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## Motorpoint Shows the Upside of Downturns

I do not have proof in the form of hard data in front of me. But I am nonetheless sure that great companies make their easiest and largest gains versus the competition during difficult periods. Be that broader economic downturns, industry-specific issues or even company-specific problems.

The Covid-19 downturn is one such opportunity, writ large. It's a time when great businesses will plant seeds that will grow for a decade, while also-rans will flounder and see their struggles amplified.

### **Pain today, gain tomorrow**

The upside of the downturn—that's the message we're focused on in discussions with management teams of our portfolio companies in recent months. Now is the time to accelerate and invest despite uncertainty, make difficult decisions and focus on "[pain today, gain tomorrow](#)" activities.

Not that they need our urging. Take UK used car retailer [Motorpoint](#) (LSE:MOTR) as an example. Its business model is already significantly differentiated versus most of its competitors, which are dominated by franchised dealerships and smaller independents. But its behavioural edge is perhaps even larger.

Covid-19 hits and closes car dealerships for several months and destroys revenue. What's been the company's response?

Motorpoint took advantage of the UK government's generous staff furloughing subsidies, but only where necessary and only for as long as necessary.

### **Accelerated development**

The company kept the entire IT team on payroll and working at significant cost, using the downtime from everyday technology glitches to execute a surge in development. In the words of management, the company did a year's worth of IT development in two months.

Come early May, after just five weeks of lockdown, Motorpoint was able to start doing home delivery sales. The company delivered more than 2,000 cars direct to buyers' doors in the following 10 weeks.

The IT team also refined the "Contactless Click & Collect" systems for when dealerships reopened. Motorpoint brought the online and phone sales team back from furlough earlier than demand dictated. Management encouraged their used car inventory suppliers to sort out any bottlenecks caused by the virus. And as its competitors bowed out of marketing, Motorpoint significantly increased spending on paid search.

### **Sales surge**

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The result since reopening in June? Enquiries and conversions are both well above normal for this time of year, so sales have not only recovered, but are better than ever. Who'd have predicted that a few months ago?

Meanwhile, the company continues preparation for two new sites (one of them acquired from a struggling competitor).

Not only is pain today, gain tomorrow visible within operations, but also in management's approach to sharing the pain felt by staff. As staff were furloughed, the company topped up salaries to ensure nobody received less than the UK real living wage. How was that paid for? By the CEO forgoing a salary and by other senior staff taking a pay cut. Real costs borne directly by management for the benefit of staff and, ultimately, shareholders. We couldn't ask for a classier response.

We're seeing similar long term thinking from other portfolio companies, and not just internationally. In the Forager Australian Shares Fund, **National Tyre & Wheel** (ASX:NTD) took the opportunity to acquire Tyres4U, a currently-unprofitable competitor burdened with too much debt for a standalone entity. Industry consolidation has been an important part of our investment thesis since the company listed a few years ago.

By stepping up during a crisis they've been able to get Tyres4u's at a discount to net assets, which would have been unlikely if they waited for more buoyant markets. National Tyre & Wheel will now get more benefit from the pickup in demand as consumers opt for road-bound holidays.

## **Pray for rain**

We were recently reading about [German car hire business Sixt](#). We don't own the stock but it's living the ideals discussed in this blog. It expanded into the US in 2011 at the bottom of its crunching housing downturn. Now Sixt has used the Covid-19 downturn to buy up a bankrupt US competitor with an eye to growing market share as the world (eventually) returns to normal.

The article closed with Alexander Sixt paraphrasing formula one driver Ayrton Senna. Senna, a god of wet-weather racing, apparently once said "You cannot overtake 15 cars in sunny weather...but you can when it's raining."

Back good businesses and people and then pray for occasional rain. It's a counterintuitive but effective model for success.