

Automotive News

APRIL 2020

ON THE FRONT LINES OF THE CORONAVIRUS PANDEMIC

How automobile dealers are fighting the impact of **COVID-19** on their businesses and the automotive industry

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68%

Dealers responding to the Automotive News Data Center survey, fielded March 18-24, 2020, who feel automobile dealers were **slightly to not at all prepared** to respond to and weather the impact of the coronavirus

14.1M

Survey respondents' estimate, on average, of total 2020 U.S. new light-vehicle sales as a result of the coronavirus. In 2019, new light-vehicle sales in the U.S. totaled 17.1 million.

The battle against the new coronavirus began in January 2020, after China reported on Dec. 31, 2019, to the World Health Organization the existence of cases of pneumonia of unknown origin.¹ Since then, the battle has escalated into an all-out global war in which casualties have been swift, severe and nondiscriminatory. Entire industries and economies have come to a standstill as people create distance from one another to help deter the spread of the virus and, as a result, distance themselves from businesses they interact with every day. Among those on the front lines are automobile dealers. In March 2020, the Automotive News Data Center surveyed more than 300 dealers in the U.S. and Canada to understand how they are responding to the fight against COVID-19 and gain perspective on the impact to their businesses and the automotive industry.

INTRODUCTION

More than two-thirds (67 percent) of automobile dealers forecast 2020 revenue for their dealerships to decline 20 percent or more as a result of the coronavirus. This according to a survey of more than 300 U.S. and Canadian dealers conducted by the Automotive News Data Center in March 2020. A full 91 percent expect a decline of at least 10 percent. That marks a stark contrast to another *Automotive News* survey conducted in February 2020 in which automobile dealers reported being optimistic about the year, with nearly half of those respondents forecasting growth.

Total U.S. GDP for 2019 was \$21.4 trillion, according to the U.S. Bureau of Economic Analysis (BEA).² In 2019, motor vehicles and parts contributed approximately \$531.2 billion (or 2.5 percent) to U.S. GDP.³

Perhaps more worrisome than the speed and scale at which the coronavirus has attacked and affected dealers is the feeling of uncertainty for what's next and how long it might take to recover and return to business as usual. Said one respondent: "It's a day-to-day emergency, and we are learning and trying to act with compassion while still running a business. From last week to this week, it has taken a 180-degree change."

In the following pages, we delve deeper into responses to the survey. Based on qualitative and quantitative data collected between March 18-24, 2020, we hear directly from owners, dealer principals, C-suite executives, and regional and general managers from the U.S. and Canada and gain insight into:

- **What they are doing to drive sales, service and parts revenue while working to protect customers, employees and their communities.**
- **Their perspectives on the effectiveness of actions taken by federal and state governments.**
- **How long they feel it will take to get back to business as usual and residual challenges that may slow the rebound.**

Throughout we include anonymized comments respondents provided that shed additional light on these and other themes. We conclude with perspective and insight from Maxime Theoret, CFO of DSMA, who offers advice on what auto dealers can do now to unlock cash as they wage the fight against the effects of COVID-19, and how they might be best positioned to thrive when the war has been won.

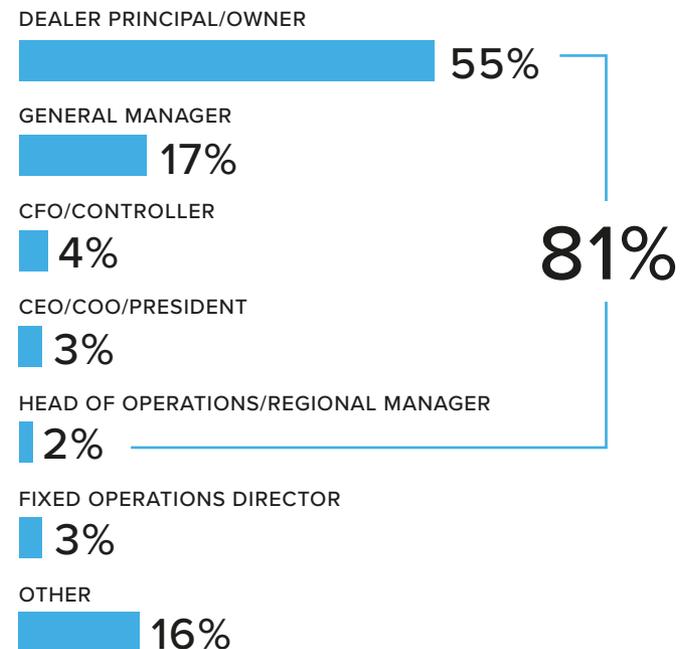
METHODOLOGY & DEMOGRAPHICS

On March 18, 2020, the Automotive News Data Center, a division of *Automotive News*, emailed a comprehensive survey to *Automotive News* readers in the United States and Canada who identified themselves as automobile dealers. The survey was in response to the early days of the COVID-19 outbreak in North America, which has since grown exponentially in terms of the number of industries and people affected and the severity of the impact. The goal was to examine how dealers were being affected by and responding to the coronavirus. This report presents an analysis of our findings.

