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April 2021 pre-tax net profits and profit margins were down slightly from March 2021 profit margins, though still excellent. We found from our survey of over 150 new vehicle dealers in April 2021, 75% made 3.0% of pre-tax sales or more. Over 40% of dealers made 5.0% or more and 15% made 3.0% - 3.9% in April and 25 made 4.0% - 4.9%.

April Monthly Profit Trends

	APRIL BETTER THAN MARCH	APRIL WORSE THAN MARCH	APRIL BEST MONTH	APRIL 3.0 - 3.9% NET OF SALES PROFIT	APRIL 4.0 - 4.99 NET OF SALES PROFIT	APRIL 5.0% + NET OF SALES PROFIT
CHRYSLER	65%	35%	65%	15%	20%	50%
FORD	50%	50%	50%	20%	30%	35%
G.M.	45%	55%	45%	15%	20%	40%
IMPORTS	25%	75%	25%	10%	15%	35%
OVERALL	40%	60%	40%	15%	20%	40%

The average dealer sold 80 new units retail in April and sold 84 used units retail in April. The median new front end gross profit margin was \$2,204 and the used front end gross profit margin was \$2,719. The pre-tax net profit % of sales through April was from a low of 1.4% to a high of 7.4%.

Excess Cash

Many dealers have called about their excess cash. In the past this would have been a “nice” problem to have. Dealers have excess cash now due to much reduced new vehicle inventory and much reduced used inventory. Some dealers are thinking about paying down long-term debt. We are against this. Why? Paying down long-term debt means usually paying down low interest rate debt now to reduce interest expense. We are not for this. We do not believe in paying down long-term low interest rate debt because we are currently at the lower end of interest rates. We suggest you have patience and keep paying down new and used floor plan. If you still have excess cash, just have patience until new and used inventories start going back up later this year which will consume much of your cash.

“We know what we are, but know not
what we may be.”

William Shakespeare

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Factory Franchise “Requirements”

We have seen where Ford requires a new dealer to sign for metrics that are more likely to not be met by its newer dealers. Recently, we received a letter from Ford to one of its dealers as follows:

- A. Sales effectiveness performance is at 100% for total car and truck
- B. Sales and service experience index performance is at 100% of group
- C. Working capital has been maintained at 100% of Guide (9 out of 12 months per year)
- D. Completion of facility improvements

We are more concerned by A and B. If you consider B just one metric, only 50% of dealers can expect to meet A and then of those 50% of dealers, only 50% of 50% can expect to meet the second metric and both metrics. This works out mathematically that only 25% of dealers that have signed this agreement will “statistically” meet Ford’s criteria. Dealers do not realize this and where we have been involved with new dealers being “required” to agree to this Ford agreement, Ford can “require” or “pressure” these dealers to do something they would not want to do where they did not meet their agreement with Ford. In our discussions with auto attorneys, we are told Ford might not be able to “terminate” the dealer or require some unreasonable requests if the dealer misses these performance “requirements”. Since most new dealers do not want to start out with a “fight” with Ford to be approved, they surrender to signing Ford’s unreasonable agreement.

2020 Public Auto Company Results

	Asbury	AutoNation	Group 1	Lithia	Penske	Sonic	Average
Dollar Sales (billion)	\$7.1	\$20.3	\$10.9	\$13.1	\$20.4	\$9.8	\$13.6
Pre-tax net % Sales	4.7%	2.7%	3.4%	4.9%	3.5%	-0.4%	3.2%
Stock Market Value % Sales	42%	35%	31%	52%	23%	17%	33%
Pre-tax profit % to Stock Value	6%	8%	11%	10%	15%	-0.2%	8%

As you can see the pre-tax net profit percentage of sales, 3.2%, Sonic being negative reduces the overall public average, is similar to the average NADA new vehicle dealer of 3.6% while the return stock value ranges from 8 - 15%, ignoring Sonic.

2020 New Vehicle Metrics

Below we have listed some of the national financial metrics for the new vehicle industry. Some are from the NADA.

Average annual dollar sales	\$59 million
Pre-tax net profit % sales	3.6%
Return on Equity	34.6%
Number of new vehicle dealers	16,623
New units sold per dealer	879 (prior year 1,025, 2019)
Pre-tax net profits	\$2,111,000
New units sold	14,600,000 (prior year 17,100,000, 2019)

Estate Planning

With now having a democratic President, dealer’s need to plan and expect increases in the estate tax. With what we have read and heard, the federal estate tax exemption might be reduced materially, increasing estate taxes, so much that it will apply to most new vehicle dealers. You need to meet with your CPA and/or estate attorney to discuss your taxable estate. We suggest you implement your estate plan by the end of 2021. For many dealers, if you do nothing, your estate taxes could very well be several million dollars or more.

New Vehicle Inventory Day's Supply

Dealing with many new vehicle dealers from each manufacturer we have the ability to measure new vehicle inventory day's supply. If you feel you are being shorted, send someone to count the new units at other same make dealers. If you find your new vehicle day's supply is materially low, then don't call your factory representative, but email your representative and their supervisor to point out you are not being treated equitable. Well written emails work, phone calls do not work.

General Motors MY22 Bolt EUV and Bolt EUV (Electric Vehicles)

GM has changed the method and way their electric vehicles will be priced to the dealer and the public as follows: "MSRP & Invoice Values – There will be no difference between the MSRP and Dealer Invoice amount." There will be various factory credits. What is General Motors thinking they are doing or accomplishing and why are they pricing these new electric vehicles this way? We have not heard any good answers from knowledgeable GM dealers. We can't wait to hear the logic for this new pricing method.

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