South Africa - Automotive Retail Financial Performance Trends
December 2020 to July 2022

Executive Overview

The global business outlook has a recessionary undertone with mounting evidence of slower economic growth in all major economies. The causes for this trend continue to be the supply chain disruptions, the Russia/Ukraine conflict, related sanctions against Russia, its reactions to these and China's stringent covid health management constraints on their economy.

South Africa is a small open economy which will continue to feel the effects of the recessionary developments with its major global trading partners. As with central banks across the world, the SA Reserve Bank will take actions through higher interest rates, to mitigate the effect of inflation. Sustained load shedding will continue to hamper growth and consumer confidence.

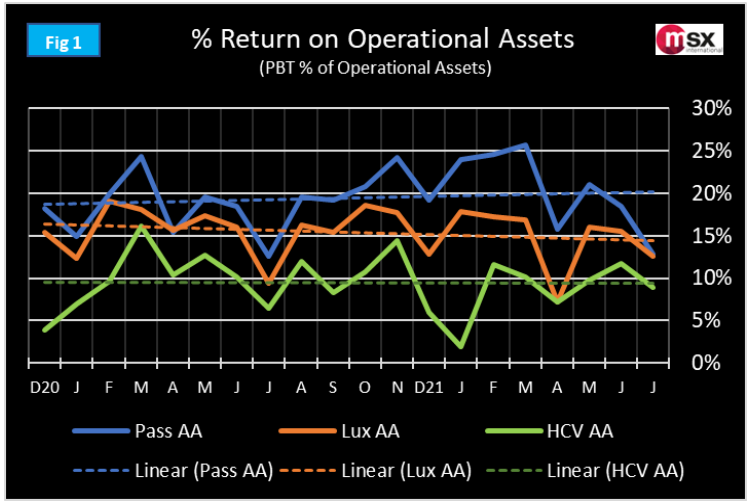
The purpose of providing MSX's Benchmark KPIs

Benchmark KPIs trends used in the analysis are based on a **one-month actual average** for each of the KPIs. All performance KPIs are an aggregation of the three or more brands that are involved in performance reporting to MSX.

Automotive Retail Network Performance - % Return on Operational Assets - Fig 1

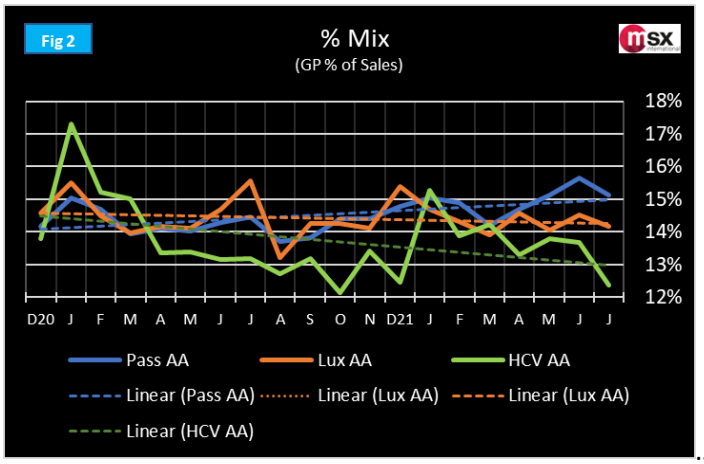
Dealers have on average experienced a decline in the past three months, on returns generated from dealer operations. A variety of financial and business management factors contribute to this performance result.

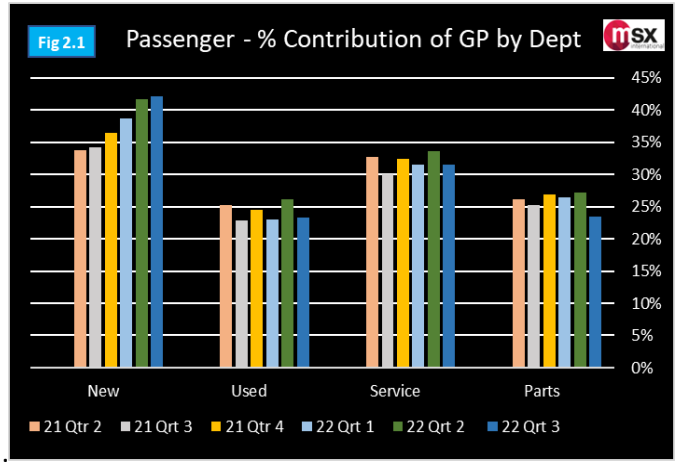
The three primary levers for financial performance are gross margin (Mix in MSX terms) , expenses management (Retained in MSX terms) and asset turns (Activity in MSX terms). Any gain or decline in the % ROA can be explained by changes in these three primary levers. Further insights on the impact that these three levers have on % ROA follow.

