.9	3.0	3.2	3.5

Source: Vfacts

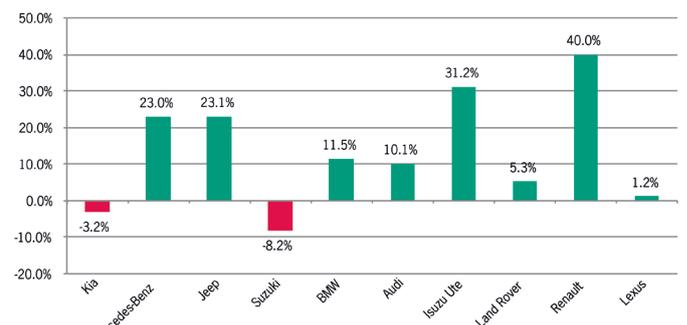
Whilst the market in 2013 was up 2.2%, it is important to look at the individual performance of each manufacturer. A number of manufacturers' sales have increased while others continue to lose market share as shown Figure 5 – Movement in vehicles sales by brand: top 10 and Figure 6 Movement in vehicle sales: top 11-20 that detail the market share of the top 20 vehicle manufacturers. Interestingly, five of the top six brands experienced negative growth in a growing market. This is not surprising, however, given the continued increase in new models being imported into the Australian marketplace. It is also important to note that Mitsubishi and Honda are simply regaining market share lost in 2012.

Figure 5 – 2013 Movement in vehicles sales by brand top 10



Source: Vfacts

Figure 6 – 2013 Movement in vehicle sales top 11-20



Source: Vfacts

Calendar year 2013 in review

Brand market share varies by State. Table 4 - Market share by state includes a summary which outlines material changes in market share by State. As expected, 2013 Holden and Ford sales were still supported by the manufacturing states of Victoria and South Australia.

Table 4 - Market share by state

	National	QLD	NSW	VIC	ACT	TAS	SA	WA	NT
Toyota	18.9	20.4	19.1	16.6	13.5	15.8	19.2	20.5	38.4
Holden	9.9	9.3	9.0	10.7	8.8	8.8	14.5	9.2	7.1
Mazda	9.1	9.7	10.0	8.6	10.6	7.8	9.0	6.9	7.0
Hyundai	8.5	8.7	8.7	7.1	8.6	7.8	7.2	12.2	6.7
Ford	7.7	6.8	6.4	9.8	5.8	11.8	7.8	7.6	4.3
Nissan	6.8	7.8	6.1	7.1	5.7	7.4	5.2	6.8	6.0
Mitsubishi	6.3	8.1	5.7	4.6	6.2	9.8	9.6	6.2	8.5
Volkswagen	4.8	4.1	5.1	5.5	8.6	4.9	3.7	4.0	2.6
Subaru	3.5	2.9	4.5	2.9	4.9	6.2	3.8	2.9	2.4
Honda	3.5	3.0	3.4	3.9	5.1	2.8	3.2	3.4	1.8

- Above national average
- National average
- Below national average

Source: Vfacts

Whilst the Table 4 - Market share by state outlines market share, Table 5 - Sales movement 2013 details the movement in sales during 2013. This data shows consumer buying trends by State. Ford sales have fallen more than the national average in the manufacturing states of Victoria and South Australia.

Table 5 - Sales movement 2013

	National	QLD	NSW	VIC	ACT	TAS	SA	WA	NT
Toyota	-1.6	-7.4	2.3	3.0	13.8	17.4	1.0	-11.8	-4.0
Holden	-2.3	1.8	-4.6	-1.1	-7.2	9.4	-12.0	2.4	-1.2
Mazda	-0.7	-0.4	-0.5	-1.1	-4.4	5.0	2.6	-4.7	12.2
Hyundai	6.0	6.6	8.1	8.1	8.9	2.2	12.9	-2.9	-1.0
Ford	-3.5	-4.2	-4.3	-3.7	-12.3	20.5	-4.9	-0.8	-27.5
Nissan	-3.8	-5.0	-2.9	-4.7	9.2	-3.1	-4.3	-1.7	-9.4
Mitsubishi	21.5	14.6	23.4	23.7	15.7	56.6	27.4	21.3	10.7
Volkswagen	0.1	3.5	-3.3	-0.6	-1.7	10.7	19.3	-0.7	2.7
Subaru	-	-13.7	-1.0	12.4	-4.5	2.8	10.1	0.1	-2.8
Honda	9.6	11.2	6.5	11.1	-8.6	31.0	21.1	9.6	-3.3