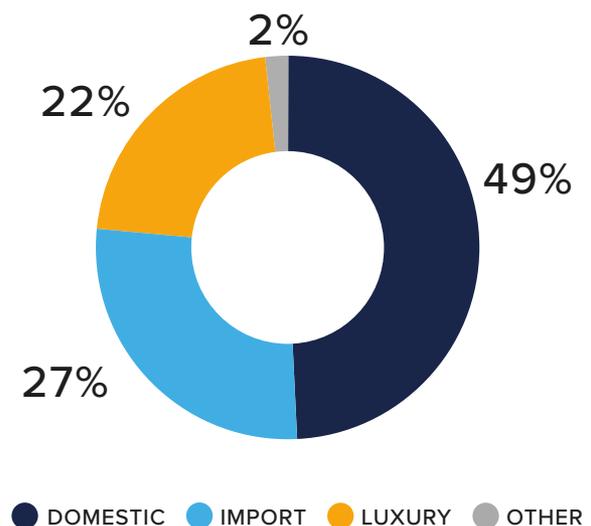
Responses were received from 314 people March 18-24, the majority of which represent dealer principals, owners, C-suite executives, regional managers and general managers. Domestic, import and luxury dealers are represented in the sample set of 314, with nearly half indicating they sell domestic U.S. brands.

Some questions in the survey invited respondents to provide additional perspective using free-text comment fields. Throughout this report, charts are augmented with anonymized comments provided by some survey respondents. Additional insights and perspectives are provided from members of *Automotive News*' award-winning editorial team and Maxime Theoret, CFO of DSMA.

WHAT IS YOUR JOB TITLE?



WHICH BRAND(S) DO YOU SELL?



What is your **expectation for overall business** for your dealership in 2020 compared with last year?

BEFORE THE
CORONAVIRUS OUTBREAK

48%

Dealers responding to a February 2020 *Automotive News* survey who felt business would be **better** than 2019

AFTER THE
CORONAVIRUS OUTBREAK

92%

Dealers responding to the March 2020 Automotive News Data Center survey who felt business would be **worse** than 2019

Respondents who felt the most opportunity for profitable growth in 2020 would come from **new- and used-vehicles sales**

BEFORE CORONAVIRUS

63%

AFTER CORONAVIRUS

21%

82%

Survey respondents who think
business as usual will return
within 12 months

“This is
uncharted
waters.”

– Survey respondent

How would you rate the **coronavirus response** from
state and federal governments?

POOR TO FAIR

45%

GOOD TO EXCELLENT

55%

“We find each day different and
challenging. The dedication of my loyal
team of professionals is inspirational.”

– Survey respondent

SECTION 1

Protecting their businesses,
customers, employees and
communities

Sales of new and used vehicles are collapsing as a result of the coronavirus. That's clear from first-quarter sales in the U.S., forecasts for the rest of 2020, respondents to the Automotive News Data Center survey and trends from Europe, China and other Asian markets

Where's the bottom? No one knows. According to J.D. Power, retail sales in the U.S. could plunge as much as 78 percent in April from a year earlier and 75 percent in May.⁴ When asked to estimate 2020 U.S. new light-vehicle sales as a result of COVID-19, survey respondents on average forecast 14.1 million vehicles. That compares with more than 17 million in each of the previous five years, according to the Automotive News Data Center.

While sales uncertainty loomed large, a clear theme emerged from our analysis of survey responses: **Dealers are fighting back by remaining focused on operating their business while protecting their customers and employees.**

Some dealers also stand at the ready to give back to the communities in which they live and work by prioritizing services for first responders, health care professionals and others taking care of people impacted by COVID-19. Other dealers offer their facilities and work force to help close the growing shortfall of personal protection equipment and medical devices.

In this first section, we focus on what dealers are doing to drive sales and service revenue and what they are doing to ensure their customers and employees feel safe and supported.

Dealers are looking to the service department to help drive the business in 2020

Nearly all survey respondents (92 percent) expect business to be worse than in 2019, and almost the same amount (91 percent) forecast a revenue decline of 10 percent or more.

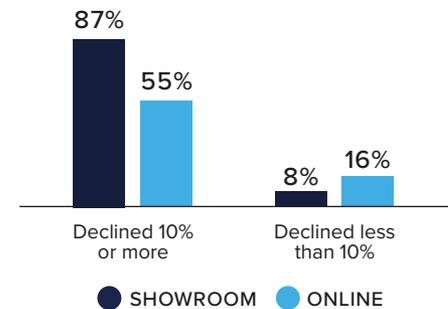
Respondents see the most significant decline in new- and used-vehicle sales, with a majority reporting declines of 10 percent or more in showroom and online traffic when compared with the previous three months (December 2019 – February 2020).

A majority also reported declines of 10 percent or more in new- and used-vehicle sales compared with the same period in 2019.

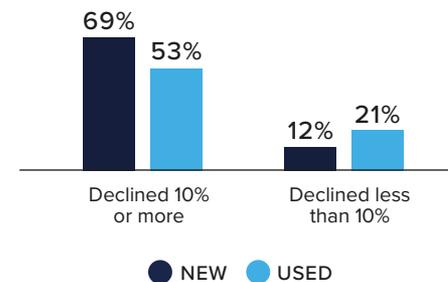
A small minority of survey respondents offered more positive perspectives. Two respondents (less than 1 percent of all responses) indicated they had seen an increase in showroom traffic over the previous three months. Ten percent indicated they had seen increases in online traffic when compared with December 2019 – February 2020. “Preowned vehicles under \$10K are selling very well,” said one respondent.