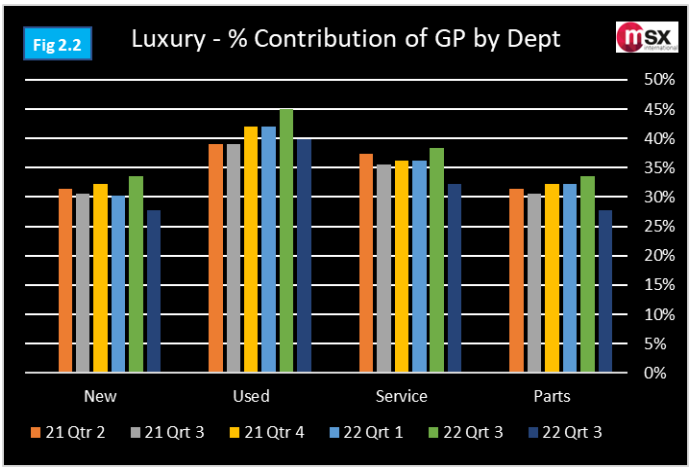


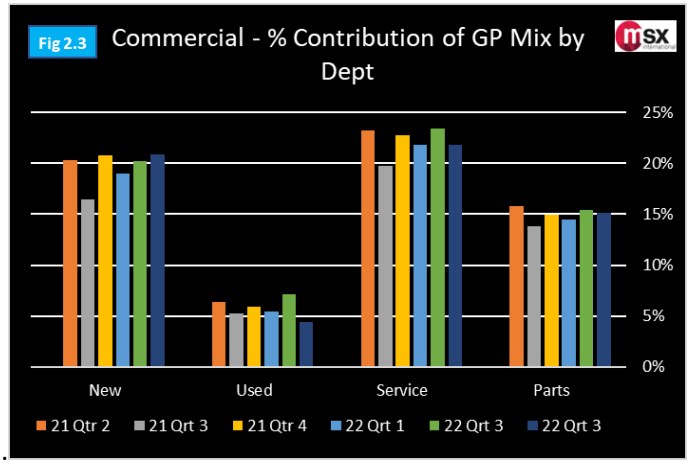
% Mix – Fig 2

The twenty-month trend lines for Total Dealership gross profit, in the three segments remains level. The July 2022 trends are all negative in each segment. Each segment has a different percentage contribution to total gross profit per department and this is illustrated in figures 2.1 to 2.3. The passenger segment shows a steady gain in new department gross and fall off in all other departments. New generally has lower gross margin percentage. Contributions from all departments in Luxury have declined, a clear indication of reduced business and trading volumes across all departments. HCV has a small improvement in new department contributions.