- Growth
- Decline

Source: Vfacts

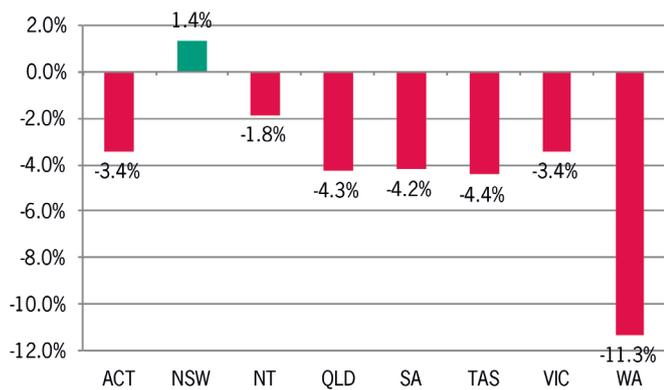
First four months of 2014 in review

The first four months of 2014 have continued the downward trend in vehicle sales which commenced in August 2013 – sales have fallen this year by 3.1% (11,085 units). While the market has fallen 3.1% for the first four months, it is important to look at the market by state, brand, segmentation and buyer profile. The fall in the market has been concentrated in the light commercial segment (down 9.3% or 6,025 vehicles) and the passenger segment (down 3.1% or 5,420 vehicles).

State

As outlined in Figure 7- State growth, all states experienced negative growth in the first four months of 2014 with the exception of New South Wales which is on the back of strong growth in 2013.

Figure 7 - State growth



Source: Vfacts

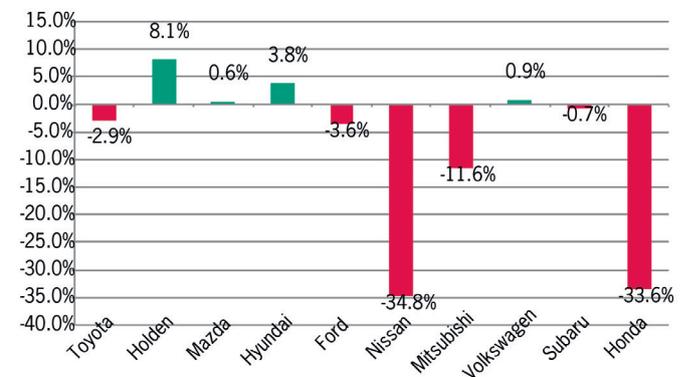
Brand

Figure 8 – Sales growth by brand – Top 10 demonstrates that despite the market being down 3.1%, a number of manufacturers have experienced an increase in sales as shown in the chart opposite. Holden, Mazda, Hyundai and Volkswagen have all gained market share, while Mitsubishi and Nissan sales have fallen significantly down 11.6% and 34.8% respectively.

Mazda market share for the first four months of 2014 has reached 10% whilst Mitsubishi and Nissan’s market share has fallen to 5.4%. The key reason for Mazda’s growth is the release of the Mazda 3 which represents 43% of Mazda sales (up 13.7% YTD).

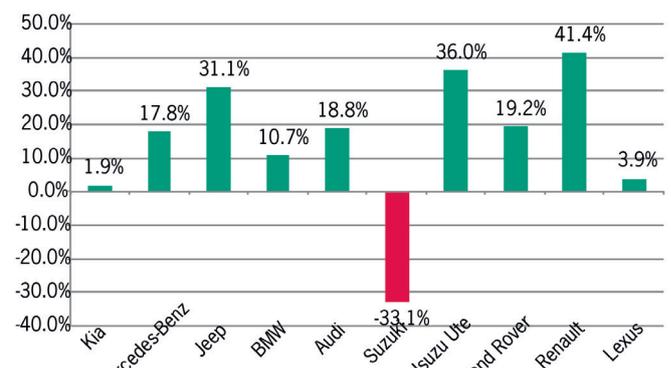
As outlined earlier in the report, the Top 11 to 20 brands continue to experience growth with the exception of Suzuki as shown in Figure 9 – Sales growth by brand – Top 11-20.