In response to declines in sales, dealers are turning to their service departments to help drive the business. More than half (57 percent) of survey respondents felt discounts on maintenance services would help bring in customers, and 62 percent said they were likely to offer those discounts and promotions.

HOW DOES THE LEVEL OF SALES TRAFFIC OVER THE PAST 30 DAYS COMPARE WITH TRAFFIC OVER THE PREVIOUS THREE MONTHS?



HOW DO VEHICLE SALES OVER THE PAST 30 DAYS COMPARE WITH SALES DURING THE SAME TIME IN 2019?



WHERE DO YOU SEE THE MOST OPPORTUNITY FOR GROWTH?

TOP 3 CHOICES
BEFORE
CORONAVIRUS

45%

Used-vehicle sales

27%

Service

18%

New-vehicle sales

TOP 3 CHOICES
AFTER
CORONAVIRUS

51%

Service

17%

Used-vehicle sales

12%

Factory-to-dealer incentives

Still, respondents expressed significant concern about the impact the coronavirus will have on their service and parts departments.

A large majority (88 percent) indicated the pandemic would have some sort of meaningful impact on that business. Nearly two-thirds (62 percent) described that impact as considerable to severe. The primary reason? Customers deferring repair and maintenance services, although declining access to replacement parts and staffing shortages also were cited as concerns.

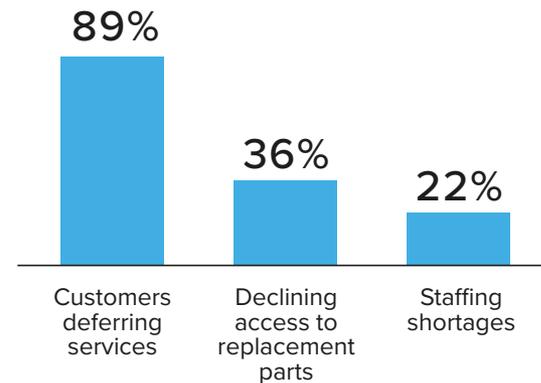
Some survey respondents noted automakers' required use of factory parts for warranty repairs and felt relaxing those requirements would help offset potential parts shortages, particularly if automakers' parts-delivery systems were closed.

Beyond offering discounts and promotions to attract customers into their service departments, nearly 80 percent of respondents said they were likely to offer expanded or free pick-up and drop-off for repair and maintenance services. And while some states' shelter-at-home and closing of nonessential business policies have affected traffic to dealership showrooms, nearly half (48 percent) of those responding to the survey were unlikely to close their showrooms.

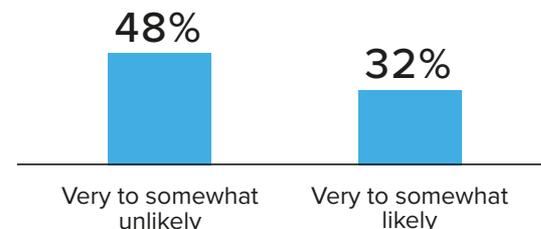
On March 25, 2020, Group 1 Automotive announced it would furlough 3,000 U.S. employees for 30 days and close stores in the U.K. and Brazil. Service facilities remain open and, according to the company, no store in the U.S. was completely closed at the time of the announcement.

WHY WILL THE CORONAVIRUS HAVE AN IMPACT ON YOUR SERVICE AND PARTS DEPARTMENT?

SELECT ALL THAT APPLY



HOW LIKELY ARE YOU TO TEMPORARILY CLOSE SHOWROOMS, FOCUSING ON SERVICE AND DIGITAL SALES AT THE DEALERSHIP?



Source: Automotive News Data Center

ARE DEALERS GIVING UP ON SALES?

In a word — no. Despite Automotive News Data Center survey respondents already seeing and anticipating further declines in showroom and online traffic, there emerges a clear and pragmatic tone that the coronavirus will pass, and until it does, they will explore innovative ways to drive sales while taking extraordinary steps to deter spread of the virus and help customers (and employees) feel safe. Said one respondent: “We are doing at-home presentations, virtual appraisals and virtual F&I.”

“

We have implemented many actions within the dealership to protect our employees and customers. Many employees are working from home on computers connected to our DMS. We have reduced the time salespeople are on the floor and reduced overall sales department hours. We are picking up service customers' vehicles and washing and sanitizing before returning.

– Survey respondent

Dealers are also relying on automakers and lenders to help drive sales. Among the programs respondents deemed helpful: additional incentives on the purchase of new and used vehicles, deferment of monthly payments, and forgiveness of past-due payments on existing loans when a new vehicle is bought or leased.

Interestingly, there does appear to be a limit to how far dealers are willing to innovate in efforts to drive revenue. More than half (51 percent) were somewhat to very unlikely to test new business partnerships or collaborations, and 67 percent were somewhat to very unlikely to test new business models or cash flow generators.

