



Weekly Car Dealers Newsletter

July 20, 2010

This information that follows is taken from sources including *The Carconnection*, *Autoweek*, and other industry sources.

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GST/HST - CRA BACKS OFF (For now)

In December 2009 the Canada Revenue Agency (CRA) “clarified” their position involving GST on fees received from Financial Institutions. At that time they stated that the fees received, which they characterized as fees for providing loan arranging assistance, were subject to GST and if the amount did not show GST separately it was deemed to include GST. Since this was a clarification of the rules and not a change in policy it was effective forever (back to 1991) but realistically for amounts received by the dealership after the December 2009 announcement date.

In late June 2010 CRA confirmed that they would not be enforcing this position and that the fees would be treated as financial services and not be subject to GST (and now HST). The provisions are still in the Federal Government’s omnibus financial bill which just received Senate approval, meaning that CRA will be able to revisit this situation at anytime in the future and issue further “clarifications”.

GM WINS TOP LAUNCH PRIZES

Led by the Chevrolet Camaro, General Motors had five of the 10 most-successful all-new or totally redesigned vehicle launches in 2009, based on an analysis by Edmunds.com leading to the automotive information firm's first Launch Breakthrough Award.

The Camaro has outsold its primary competitor for 11 of the last 13 months and continues to sell with practically no incentives.

"With its highly anticipated launch, the Camaro was the clear winner, commanding premium prices, spending little time on the dealership lots and becoming one of the best-selling vehicles in its segment," Edmunds.com senior analyst Jessica Caldwell said.

The Chevrolet Equinox had the No. 3 launch breakthrough; the Cadillac SRX was No. 5; Buick LaCrosse was No. 7; and GMC Terrain was No. 10. The study included 54 eligible vehicles, each new or totally redesigned in calendar year 2009 and launched before December 1, 2009. Qualifying vehicles had at least 100 sales per month. The other top 10 vehicle launches of the year were the Porsche Panamera (2); Ford Fusion Hybrid (4); Lexus RX 350 (6); Toyota Prius (8) and Mercury Milan Hybrid (9).

"According to our analysis, seven of the top ten launches of the year were domestic vehicles, and many of those new cars are still selling at an impressive rate," said Edmunds.com senior analyst Ray Zhou.

The Edmunds.com Launch Breakthrough Award is based on an analysis of 18 factors associated with a launch of a new vehicle, including pricing, sales, market share, dealer profit margins, incentives, consumer consideration, consumer ratings, inventory levels and residual values for all eligible vehicles. *Source: Speedtv.com*

WHY GM MAY BE WORTH MORE THAN FORD

(It has a stronger balance sheet and sells more cars in emerging markets)

It has been barely a year since General Motors emerged from bankruptcy, and already the carmaker may be worth more than crosstown rival and current industry darling Ford Motor ([E](#)). True, GM has just one quarter of profit behind it. And its shares don't trade as it prepares an initial public offering to wean itself off government assistance. Yet based on one analyst's figures, GM may be worth \$47 billion, more than Ford's stock market valuation of \$36 billion.

Looking at factors including potential earnings and cash flow, assets, and liabilities, JPMorgan Chase ([JPM](#)) analyst Eric Selle puts a \$70 billion price tag on GM. That would equate to an eventual return of 47 cents on the dollar for holders of bonds issued by GM before its bankruptcy

that will be converted to stock and warrants in new GM. Based on the price those bonds traded at in early July, GM's value would be \$47 billion.

Why the higher price tag for GM? For starters, the company has a better balance sheet. Thanks to the government-sponsored bankruptcy, GM owes just \$15.4 billion to its creditors and has \$30 billion in cash. After paying down \$4 billion of debt on June 30, Ford owes some \$27 billion and its cash hoard is below \$20 billion, though the company is expected to have generated cash in the second quarter. Interest payments alone cost Ford \$542 million in the first quarter, compared with \$337 million for GM.

When it comes to selling cars, GM is much stronger in developing countries. It has 13 percent of the Chinese market to Ford's 2 percent, and its 20 percent of Brazil's car sales is double the share of its Detroit rival, according to Standard & Poor's ([MHP](#)) debt analyst Gregg Lemos-Stein. GM Vice-Chairman and CFO Christopher P. Liddell told analysts on June 28 that the company has reduced costs to the point that it can make money even in today's depressed car market. "We have redesigned the company to be something we weren't a few years ago," he said.