Figure 8 - Sales growth by brand



Source: Vfacts

Figure 9 – Sales growth by brand – Top 11-20



Source: Vfacts

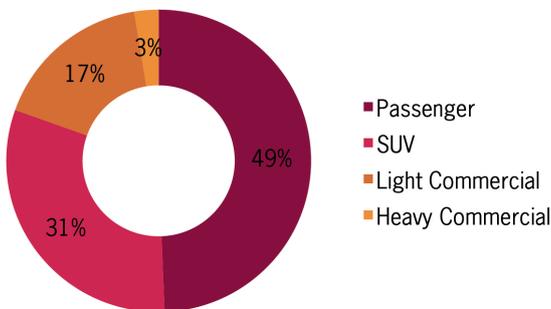
Market segmentation

The Australian automotive market is broken up into four segments: passenger (49.4%), SUV (31.1%), light commercial (17.0%) and heavy commercial (2.6%) as outlined in Figure 10 – Market segmentation.

Each of the segments is broken into further categories. In this IIU we will focus on the passenger and SUV segments only.

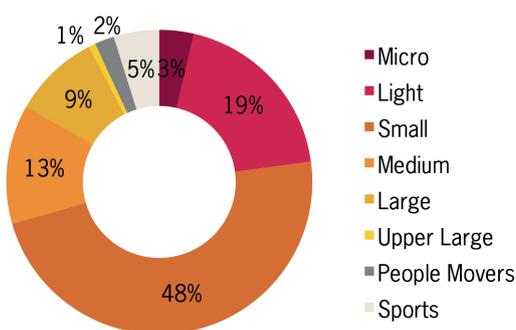
The passenger segment is broken down into a further eight segments as outlined in Figure 11 – Market sub-segmentation: light (19.2%), small (47.7%), medium (12.7%) and large (9.2%). The movement within these segments is extremely important as dealerships receive a higher starting gross profit to the retail customer per vehicle for larger vehicles than for the smaller vehicles. The return on investment, depending on stock turns, can be greater in the small car segment depending on the brand. The large car segment which in 2002 held a 35% market share has now reduced to only 9.2% of the segment. This is due to a number of factors including the changing buying patterns of fleet buyers.

Figure 10 – Market segmentation



Source: Vfacts

Figure 11 - Market sub segmentation

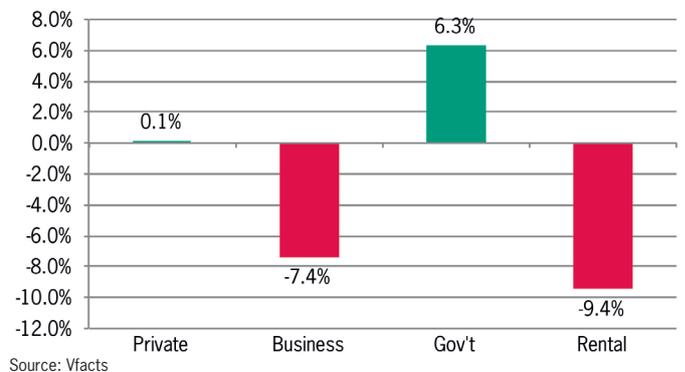


Source: Vfacts

Buyer profile

The key buyer profile areas are private, business, government and rental as detailed in graph Figure 12 – Buyer profile areas. The private buyer is the most profitable buyer whilst government and rental buyers leave dealers with minimal gross profit. In the first four months of 2014, there has been a fall in business buyers (down 7.4% or 10,297 vehicles) and rental buyers (down 9.4% or 1,423 vehicles) which account for the fall in the market.