88% Respondents likely to increase use of digital tools to engage customers

74% Respondents likely to offer at-home walkarounds, test-drives and delivery

Source: Automotive News Data Center

RESPONDENTS WHO BELIEVE THE FOLLOWING ACTIONS WOULD BE SOMEWHAT TO VERY HELPFUL IN **MITIGATING DECLINES** IN REVENUE

85% Additional incentives on new and used vehicles (e.g., 0% financing)

79% Working with lenders to defer monthly payments on new- and used-vehicle transactions

76% Working with lenders to forgive past-due monthly payments when a new vehicle is bought/leased

65% Incentive program similar to Cash for Clunkers

Source: Automotive News Data Center

The battle against COVID-19 also requires cost reduction and operating efficiencies

The unfortunate reality is that, regardless of how hard dealers work or how innovative they are in driving sales and service, many are also turning to more drastic measures to reduce cost and optimize operations in their efforts to win the fight against the coronavirus.

Almost all survey respondents (89 percent) felt added flexibility from lenders on repaying floorplan loans or renegotiating floorplan terms would be somewhat to very helpful in mitigating their anticipated declines in sales and service revenue.

More than three-fourths (76 percent) are likely to consider reductions in marketing. Many are also likely cutting employment. In fact, many survey respondents noted that they have already had to make employment adjustments as a result of declines in business. “We have laid off 30 employees since March 20,” said one respondent. “We remain open; however business is very quiet. We do a lot of cleaning of all customer-facing areas several times a day and seven nights a week, but have furloughed many employees hoping they can return.”

“

We had to lay off half of our staff, approximately 90-100 people.

– Survey respondent

So far, I have had to lay off 75 percent of my employees.

– Survey respondent

We are evaluating customer traffic, ad spending and staff needs daily.

– Survey respondent

89%

Respondents who felt added flexibility from lenders on repaying floorplan loans or renegotiating floorplan terms would be helpful to mitigating declines in sales and service revenue

76%

Respondents who are likely to consider reductions in marketing spend

61%

Respondents who are likely cutting employment

Source: Automotive News Data Center

An overwhelming sentiment for being in the fight together and helping one another

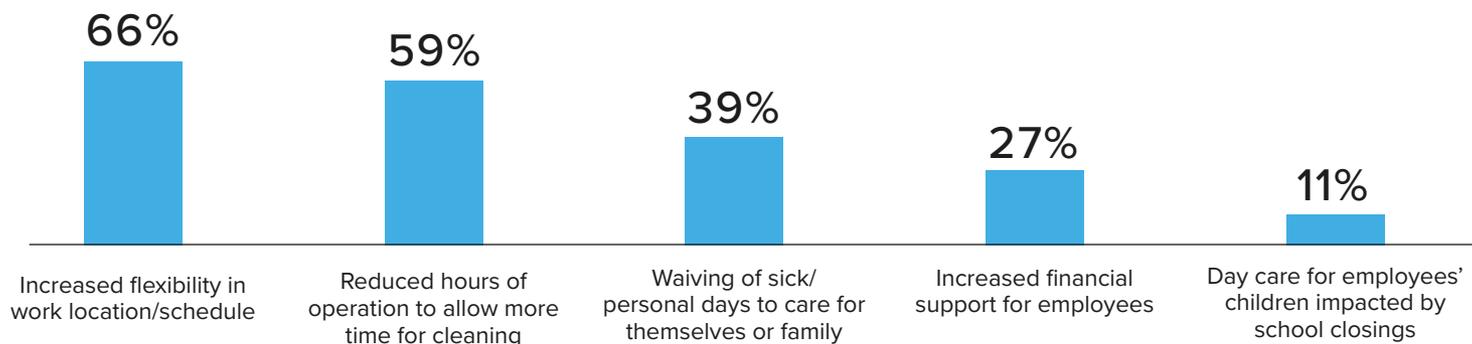
It's one day at a time. It's getting in front of employees and comforting them. It's letting them know that whatever happens we are in this together and we need to lean on each other.

– Survey respondent

Sentiments like the one expressed above were repeatedly shared by survey respondents. They noted that they are working to support employees for as long as possible, including some who indicated that they were continuing to provide employees' health coverage in the event of layoffs and other financial support as their businesses and the industry go through these difficult times.

Among the actions respondents are considering or have implemented to support and protect employees, increased flexibility in work location and schedule topped the list, followed by reduced hours of operation to allow more time for cleaning. Waiving of personal or sick days to care for themselves or family members and increased financial support for employees were also cited.

WHAT ACTIONS HAVE YOU CONSIDERED OR IMPLEMENTED IN RESPONSE TO CORONAVIRUS TO SUPPORT EMPLOYEES?



Source: Automotive News Data Center

Beyond financial support and work flexibility, some dealers also appear keenly aware of the mental health strain that traumatic situations such as the coronavirus pandemic can have on individuals and their loved ones. Said one respondent, who noted being a strong supporter of mental illness awareness and suicide prevention education, “We are offering mental health resources for the strain of the anxiety that all are feeling during this time.”

