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Chapter 11 for General Motors

What will it mean for UK automotive retailers?

GM's decision to file for Chapter 11 bankruptcy protection means its European operations will almost certainly be sold off and restructured. Although initial announcements suggested that a deal with Magna looked close recent announcements that completion will not be until September suggest that a deal is far from done. With Fiat announcing that they may come back into negotiations, and signs that the sale of Chrysler to Fiat in the US is facing obstacles, dealer networks face uncertainty together with both immediate and longer term concerns.

Sales and servicing

Consumer confidence may fall as negative publicity, and increasing uncertainty, about the future of Vauxhall influences buyer behaviour.

In the US, when Chrysler announced bankruptcy residual values immediately fell 9%. Chrysler dealers facing increasing uncertainty are now heavily discounting stocks. When MG Rover failed, UK residual values fell by c48% overnight. Key to preventing this will be Vauxhall's ability to manage key messages and retain confidence.

Service contracts and warranties may become a thorny issue. Dealers need to check the terms to understand the implications of GM, Opel or Vauxhall insolvency. Dealers may find themselves either legally liable or having to fund settlements to retain customer goodwill.

The availability of parts could become a problem as instability in the supply chain rises. This may result in dissatisfied customers, and dealers having to supply courtesy cars whilst customer cars await repair.

The longer it takes for Opel to complete a deal, the more likely it is that residuals may deteriorate, key stakeholders lose confidence and parts supplies are put at risk.

The future shape of the dealer network

If Opel is successful in finding a suitor then the new owner will look to restructure dealerships in terms of numbers, locations and size of premises.

The new Block Exemption in 2010 will provide Vauxhall with a tool to facilitate dealer restructuring and it is likely that all existing franchise contracts will come to an end. In the UK, Citreon has recently terminated their network to restructure to a smaller number of dealers. With new owners looking to realign dealer supply with reduced consumer demand, there will be winners and losers within the existing network. Whether Vauxhall will provide incentives to exiting dealers is not known.

With cash strapped dealers likely to discount prices to boost sales, and exiting dealers looking to clear stock quickly, residual values will be under further pressure.

Given the uncertainty there is a real risk that stock funders will seek to limit exposure by reducing the advance against cars (especially demonstrators and used), reducing the value of funding lines and or completely withdrawing funding potentially at short notice.

Implications for financial stakeholders

Stakeholders need to monitor the situation very closely, especially messages coming out of Opel and negotiations with potential suitors.

If Opel is unable to manage confidence trading performance at the dealerships could deteriorate rapidly. Protracted negotiations into the peak September trading period will be unwelcome. Stakeholders who directly fund Vauxhall stocks, even for Solus multi-franchise used car dealers, need to be cautious of the effect of falling residuals.

Existing forecasts from dealers need to be highly sensitised to account for the uncertainty in the market. Existing dealers who are marginal at present are most at risk.

For more information or advice on this topic please contact the automotive team, or your usual BDO Stoy Hayward contact.

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To talk about any issues your business may be facing please contact Sid Hopper, Automotive Partner at BDO Stoy Hayward, on **0121 352 6400** or at **sid.hopper@bdo.co.uk**

How we can help you

If you would like to discuss or require any further information about this publication or our wide range of automotive services please contact the BDO Stoy Hayward Automotive team:

Birmingham
sid.hopper@bdo.co.uk
0121 352 6400

London
mark.shaw@bdo.co.uk
020 7893 3246

kim.stubbs@bdo.co.uk
020 7893 3297

stephen.cooney@bdo.co.uk
020 7893 2215

mike.prangley@bdo.co.uk
020 7893 2288

BDO Stoy Hayward offices in the UK:

Belfast
stephen.prenter@bdo.co.uk
028 9043 9009

Birmingham
kim.rayment@bdo.co.uk
0121 352 6200

Bristol
simon.girling@bdo.co.uk
0117 930 1528

Cambridge
geoff.kinlan@bdo.co.uk
01707 255880

Chelmsford
geoff.kinlan@bdo.co.uk
01707 255880

Glasgow
james.stephen@bdo.co.uk
0141 249 5246

Hatfield
geoff.kinlan@bdo.co.uk
01707 255880

Leeds
toby.underwood@bdo.co.uk
0113 204 1304

London
shay.bannon@bdo.co.uk
020 7893 2209

Manchester
dermot.power@bdo.co.uk
0161 817 7534

Reading
martha.thompson@bdo.co.uk
0118 925 4439

Southampton
andy.beckingham@bdo.co.uk
023 8088 1786

Southern region: Epsom, Gatwick
matthew.chadwick@bdo.co.uk
01483 401426

The document was produced by Sid Hopper and Stephen Cooney.

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