Figure 12 - Buyer profile areas



Source: Vfacts



Vehicle imports



With the recent decisions of Toyota, Ford and Holden to cease manufacturing cars in Australia, 100% of vehicles sold in Australia will be imported in future years. In 2013, Australian made vehicles sold in Australia fell a further 15.2% and now only account for 10.4% of the market. The continued reduction of consumer interest in Australian made vehicles will apply further pressure to manufacturers and will likely bring forward the closure of the Australian plants. These closures are due to a range of factors including that, by international standards, the level of subsidy given to Australian manufacturers has always been relatively modest in raw dollar terms. When this is combined with higher production costs and Australian dollar, the Australian manufacturers have long faced a considerable battle to remain competitive.

Table 6 – Australian sold vehicle sources includes a summary of where Australian sold vehicles are sourced. 63.9% of vehicles are sourced from Japan, Thailand and Korea.

Table 6 - Australian sold vehicle sources

	2013	2012	Variance %	2013 Share
Japan	362,058	390,289	-7.2%	31.9%
Thailand	228,479	171,878	32.9%	20.1%
Korea	134,953	144,659	-6.7%	11.9%
Australia	118,510	139,796	-15.2%	10.4%
Germany	75,883	83,145	-8.7%	6.7%
Other	216,344	182,265	18.7%	19.0%
	1,136,227	1,112,032		

Source: Vfacts

One of the key factors facing the market in 2014 is the expected fall in the Australian Dollar which will start to impact on vehicle pricing. Whilst, we do not expect to see a significant increase in pricing, we will see changes through reduction in manufacturer bonuses, more targeted low finance deals and potential change in the level of vehicle specification.

Vehicle affordability still remains at historical highs due to:

1. The higher Australian Dollar
2. Low interest rates
3. Manufacturer bonuses

Over the short to medium term it is expected that the vehicle affordability trend will fall from the historical highs due to the lower dollar, lower bonuses and higher interest rates.

Legislation

Given the recent news that all Australian vehicle producers will close by 2017, there is debate regarding the removal of the remaining tariff protection. The Australian Automobile Association wanted the Federal Government to outline its tariff reduction plan in the 2014-15 Federal Budget, but this did not eventuate.

The key question is, will the Government elect for a completely deregulated industry through not only the removal of the 5% tariffs on new car imports, but also removal of the specific tariff of \$12,000 per imported second-hand car and the luxury car tax on cars above \$60,316.

Whilst the removal of the new vehicle tariffs and luxury car tax may bring further customers to dealerships as these vehicles become more affordable, the initial impact would be significant. How long will a consumer delay the purchase of a new car waiting for a price reduction? We saw during the GFC how government incentives were able to bring sales forward and there is no doubt this will happen in reverse with customers waiting months or even years to purchase their next new car.

In addition, the effect of the removal of the specific tariff on second hand vehicles would also be significant. In New Zealand, where so called “grey imports” have been allowed for decades, used vehicle values are significantly lower than those in Australia and the ratio of used to new vehicles sold is also significantly higher. The substantial, one-off reduction in the value of used vehicles would not only be disastrous for a dealer’s used vehicle department but would also severely impact the sale of new vehicles as consumers endeavour to trade in vehicles with a market value well below their finance payout.

Outlook for 2014

The big question for 2014 is: what will happen to vehicle sales?

As outlined earlier, the market has fallen for seven of the last ten months. Whilst the market is down 3.1% this calendar year as at 30 April 2014, it is likely that the fall for the year will be between 5% and 7.5% with annual sales falling in the region of 1,050,000 to 1,075,000 units. This figure again will be inflated due to dealers having registered cars in stock that have not been sold.

In addition, we forecast dealer profitability to fall during FY14. Dealers need to regularly review their operations and continue to strengthen their back end operations and increase efficiency. To date in the 2013-14 financial year, we have seen a greater divide between the performance of good dealers and underperforming dealers. Dealers that are performing well will continue to make adjustments quickly to ensure they are maximising their position.