Standing at the ready to give back to the communities in which they live and work

Automobile dealers are community-based businesses, and several dealers responding to the Automotive News Data Center survey noted efforts they had implemented or stand ready to implement to support first responders, health care professionals and others in their communities who are helping take care of people impacted by the coronavirus. One dealer noted, “We have made health care workers and first responders a priority for service above all other customers. We must act socially responsible and not try to profit from this crisis. We need to lend a helping hand where we can.”

Another respondent felt automobile dealers might represent an untapped resource capable of addressing shortfalls in personal protection equipment and other medical devices, noting access to large facilities and a highly skilled work force. “I have buildings that could be used for medical or assembly facilities and idle staff that could be assembling things like face shields, hospital beds, etc. We just need direction!”

Clearly, dealers responding to the survey are feeling the impact the coronavirus is having on consumers and, as a result, their businesses. Despite significant uncertainty, dealers continue to look for ways to drive revenue and support their employees and communities. Said one respondent:

“We know the government is doing everything they can to keep us safe. We are doing the same here at our store. We just all need to stand together and get through this tough time.”

While survey responses and direct comments throughout the study validate much of this respondent’s point of view, there is wide divergence among respondents regarding the approach and effectiveness of what the federal and state governments are doing to combat COVID-19. We dive into that topic further in the next section.

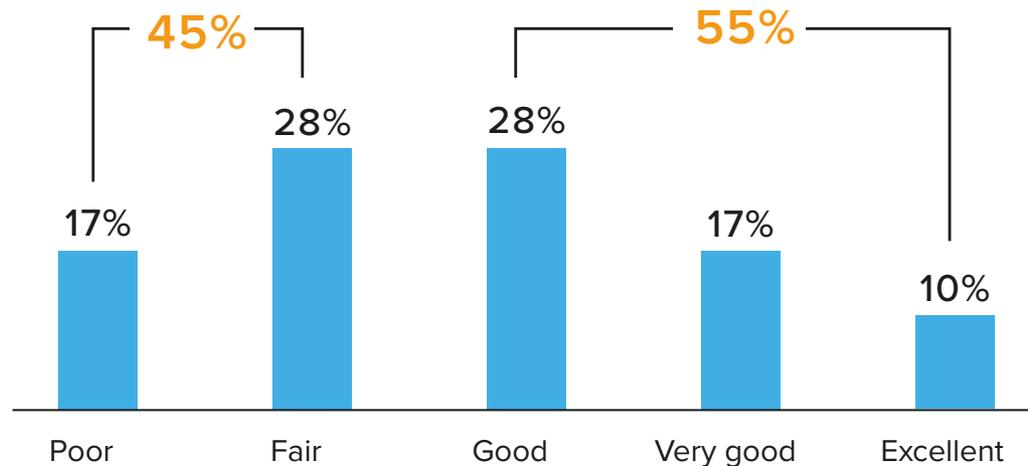
SECTION 2

Mixed reviews on the response from government and the effectiveness of programs that could drive sales

On March 27, 2020, the federal government passed the largest stimulus package in U.S. history. The \$2 trillion package includes, among other things:

- \$350 billion for small businesses loans, which won't have to be paid back if used to make payroll or to pay mortgage interest and rent.
- Relief for individuals through direct payments of \$1,200 for each adult and \$500 for each child, with the payment phasing out for individuals making more than \$75,000 per year and couples making more than \$150,000.
- Funding to allow states to boost weekly unemployment benefits by \$600 through July 31.
- A provision allowing those affected by the virus to take up to \$100,000 out of their employer-sponsored retirement funds without penalty.⁵

HOW WOULD YOU RATE THE RESPONSE FROM FEDERAL AND STATE GOVERNMENTS TO THE CORONAVIRUS?



Source: Automotive News Data Center

The relief for individuals and businesses provided under the stimulus package reflects many of the recommendations made by dealers responding to the Automotive News Data Center survey. Still, dealers had mixed ratings on how state and federal governments are responding to the coronavirus, with a small majority viewing the response as positive.

Dealers invited to take the survey were also asked what steps they believe federal and state governments should take to ensure the financial stability of automobile dealerships during and following the pandemic. A few consistent themes (some of which are addressed in the stimulus package) emerged, including:

Help keep employees working:

Dealers consistently asked for government support to help them pay employees over the next several months. Said one respondent: "I believe most family held dealerships can go 90 days before the cash runs out." Several respondents felt access to loans that were either tax-free or forgiven if used for payroll and employee benefits would be helpful. Further, many felt that government support would need to extend for several months, as there would likely be a period after shelter-in-place policies were lifted where consumer uncertainty would still impact sales.

Expansion of insurance benefits for laid off or furloughed employees...and for dealers' businesses:

Survey respondents also consistently voiced a need for expansion of insurance benefits. Dealers felt expanded unemployment insurance would provide much-needed help for laid-off employees. Relative to their own business insurance policies, some dealers felt the impact of COVID-19 should qualify as a claim under business-continuation terms.

Consumer incentives:

Whether through tax incentives or programs similar to Cash for Clunkers, dealers consistently voiced a need for government programs that incentivize consumers. Many acknowledged that consumer uncertainties would more than likely continue after government shelter-in-place policies had been lifted and nonessential businesses reopened. Still, views were mixed on what kinds of government programs would be most effective.

