RIO Prestige Performance Fund Limited

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The following report is presented in two parts; an overview of last year's economic crash as it affected the car market and, secondly, actions taken to secure a future for RIO Prestige.

Part I – The Market

The RIO Prestige Performance Fund's holdings in RIO Prestige Performance UK Ltd have suffered from the sharp downturn in supercar residual values. Formerly, the market had been seen as predictable and stable. Supercar retailers in the UK had built up their investment on such stability over the past decade, however, most have suffered very badly and some have simply given up and in some cases have gone under, unable to sell their stock to survive. Dealerships that have traded for twenty years or more have disappeared overnight due to massive losses in stock values.

Fortunately, RIO Prestige Performance UK Ltd owned their car fleet outright. Had they had finance on the stock, as many others in the supercar hire business did, it would have been far worse, and a negative equity situation, similar to that recently seen in the housing market, would have almost certainly occurred. RIO Prestige's two main competitors had vehicle finance in position and this was the main factor in them both now being declared bankrupt.

Well known brands in the industry are in the headlines; former F1 racing champion Damon Hill's P1 International supercar company is in court, the Seagrave Club, inaugurated in 2007 has called in administrators, and the Group 20 supercar club was wound up a month ago.

In line with the banking disaster, housing market losses and unemployment, the top end of the car market has been similarly affected. Big spending and cheap borrowing have all but evaporated with many people with luxury goods off-loading in an effort to stay afloat. Supply and demand has altered the market in favour of the buyer for the time being. This has had a very negative effect on supercar values. Ferrari 430's dropped in value at the rate of six thousand pounds a month and, recently, Porsche 997 Turbo's have been losing as much as three thousand five hundred pounds a month. Neither dealers nor supercar owners could afford this to continue.

For people with accessible liquidity the prestige car market looks ripe and provides the best value for money seen in many years (A lack of liquidity in RIO Prestige Performance UK Limited has meant the company cannot take advantage of this at the moment. Inward investment would greatly improve the company's current position).

Ferrari, Aston Martin, Porsche and BMW M series cars were all considered icons of the wealthy; they had been used to ordering a year in advance to even stand a chance of acquiring a new model. Today every single model can be bought brand new without waiting and, furthermore, at a discount, which would have been considered impossible previously. For example, a new Lamborghini Gallardo ordered in Spring 2008 would have cost £136,000 and required a six to eight months wait; the same car could have been bought in November 2008 at £115,000 with several available with immediately delivery.

Figures have shown that there was a 21% reduction in new car sales in general for last September, a massive disappointment for many dealerships. And for supercars, from October last year right though to this May this was the worst market shift known to the motor trade. The Aston Martin factory was on a 3-day week during the last quarter of 2008. Many dealerships have ceased trading altogether, with job losses rife throughout the industry, and a knock-on effect seen in the used car market with values crashing through the floor.

In the first few months of 2009 millions of pounds were wiped out as dealers tried to unload stock just to survive. The market continued to drop in value until it hit rock bottom in May/June this year. Thankfully July has seen sales of vehicles increase significantly and hence prices have stabilized. In my view it will only be a comparatively short time before the prices of used vehicles return to realistic values.

Whatever the budget and the preference for choosing a new or used car, all potential customers have re-evaluated their needs in recent months, the outcome of which has severely crippled the car market, one which is usually very buoyant. The whole used car market has become much more polarised around price, and follows the general rule that the lower the price the greater the propensity for customers to buy. Retail sales levels are probably now bumping along the bottom. If this is the case, it is reason for cautious optimism. Again, I would reiterate that inward investment at this time would enable me to acquire assets that I believe have reached their lowest market value. July has seen a slight reversal and a small rise in vehicle values after their lowest position in June 09.

The dramatic year-on-year fall in new registrations for September 2008 of 21.2% has been well publicised, because it represents a historic low point for new car sales. Looking at the downturns experienced in each of the last 3 decades of the 20th century, each displayed one important feature; the fall in registrations was sharp and pronounced, and the eventual recovery was slow.

A brief summary of the supercar hire market and recent changes

The supercar hire industry, born at the beginning of this century, continued to grow throughout 2005/6 to a peak in 2007 and, as a direct result, had seen as many as fifty companies enter the market competing for business in the UK. The general public and business is very aware that supercars are available for hire, and the industry had become accepted as the prestige end of the car market, with an ever growing educated end user.

