



Weekly Car Dealers Newsletter

April 27, 2009

This information that follows is taken from sources including *The Carconnection*, *Autoweek*, and other industry sources. For more information please call our Edmonton office.

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USED-CAR SALES ACCELERATE
A DEALER'S PERSPECTIVE
DEALERS PREPARE FOR WORST
TOYOTA MAY REPORT LOSSES
CAR TRADE-IN PROPONENTS NEAR A DEAL

USED-CAR SALES ACCELERATE

Vehicles are still moving off the lot, but not in a way Paul Kastner has seen in more than 35 years with Weber Chevrolet [in St. Louis, Mo.]. For every two new cars sold at the Creve Coeur [Mo.] dealership, three used ones are moved, too. It's a stark difference from just a year ago, when about four new vehicles sold for every used one. U.S. used vehicle sales among franchised auto dealers are on pace to reach about 14 million vehicles this year, according to CNW Research in Bandon, Ore. That's slightly lower than before the recession, but more than 2008's level. And this year, unlike recent years, current projections suggest that franchise dealerships should expect higher sales of used vehicles than of new ones. - Source: [St. Louis Post-Dispatch](#)

A DEALER'S PERSPECTIVE

Car sales plunged during the 1973 oil embargo when people lined up to buy gas. They fell again in 1981 when interest rates rose to 20 percent. But nothing compares to this downturn, said H. Carter Myers III, president and chief executive officer of Carter Myers Automotive, a family-owned business. "I've been active in the business for 44 years and never seen anything as challenging as this." The company is parent to five dealerships and 12 franchises in the Richmond and Charlottesville area. Myers took over when the company had two dealerships - Ford and Honda. Founded in Petersburg in 1924, when Model Ts were selling for about \$300, the dealership made it through the Great Depression and World War II under the guidance of Myers' grandfather and his father.

It is poised to survive again - and to grow. "I listened to my father talk about the Great Depression," Myers said. "He always said you better make sure you have enough cash. Don't

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get too heavily in debt." Adding another franchise is a possibility, he said. "We think there will be opportunity in the next year to 20 months." The company, for instance, bought Heritage Chevrolet in Chester in 1981, when interest rates spiked. The oil embargo years earlier was more shocking to the car business than the era of high interest rates, Myers recalled.

"People stopped coming into our showrooms. No one would look at a big car. The suddenness was very much like what happened to our business with the financial crisis that hit this past September." Gas prices rose and consumer confidence plunged, leading this year to the sharpest decline in U.S. auto sales in decades. Myers has adjusted his business by cutting expenses and paring staff from about 250 to 200. "We have reduced our cost and are prepared to operate profitably on 33 percent fewer vehicles sales." The company's biggest year in sales was 2007 at \$170 million. Last year, sales dropped to \$142 million. Vehicle unit sales dropped 14.6 percent to 5,121 from 5,997, or slightly less than the national decline. "Many years ago, there were 50,000 U.S. dealers and now we are down to about 20,000 and it will probably go down to 15,000 within three years," Myers said. His great aunt, who sold life insurance, came to the rescue of Petersburg Motor Co. with enough cash to keep the business going during the Great Depression. During World War II, when manufacturers stopped making cars, the company survived by buying and selling used trucks.

Myers was born into the car business and always expected to stay in it, he said. "My brother was never interested and my two sisters weren't even asked." He graduated from University of Virginia in 1965, returned home to be part of the family business and never left - much like his father had done before him. "If you don't make a profit, you don't stay in business," Myers said. "But ethics and high character are equally important.

"My father drilled that into me. One of my main roles now is to make sure the key values that the family business was founded on stay in the forefront." Daughter Liza Borches, vice president of Carter Myers Automotive and manager of Volvo of Charlottesville, is being groomed to run the company as a fourth-generation family business. "It's been in my blood from day one," Borches, 33, said. "My dad is in the business. My husband's in the business. My sister is in the business. . . . We can't have a family dinner without talking about the car business." Her husband, Pete, is general sales manager at the Volvo dealership. Her sister, Brooks Myers, works in the service department at that dealership. "I appreciate all the time I have working with my dad and learning from him. He has kept a strong tradition of core values - ethics and honesty - making sure we are always doing the right thing," Borches said. It is sometimes difficult to overcome a negative perception that some people have of the car business, she said. "But there are honest dealers who want to treat their customers well and they want to be friends with their customers."