RESPONDENTS WHO FEEL THE FOLLOWING PROGRAMS WOULD BE SOMEWHAT TO EXTREMELY EFFECTIVE IN DRIVING SALES

78%

Program like Cash for Clunkers

57%

Expanded unemployment insurance

48%

Direct cash payments to consumers

22%

New electric vehicle incentives

Outside of these major themes, it should be noted that survey respondents commented on the benefit of government programs that helped reduce costs related to operating their businesses. Some felt deferments or forgiveness of loan payments would help them weather the near-term impact of the coronavirus. Many also commented on the need to be recognized as an essential business so they had an opportunity to keep some aspect of their business open.

And finally, regardless of the wide range of views and recommendations offered by survey respondents on what government should do in response to COVID-19, they were unanimous in their opinions that policy makers needed to act quickly.

Now that the \$2 trillion stimulus package has been signed, only time will tell how effective it is in supporting automotive dealers in the battle against the effects of the coronavirus. The good news: The law appears to include many of the recommendations survey respondents feel will be beneficial. The bad news: It's not clear if the programs included in the package will be effective, and how long it may be before there is a return to "business as usual."

We discuss dealers' outlook in Section 3.

SECTION 3

Getting back to
business as usual

A vast majority of automobile dealers responding to the survey appear to be equally or more worried about the impact of the coronavirus than they were worried about the 2008-09 Great Recession on their business (86 percent), on the economy (86 percent), on the U.S. automotive industry (85 percent) and on the global automotive industry (88 percent).

“

This will be the greatest crisis our industry has ever seen.

– Survey respondent

And while 90 percent of respondents forecast a worse profit outlook for their dealership compared with 2019, there is some optimism. More than half (53 percent) of survey respondents think the industry in the U.S. will return to business as usual within six months. The figure grows to 82 percent if including respondents who think business as usual will return sometime within 12 months.

If recent activity in China is any barometer of what to expect in the U.S., dealers could be correct in their assessment. As Chinese authorities begin to ease lockdown restrictions in effect since January, automakers and dealers are already moving quickly to win back consumer interest.⁶ Still, the China Association of Automobile Manufacturers does not expect demand to normalize until the third quarter of 2020.⁷ For the U.S. and Canada, which lag the outbreak in China by approximately 60 days, a return to normal levels might not happen until the fourth quarter or early 2021.

RESPONDENTS WHO ARE EQUALLY OR MORE WORRIED ABOUT THE IMPACT OF THE CORONAVIRUS ON EACH OF THE FOLLOWING COMPARED WITH THE 2008-09 RECESSION

86%

Their business

86%

The economy

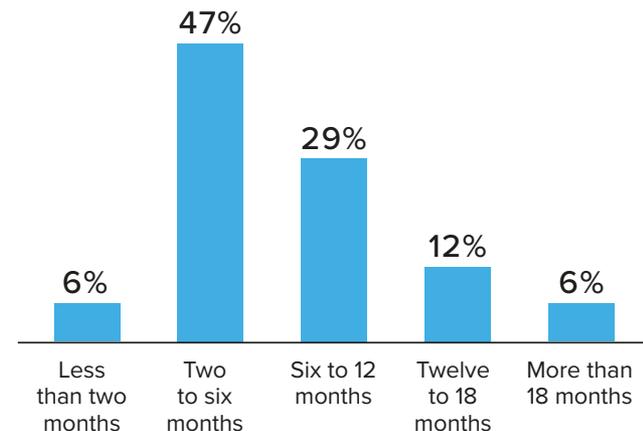
85%

The U.S. auto industry

88%

The global auto industry

HOW LONG DO YOU THINK IT WILL BE BEFORE THE INDUSTRY IN THE UNITED STATES RETURNS TO BUSINESS AS USUAL?



Source: Automotive News Data Center

Things, however, could be exacerbated by how the pandemic is battled as it continues to spread around the world and automakers continue to shutter operations in Japan, the United States, Mexico and other markets. Could the result be an inventory shortage in the U.S. and Canada if consumers come roaring back in the late second or third quarter? Only time will tell.

Dealers responding to the Automotive News Data Center survey don't think that will be the case, however. Only 17 percent believe overcoming any sort of inventory problem will be a challenge in rebounding from the adverse impact of the coronavirus.

What will be the most significant challenges? Survey respondents believe overcoming consumer uncertainty in the market and their personal finances will be difficult. Almost three-fourths (72 percent) say a big challenge to enticing consumers back to showrooms will be depleted savings accounts, the increased use of credit cards to cover daily expenses and the impact COVID-19 has had on the stock market and retirement savings. Nearly half (45 percent) feel rebuilding consumer confidence in the economy will be a significant challenge, and nearly a third (28 percent) see overcoming consumer willingness to be active in public as a challenge.

WHAT DO YOU BELIEVE WILL BE THE MOST SIGNIFICANT CHALLENGES ASSOCIATED WITH REBOUNDING FROM THE ADVERSE IMPACT OF THE CORONAVIRUS?