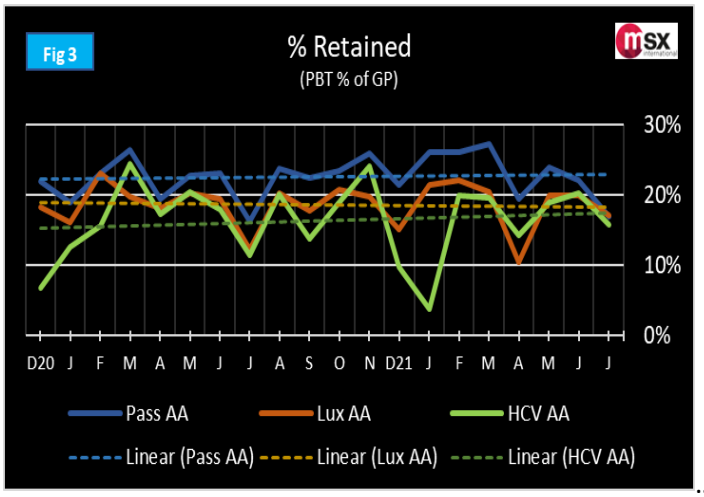


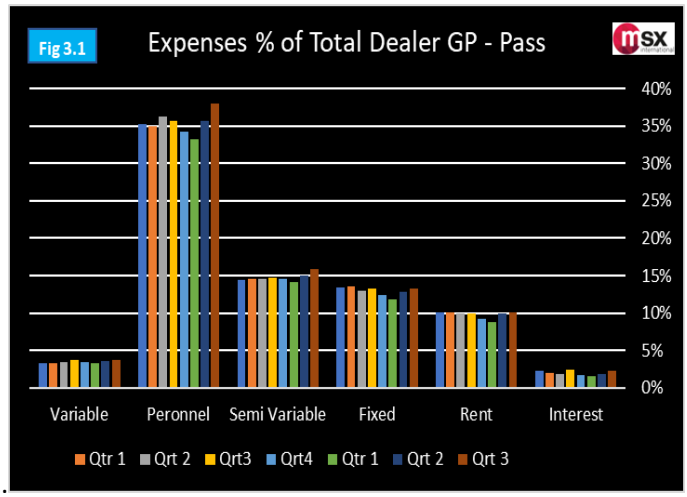


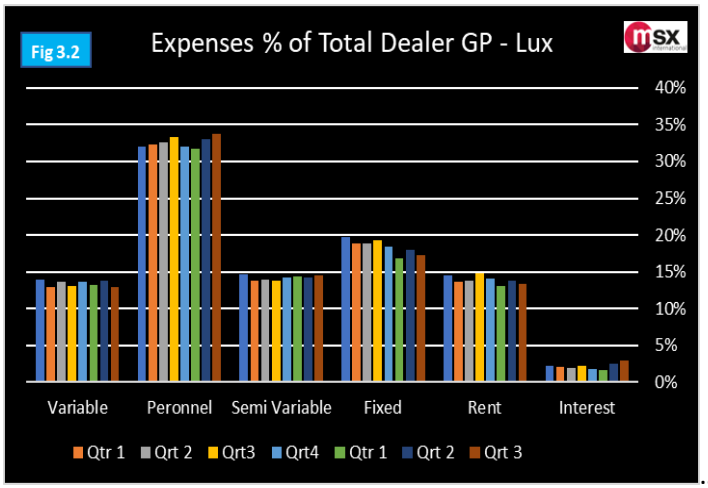


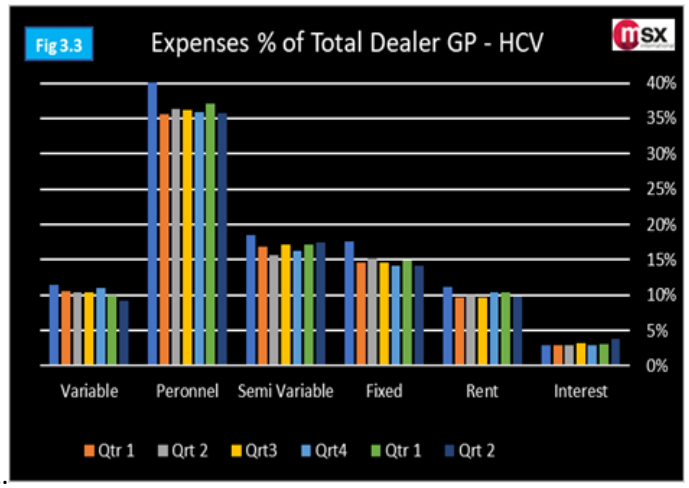
% Retained – Fig 3

Retained measures the percentage of net profit " **retained**" after deducting expenses form gross profit. Its also an indicator of management's control of expenditure. In relation to available gross profit the percentage retained has declined (Fig 3). If we look for the cause particularly in the 3rd quarter, we find for passenger (Fig 3.1) and luxury (Fig 3.2) that expenses have reached their highest level in twenty months. The HCV segment has better managed expenses. Expense management must remain a priority for management.