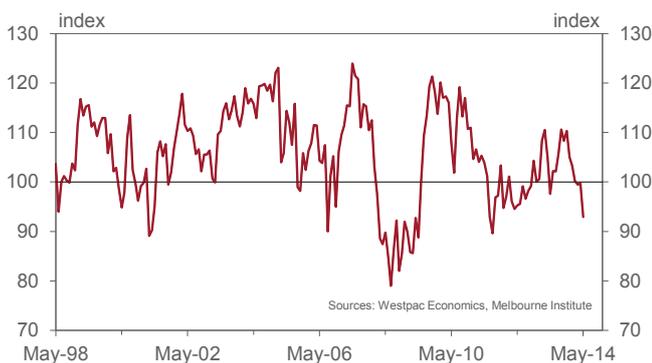
Let us consider in detail three of the key drivers behind vehicle sales numbers:

- Consumer confidence
- Business confidence
- Manufacturer incentives/bonuses

Consumer confidence

The recent Westpac Melbourne Institute of Consumer Sentiment report issued on 21 May 2014 reported a fall in consumer confidence in May 2014 of 6.8 percentage points from 99.7% in April 2014 to 92.9% in May 2014. The report indicated that the sharp fall in the index is clearly representative of an unfavourable response to the 2014-15 Federal Budget and put the index at the lowest level since August 2011. Not surprisingly, consumers are worried about rising interest rates and unemployment which will have a negative impact on consumer confidence. Figure 13 – Consumer sentiment below outlines the historical index below.

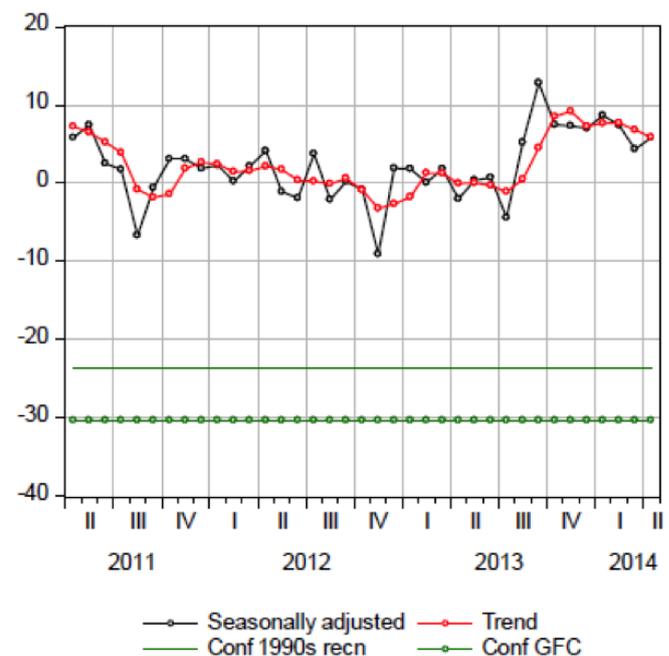
Figure 13 – Consumer sentiment



Business confidence

The NAB monthly business survey released in April 2014 was encouraging. Despite the negative rhetoric in the lead up to the 2014-15 Federal Budget, the index rose by 2 points to +6. As shown in the Figure 14 – Business confidence, confidence has fallen from the high experienced post the 2013 election.

Figure 14 – Business confidence



Manufacturer incentives/bonuses

The reliance on manufacturer bonuses and incentives has increased over the past 12 months. We have also seen a trend away from the traditional incentive towards low finance deals which have been successful in driving sales for several brands including Nissan, Ford and Toyota. For many brands the level of incentives, either traditional or through a low finance deal, was significantly higher early in the calendar year and as the yearly budget declined, spending has slowed along with sales.



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More than 38,500 Grant Thornton people, across over 120 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work. Through this membership, we access global resources and methodologies that enable us to deliver consistently high quality outcomes for owners and key executives in our clients.

What is the Industry Intelligence Unit?

The IIU is unique in its objective of providing stakeholders with information, understanding and analysis of the issues faced within specific industries and subindustries. The IIU also seeks to provide pragmatic, commercial, practical measures and initiatives to improve stakeholder value.

Industry focus

The IIU utilises the industry experience and expertise of Grant Thornton partners and staff across Australia. The IIU is predominantly focused on the following industries and their related sub industries:

- Automotive Dealerships
- Energy & Resources
- Financial Services
- Food & Beverage
- Health & Aged Care
- Life Sciences
- Major Projects & Infrastructure
- Manufacturing
- Not for Profit
- Professional Services
- Public Sector
- Real Estate & Construction
- Retail
- Technology & Media

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