72%

Consumers overcoming increased financial burdens created by the coronavirus

45%

Rebuilding consumer confidence in the economy

35%

Incentivizing consumers to prioritize purchasing a new or used vehicle during uncertain times

28%

Consumer willingness to be active in public settings

Source: Automotive News Data Center

Are there ways to proactively overcome these challenges?
Perhaps one survey respondent said it best in commenting:

“This will reshape consumer behavior forever. Lots of new digital tools will be invented for the new consumer.”

What can dealers do now to weather the coronavirus and be in the best possible position to thrive when the threat is over? Maxime Theoret, CFO of DSMA, shares insights and perspective in the next section.

SECTION 4

Seven strategies to unlock cash flow
during the coronavirus crisis

Recommendations from Maxime Theoret,
CFO of DSMA



The end of April 2020 will mark approximately two months of isolation in the United States and Canada as a result of the coronavirus. Everything suggests we still have not seen the peak. Demand is declining, countless dealers have either completely ceased operations or have significantly reduced their work force, and service for the most part is running out of steam.

While this will put a lot of pressure on companies' liquidity, there are several strategies, as illustrated on the next page, available to dealers in this time of crisis that can help replenish the coffers and better position them to **navigate the coronavirus pandemic.**



	1.	2.	3.	4.	5.	6.	7.
	Company cash and cash equivalents	Increase “floorplan” financing	Line of credit	Capital injection	Finance equity on real estate	Short-term loan	Search for partnership, merger or sale
Availability of funds (speed)	Immediate	Immediate	Immediate	Immediate	Average	Average	Long
Interest rate and cost	Very low	Low	Average	Average	Low	Average/high	High
Complexity and implementation	Easy	Easy	Easy	Easy	Average	Average	Complex
Independence & reporting	Freedom	Limiting	Limiting	Freedom	Advantageous	Limiting	Very restrictive
Flexibility	High	High	High	High	Average	Low	Very low

Source: DSMA

1. Company cash and cash equivalents

It is vital to forecast requirements based on current cash levels. Many dealerships plan cash flow needs to get through slower winter months and plan to replenish the coffers when spring arrives. That means cash levels at dealerships as the coronavirus spreads are likely at their lowest level annually.

However, some have short-term investments or deposits that can be converted to cash quickly and at no cost. The effective interest rate on these funds becomes the opportunity cost. For example, liquidating a guaranteed investment certificate (GIC) bearing interest at 1.5 percent annually allows dealers to finance operations at an effective rate of 1.5 percent as a result of foregoing this return – creating, without a doubt, the lowest and most flexible cost of financing available.

Further, as availability of excess liquidity becomes scarce, dealers will have to implement cash management strategies that start with reviewing accounts payable and discussing with suppliers the payment terms and levels of service required in the coming months. In addition, connect with automakers to collect accounts receivables and to inquire about returning or refusing new inventory when applicable and possible.

2. Increase “floorplan” financing

Certain dealers may be in an equity position with their vehicle inventory (e.g., the value of their inventory is greater than the level of floorplan liability), and while respecting their finance source ratios, it may be possible to increase financed inventory levels and free up cash. This is valid for both new- and used-vehicle inventory.

The cost of financing is usually lower than the other types of debts and loans offered by financial institutions. It is also very quick to obtain in the form of liquidity. This is the best financing to use to address short-term liquidity shortages if accessible.

3. Line of credit

Most dealers have lines of credit at relatively low rates with previously negotiated and already-approved overdrafts in place. As a result, dealers are able to use lines of credit easily to meet short-term cash flow needs.

A line of credit offers a lot of flexibility regarding terms and conditions as well as repayment terms which are entirely at the customer’s discretion. Therefore, there is no long-term commitment or minimum usage level. Once the crisis ends, the line of credit can be refunded, and the interest charged will be based only on the utilized portion and its duration of use. Another significant advantage is that, unlike a term loan with monthly interest and principal repayments, there are no monthly payments outside of interest.

Most owners work primarily with their local dealer finance relationship manager. However, other lending products are available. For example, if you own an investment property or stock portfolio, consider speaking to the private banking team. They can offer money at prime rates and leverage residential/stock portfolios up to 65 percent loan-to-value. These “wealth” lines are similar to an operating line but margin your personal assets instead, allowing further access to temporary liquidity.

4. Capital injection

Certain entrepreneurs who have accumulated cash reserves and liquid assets could benefit from those assets during the crisis. Often through other owned businesses, holding or investment companies, or on a personal level, business owners are able to temporarily use these funds to finance the business.

The opportunity cost should be an important consideration because the capital loaned or invested in the dealership could be for 12 months or longer.

Before injecting funds as a loan or equity into a business, it would also be wise to consult a tax specialist to determine the best approach. In a context where funds are needed in the short or medium term, however, a loan would be much simpler and more flexible.

5. Finance equity on real estate

Many dealership owners own their real estate and possibly have access to equity if their mortgage balance is less than the value of the property. It is possible to monetize this equity with mortgage financing. Mortgage financing is very advantageous due to its low interest rates and because banks will use the real estate asset as collateral.

The process can, however, be relatively long because it requires a real estate appraisal (except in cases where a recent appraisal is available). The resulting reimbursements are usually fixed monthly and can be amortized over a very long period, which also can reduce payments considerably.