Resulting from the 2008 global economic crash, this market was plagued by falling supercar prices, as highlighted above, which in turn lead to the end of many businesses who started falling by the way side regularly. Most companies had been relying on vehicle finance to obtain their fleets, and this became a very serious issue as they began to see company assets (Lamborghini, Ferrari and Aston Martin) fall by thousands of pounds a month during 2008. When coupled with the fact that lenders were asking these same clients for additional security due to residual values of assets falling to less than half of that lent, many were simply unable or unwilling to provide additional money or assets to retain vehicles purchased. This led to many more repossessions and more supercars entering the used car market for sale with further downward pressure on values.

The number of competitors in the market had dwindled dramatically to less than twenty by mid 2008, most having given up due to the economic downturn or been forced in to insolvency. The changes in the financial climate has had far reaching effects on the supercar market, since even previously considered reputable companies with good access to finance could in some cases no longer obtain funding. Thus they could not replace cars or worse were forced to sell their current vehicles in a poor market at very low prices. I know of several cases were companies were unable to respond to financial obligations, leaving the owners with nothing sadly but bad debt after years of hard work.

Part II - What about RIO Prestige Performance UK Ltd?

RIO, who are considered industry pioneers, being the world's first manufacturer-approved supercar hire company, were among the first in the industry and thereby fortunate in that they had already built a sizable client base before the economic crash. Importantly these clients were loyal. Not forgetting that supercar hiring is a relatively new industry and even though I had predicted a downturn, and took preventative action. I sanctioned the sale of five vehicles in the May/June 2008 pre-summer season and moved bookings from vehicles sold to the remaining fleet in order to optimise their usage. This was in expectation that we could see bookings drop by a forecasted 15% to 20%. It turned out that even these relatively significant actions were not sufficient.

I also cut costs by reducing insurance premiums paid by £25k per annum in negotiations at the time, and even secured a new provider due to the company's exemplary no-claim record. This was still not enough, and even further precautions during 2008 to limit mileage and sell vehicles at 15,000 miles rather than the 25,000 utilized previously were insufficient.

Despite the fact that vehicle values had started to freefall regardless of low mileage, matters were far worse than predicted with the company facing a massive VAT bill of more than £50k and the insurance up for renewal. Despite already negotiating better terms with a new provider, saving £40k per annum in premiums the company had to realise assets (vehicles) in order to meet its liabilities.

Hire revenue continued to drop further, reaching an all time low in September 2008, which meant that running costs were far in excess of the income the company required. To top matters, RIO Prestige were due to exhibit at MPH London during October, attendance being essential for the industry and booked, as always, a year beforehand. As usual I took a full part in the show which was a great success for the company and which led to several hire bookings and membership enquires.

Having already committed to cutting costs, I did not book both MPH Motor shows for 2009 and confirmed that for the first the time in four years RIO would not attend the Birmingham show. Both shows had been highly successful in the past, but London more so being historically the more profitable venue. I cancelled RIO Prestige's attendance at both the Goodwood Festival of Speed and Goodwood Revival for 2009; again we had always attended these prestigious shows. Being aware, however, that this could cause bad rumours in a highly sensitive market (are RIO in financial problems?) I set about making sure that RIO Prestige drummed up some free positive publicity in both the local and national press, in order to avoid hire cancellations.

Matters remained very difficult; I decided to remain in the UK working at the RIO Prestige offices to personally assess the downturn first hand, before deciding on my next step. By mid November it was clear that the normal uptake on spring bookings would be down by almost 40% on last year's numbers, and the fact that the company had debts mounting was of grave concern.

Earlier swift action to cut the company's marketing budget dramatically would help the company survive moving forward, and these cuts were deep. For example, the offsite marketing budget was reduced by over 65%. The intervention meant that the planned TV advertising was wiped out almost completely, cut by 90%. The Christmas advert was left running after negotiating a further 25% discount. I had now assumed full control of the marketing budget, cancelled all spring TV advertising for the first half of 2009, and informed the staff in November that hard copy advertising was to be cut by 75% immediately. In all, the entire marketing budget was reduced by 70% for 2009. This would all help but clearly this was still not enough.

After a two-week study of the company I had assessed what other costs could be cut, this time from staff expenditure, and I took the unpopular decision to terminate all UK staff allowances. I had already cancelled the fuel cards held by staff and instructed the bank to reduce the limit on the corporate credit card issued to the General Manager by 50%.