About 25 percent of company stock is owned by employees through an employee stock-ownership plan. Myers' father started a profit-sharing plan in 1961, which Myers converted with his father's support into the employee stock-ownership plan in 1979 as a way to compete for workers. "It has been a very good investment for our associates," Myers said. "The stock has increased an average of 11.75 percent per year for 26 years through 2007, although we do expect to see some declines this year as the whole market has taken big hits.." - *Source: Richmond Times-Dispatch*

DEALERS PREPARE FOR WORST

Experts are advising car dealers to start preparing themselves for the very real possibility that General Motors (GM) files for bankruptcy protection. If the automaker does file, any money owed to dealers for warranty work they've done on cars or for rebates they've already paid to buyers could just disappear, warns Scott Silverman, an attorney.

Many dealers are owed hundreds of thousands of dollars from manufacturers at any given time, says Silverman, partner at law firm McCarter & English who specializes in representing dealers. He says he's been prepping Massachusetts-area dealers for a GM Chapter 11 filing with seminars informing them of their rights and telling them to prepare for the worst. A bigger issue for dealers down the road would be if a bankruptcy court let GM cancel their franchise agreements. GM already has said it needs fewer dealers and also said it's not going to buy out dealers as it did at huge cost when it closed Oldsmobile. But dealers first must keep from going under because of cash flow problems. "They are going to have to plan to operate without any expectation of when and if that money is going to come in the door," Silverman says. "It's one issue of bankruptcy, but it's usually a jaw-dropping one for dealers who are already paper thin in the way they're dealing with operations."

Last week, GM CEO Fritz Henderson called a filing "probable." GM has been operating on a \$13.4 billion lifeline from the government and has said that without more loans it could be forced into a bankruptcy. President Obama has said it must do significantly more to cut its costs by June 1 to get more aid.

All the bad GM news isn't helping dealers already suffering a massive sales decline. Jim Snell, a Dallas-area dealer of Buick, Pontiac and GMC vehicles, says he thinks his sales may have bottomed. "They're not really picking up, and they're not getting any worse," he says. "If GM could get off the front page of the newspaper and the lead story on every TV news program you see, I think that would help."

For Buick-Pontiac-GMC dealer Cari Yturri in Great Falls, Mont., the bad news has forced her to have a backup plan. "You have to have a contingency plan if you're not going to get paid right away. You have to have a good relationship with your bank, too." Yturri says she's trying to rely on used car sales and repairs for a significant part of her revenue, and she's reassuring customers those sides of her business won't go away. She's optimistic GM will continue to make cars, even while in bankruptcy court.

"GM is going to do whatever they need to survive," she says. "I believe there is always going to be a good GM vehicle out there for us to sell."- *Source USA Today*

TOYOTA MAY REPORT LOSSES

[Toyota Motor Corp.](#), [Honda Motor Co.](#) and [Nissan Motor Co.](#), Japan's three biggest automakers, may report quarterly losses after the global recession crippled sales. South Korea's [Hyundai Motor Co.](#) may also say its profit fell to the lowest in at least seven years. Toyota probably had a net loss of 678 billion yen (\$6.9 billion) for the three months ended March 31 from a profit of 317 billion yen a year earlier, according to the median of four analyst [estimates](#)

compiled by Bloomberg. Net income at Hyundai, South Korea's largest automaker, probably tumbled 48 percent.

Vehicle demand in the U.S., the world's biggest auto market, plunged last quarter as the unemployment rate rose to the highest in 25 years. Japanese carmakers have also slashed jobs and production and Toyota will cut managers' pay while Japan, Germany and China began offering incentives for motorists to spur auto sales. "This terrible environment will hammer the carmakers for most of the year," said [Ichiro Takamatsu](#), chief investment officer at Alphex Investments Co., a Tokyo-based hedge fund. "The companies may only begin to recover toward the end of the year and in 2010 as sales will remain weak."