In today's environment, banks are flexible. Some will even finance up to 80 percent of property value. It is advisable to negotiate clauses that remove penalties for early repayment, allowing you to pay down the loan once things are back to normal if you do not need the extra cash anymore.

6. Short-term loan

Short-term loans are not secured against specific assets. Rather, they are based on the ability of the business to generate cash flow in the future to repay the loan. These take longer to negotiate and will necessarily lead to a more rigorous analysis in order to demonstrate the ability of the dealership to repay the debt.

It is also to be expected that the financial ratios required by the banks for this type of loan will be more restrictive, since there is no specific guarantee. Often, a personal guarantee will be required on this type of loan.

The Business Development Bank of Canada (BDC) offers "Support for entrepreneurs impacted by the coronavirus COVID-19". Given that BDC's mandate is to support entrepreneurship, the Canadian government greatly supports BDC in helping businesses get through the current crisis. The loans can be as much as CAN\$2,000,000 and will typically be contracted via your current financial institution and a partnership with BDC.

More information is available at www.bdc.ca.

In the U.S., the Small Business Administration (SBA), under the new government stimulus package, will distribute USD\$350 billion to small businesses that can be partially forgiven if the companies meet certain requirements. The loans will be available to companies with 500 or fewer employees.

If the business uses the loan funds for the approved purposes and maintains the average size of its full-time workforce for a period of up to eight weeks, based on when it received the loan, the principal of the loan will be forgiven, meaning the company will only need to pay back the interest accrued.

For more information about the SBA's disaster relief loans, visit www.sba.gov.

7. Search for partnership, merger or sale

For most entrepreneurs, this would probably be the last option considered. In a context where the entrepreneur's objective is to remain in the industry for the long term and retain the company's shareholding, this option should only be considered if none of the previous solutions allows them to stay afloat during crisis.

Those who need an external partner to sell the business will need to do so in a structured manner. It is essential, in the current context, to organize the transaction strategically and to have an approach that will allow them to achieve the desired objective.

An agreement with a partner may seem very simple on the surface, but it is a very binding commitment between the parties. There may be sensitive clauses to negotiate and the main issues will be the dilution of the shareholders and the value of the company. It will take a rigorous assessment of the business and a tight negotiation in order to reach an agreement that makes sense for all parties.

In these markets, several “financial” investors are looking to become minority investors in dealership groups at understandably attractive valuations. In a scenario where an outright merger might not be appropriate, consider a potential “convertible” investment. Most private money lenders look to charge 10+ percent interest on their money, however, financial investors may be willing to look at lower interest rates in the 7-8 percent range in a scenario where the debt becomes convertible, thereby allowing them the option to exchange the debt obligation for equity. This allows businesses to retain their equity upfront, reduce their private debt costs to access liquidity, while giving the investor the ability to become an equity partner in the future once the dealership recovers.

Finally, in some cases the only solution would be to sell the business. There currently remains in the market buyers who will be ready to make acquisitions. However, a more focused approach is required, and expectations are different considering a more volatile environment.

CONCLUSION

The war against the coronavirus rages on across North America and around the world, with some predications forecasting the peak is yet to come. At the time of publication, hot spots were emerging in Detroit, New Orleans and other major cities across the U.S. and Canada, following the massive outbreak in New York. Internationally, Spain and other countries in Europe were following the path of Italy. And in Asia, China is starting to cautiously emerge from its 90-day lockdown, admittedly now turning its attention to preventing new cases of COVID-19 from being imported into the country.

The good news is that countries are emerging. The other good news is that most players in the automotive value chain were in a much better cash position at the start of this year than they were heading into the Great Recession. There is a frequent and consistent undertone in all the bad news that we will get through this, it will just take time.

Unfortunately, for those on the front lines of the economic battle – direct-to-consumer facing businesses like automobile dealers– time is something they may not have. Survey respondents were clear: They were ill-prepared to respond to and weather a catastrophic event like a global pandemic.

Still, according to DSMA CFO Maxime Theoret, it is necessary to be proactive in these trying times and put in place contingency plans. “Take the time to set up a budget reflecting different scenarios. Personally, I recommend working with a sensitivity analysis that provides three levels: pessimistic (or conservative), moderate, and optimistic” said Theoret. “Then focus on the pessimistic scenario to make sure you have enough liquidity to survive the most pessimistic of contingencies.”

The good news is that the government is stepping in to support businesses and banks are also under pressure to be more flexible. Theoret recommends taking time to review governmental measures that could help, such as the labor credit that will apply to dealers who still have active employees. He also recommends contacting the bank to review all options available to you to reduce or defer monthly payments and free cash in the near term.

Will support from financial institutions and government help? Only time will tell. What will be more interesting, however, will be looking back and reflecting on how in responding to the COVID-19 crisis, innovations were tested and scaled and became part of the new ways of doing business.

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ABOUT CUSTOM RESEARCH FROM THE AUTOMOTIVE NEWS DATA CENTER

The Automotive News Data Center is partnering with the industry to create custom research initiatives that deliver data-driven insight and perspectives pertinent to their businesses. For more information about our custom research capabilities, contact Steve Schmith, executive director of custom research and data strategy, at steve.schmith@crain.com.

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