In December I reviewed in detail the company's creditors and monies due to them before returning to Indonesia in January 2009. From Jakarta I began to e-mail all creditors informing them that I personally would negotiate the paying of these outstanding invoices. They were also made aware that the General Manager was no longer in authority to pay these bills. I was successful in both delaying payments due without charge, which afforded the company the much needed time to consider how to raise money.

More importantly I had suggested to creditors that they could be paid immediately should they agree to discount the monies owed to them by RIO Prestige. Understanding the economic climate most were sympathetic, and I was able to stave off legal actions, which had been threatened. Happily, given the economic downturn most creditors were desperate to receive money; each had a bad tale of many companies owing them money and thus most agreed and reduced the outstanding money. This resulted in a collective saving of some tens of thousands of pounds. This was the first sign of light after a very hard four month period. I had to face the fact that the company was likely to have a rough January with February also looking bleak, meaning there was no way that the company could pay money due from income.

The general public was running scared, coupled with the fact that the company had experienced for the first time multiple hire cancellations. Again I tried where possible to assist in retaining now hard-to-come-by bookings. Although unpleasant work, we were relatively successful. The exercise resulted in the company containing losses from the end of January to Spring bookings of no more than 15%. The actual requested cancellations were far higher, over 35%, with most clients expressing concern over the economic situation in the UK, and being naturally cautious over spending money.

Plagued by the fact that running costs were still too high, I had no option but to consider staff redundancies at the beginning of February. The preparation had already been done since I had consulted with RIO's corporate lawyers on this topic at the beginning of January. During February I informed staff that the company was considering staff redundancies and meetings were held with each member of staff independently. The subsequent discussions were heated as the job market was lean for anyone that would be laid off.

I was advised to bring in a public relations company to avoid any potential mistakes in the following of the exact procedures to be adhered to by the company when considering entering redundancy negotiations. Since I did not have the time nor was an expert in this field, I brought in an appropriate company who took over and detailed the meetings with members of staff being considered for redundancy. This saved any tribunal cases being raised against the company, and redundancies were put into effect as amicably as possible.

In order to pay outstanding debts, the company had no option but sell five vehicles, this being done over a three month period. Fortunately, RIO Prestige came up with an innovative and market-breaking solution to replace vehicles with little to no expenditure making use of the market condition. Since many owners of supercars could not sell, we approached them to make an income on them by hiring their cars through RIO. This innovation has been remarkably successful and totally changed the business. As always this has been adopted by the competition, but RIO was first and has maintained its high brand image and popularity.

By April 2009 through attending to the above, I had spent 89 days of the 2008/9 tax year in the UK, and spent all of the last quarter of 2008 and the first quarter off 2009 working 15+ hours a day trying to resolve the above issues. In normal conditions I could have called upon the Fund for additional inward investment to avoid liquidating assets so that the company could pay the £60k insurance premium, due on October 11th; no insurance, no business! However, the Fund itself had suffered liquidity problems in line with other equity funds throughout the latter part of 2008 and into the first two quarters of 2009. That said inward investment would have made a significant difference.

Finally, I left for the UK on 22 July to assist with exhibition company, Salon Prive (salonprivelondon.com), where RIO Prestige is to exhibit their services. I will work on the stand at the event and hopefully secure membership sales to mitigate cost of this event, booked last year. I met with the organisers earlier this year who would not entertain any cancellation. After a big effort, however, I was able to reduce cost. I have several meetings arranged at this event, which I am expecting to lead to contracts being signed for corporate entertainment venues for October and April 2010. Once signed, this would secure over sixty thousand pounds of revenue for the company.

To highlight the current position the RIO Prestige Performance fleet cost £1.7m to acquire during 05/06. Today, the same younger fleet would cost £650k. Rental values have not changed. Rental Values have not changed. The simple reason for this is supply and demand; competitors in the marketplace have gone although the demand for rental has remained the same. Inward investment would be beneficial as the return on investment has almost doubled. The company needs the investment as we are turning away rentals because we do not have the vehicles to meet the requests. RIO Prestige Performance is in a position to do something about the massive losses seen, however, we require capital in order to do so.

Part Three of this report will be issued on my return from the UK. It is my goal that RIO Prestige will recover ground, although it will take time, and once again be able to build on the high reputation that it was earning before the 2008 economic crash.

William Gray