Hyundai plans to report its quarterly earnings on April 23. Net income likely fell to 205 billion won (\$151 million), according to the median estimate of 11 analysts surveyed by Bloomberg. Honda, Japan's second-largest automaker, will report earnings on April 28. Toyota, the world's largest automaker, is scheduled to release results on May 8, followed by Nissan on May 12. Toyota added 1.1 percent to 3,760 yen, at the 3 p.m. close in Tokyo. Honda dropped 0.6 percent to 2,715 yen, and Nissan gained 1.6 percent to 508 yen. Hyundai rose 2.3 percent to 66,000 won in Seoul.

"Japanese automakers will have to take drastic restructuring measures to return to usual profit levels," as their operating losses may top more than 1 trillion yen this fiscal year, [Shinya Naruse](#), analyst at Nomura Securities Co., said in a report on April 10. Industrywide sales in the U.S., traditionally the most profitable market for Toyota, Honda and Nissan, plunged 38 percent in the first three months of this year. In contrast, Hyundai boosted its sales 0.5 percent, as it offered more incentives to lure customers. Toyota's sales probably plunged 39 percent to 4 trillion yen from 6.57 trillion yen last quarter, the [analysts](#) said. The company probably had an operating loss of 588.8 billion yen, compared with a profit of 396.7 billion yen, the analysts said. The carmaker said today it would cut summer bonuses of managers in Japan by 60 percent from a year earlier.

Honda had an operating loss of 332.7 billion yen after sales slipped 39 percent to 1.87 trillion yen. Nissan will probably report an operating loss of 272.3 billion yen on sales of 1.65 trillion yen, according to analysts' estimates. A stronger yen against the dollar and euro added to Japanese automakers' losses, as they export about half of their vehicles from Japan. The yen averaged 93.63 per dollar in the three months ended March 31, compared with 105.44 a year earlier. The euro was bought at 122.41 yen in the quarter, compared with 157.88 last year. Toyota based on its estimates for the period on 90 yen to the dollar and 120 yen to the euro. Every 1 yen gain against the dollar and euro cuts Toyota's annual operating profit by 35 billion yen and 5 billion yen, respectively. It cuts Honda's operating profit by 15 billion yen and 2 billion yen.

Hyundai's sales likely dropped 22 percent to 6.36 trillion won, and operating profit probably tumbled 60 percent to 211 billion won, according to the analysts. The won dropped 8.9 percent versus the dollar during the January-March period. A weaker won helps boost repatriated value for Hyundai's exports, which accounted for 66 percent of the Hyundai's [revenue](#) in 2008.

"It's meaningful that Hyundai still made profit after it boosted marketing spending to increase share," said [Stephen Ahn](#), the head of research at LIG Investment & Securities Co. "No matter what it costs, it's now a condition of survival for automakers to keep up factory utilization and expand market share."

[Kia Motors Corp.](#), South Korea's second-biggest automaker, may have posted a net income of 34.8 billion won last quarter, compared with a 24.8 billion won loss a year earlier, the analysts said. Sales may have fallen 7.5 percent to 3.44 trillion won while operating profit probably declined 22 percent to 80 billion won. – Source: *Bloomberg*

CAR TRADE-IN PROPONENTS NEAR A DEAL

Bills to provide government-funded discounts for trading in old cars for more-efficient models got a boost Thursday when a leading proponent signaled she may drop a provision limiting the subsidies to North American-made vehicles. Rep. Betty Sutton (D., Ohio), who has pushed to limit the discounts to vehicles manufactured in North America, indicated she is willing to budge on that requirement and others. The provision has been a main sticking point in congressional efforts to merge competing proposals for the program. "It's not so important to me that it has to be done" exactly according to her bill, but rather that a program is passed, Ms. Sutton said. Congressional aides are redoubling efforts on compromise legislation for a "cash-for-clunkers" program that could clear both houses of Congress within months. Proponents say the program, which would provide new-car discounts of \$1,500 to \$5,500 and would allow vouchers to be used on mass transit, depending on the proposal, is desperately needed to lift slumping car sales. Even if a compromise is reached, lawmakers still must find funding for the program. Some have suggested that the money would come from the economic stimulus package passed earlier this year. - Source: [The Wall Street Journal](#)