That isn't to say that everyone is sold on GM. Its European business lost \$506 million in the first quarter and isn't expected to break even until next year at the earliest. Ford earned a pre-tax profit of \$107 million in Europe in the first quarter. And GM's pension plan is a concern. Today, it is underfunded by \$26.8 billion, while Ford's is underfunded by \$11.9 billion. Management is another question, says KeyBanc Capital Markets analyst Brett D. Hoselton. Under Chairman and Chief Executive Officer Edward E. Whitacre Jr., GM has had extensive turnover in the executive ranks, and few think that Whitacre, at 68, is the company's long-term leader. Liddell is a possible replacement, but GM has not laid out a succession plan. Says Hoselton: "I don't know who will be running the company."

GM's bond-based valuation bodes well for its pending IPO. The company is eyeing a November stock offering in which the government could sell one-fifth of its \$41 billion stake. Once GM has a tradable stock, its value may climb. "The stock will be more liquid [than the bonds] so the universe of prospective buyers will be much greater," says Kirk Ludtke, senior vice-president of CRT Capital Group in Stamford, Conn. Ludtke calculates that Ford trades for about 5 times its estimated operating earnings for 2011, while GM is effectively at 3.8 times 2011 operating earnings. So even with its higher market value, he says, "we think GM is trading at a discount compared to Ford." *Source:Businessweek.com*

ALLY TO PHASE OUT GMAC BRAND NAME

Ally Financial Inc. said it will rebrand its GMAC retail- and dealer-auto finance operations in North America as Ally, as it continues to try to establish itself as a stand-alone company with a broader auto-lending business. In May, the company changed the name of corporate entity GMAC Inc. to Ally Financial Inc. It renamed its bank Ally Bank last year. Ally provides financing for GM and

Chrysler Group LLC dealerships as well as their customers. GM is in talks with financial institutions to broaden the availability of auto loans, The Wall Street Journal reported last month. The move could erode Ally's share of loans to the auto maker's retail customers. The car maker has had trouble providing loans to more consumers, particularly those with weaker credit history, and it views this as a barrier to winning back U.S. market share. "Ally remains an important partner and auto financing provider for GM customers. We look forward to continuing that relationship," said Chris Liddell, GM's finance chief, in a statement Tuesday. *Source: The Wall Street Journal*

HYUNDAI, NOT TOYOTA IS VW'S BIGGEST CONCERN

Volkswagen is just as concerned about what's in its rear-view mirror as what is ahead in its quest to become the world's biggest automaker. The German giant, which aims to topple Toyota from its No. 1 spot, sees Korea's Hyundai-Kia group as a bigger rival than the struggling Japanese company.

"I have the most respect for Hyundai," VW CEO Martin Winterkorn told the German news magazine *Focus*, naming Hyundai's improved quality and the weakness of the Korean currency as reasons why Hyundai is on his mind. "Hyundai has now learned how to build good cars," added Winterkorn. His comments didn't surprise industry watchers. "He's right," said Stefan Bratzel, who heads an automotive research center at the Bergisch Gladbach University of Applied Sciences in Germany. "Hyundai has enjoyed enormous growth in sales and profitability in recent years. Toyota should not be forgotten but Hyundai is a very serious rival." Bratzel said Hyundai is strong in Asia, especially in India where it is the No. 2 automaker after Suzuki with a 16 percent market share, and in China, where the Korean company is enjoying fast growth.

IHS Automotive auto analyst Ian Fletcher said Hyundai and Kia can now match Japanese automakers for quality. "They are not just building cheap cars. They are building cheap, good cars," he said.

Hyundai has boosted sales in North America with innovative sales methods, Fletcher said, and its new Sonata sedan is doing well in the United States against Toyota's Camry and Honda's Accord. In Europe, the Korean automaker benefited enormously from government scrappage incentives, which many consumers used to buy cheap, small cars such as the Hyundai i10. "The only thing that lets them down is their brand image. Hyundai is not yet established as a respectable brand," Fletcher said. Respectability could become less of a problem for Hyundai following Winterkorn's comments *Source: Automotive News*