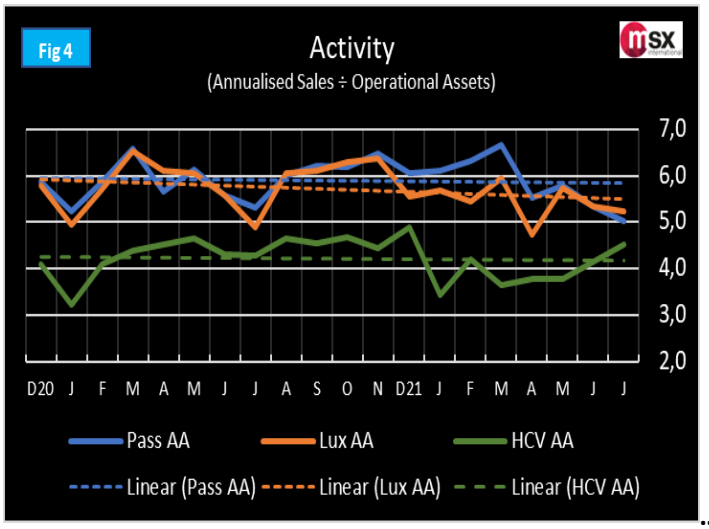


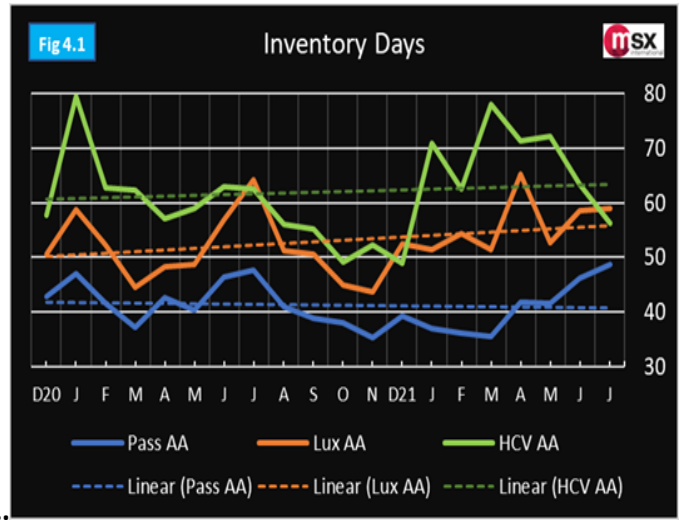




Asset Activity- Fig 4 and Fig 4.1

Activity measures the number of times operational assets are cycled in a year. The twenty-month trend remains steady. The Total Dealer Inventory levels as indicated in July 2022 (Fig 4.1) show slightly higher for HCV and building for passenger and luxury. A rise in inventory if not offset by higher sales volumes results in a decline in " activity" and therefore a possible reduction in percentage ROA.

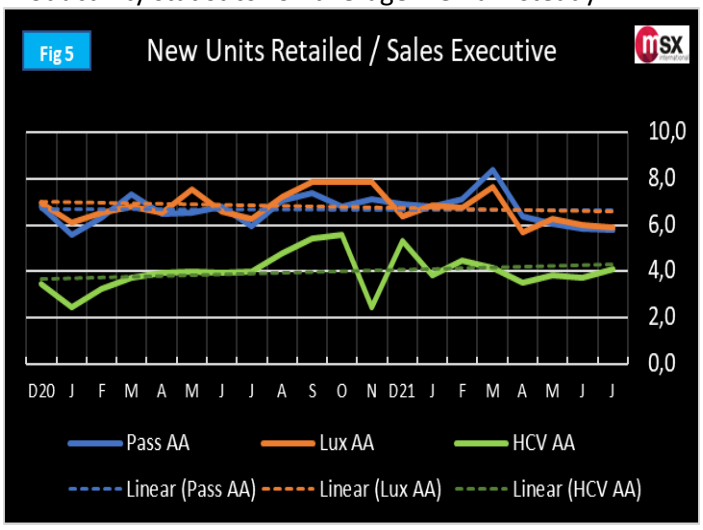


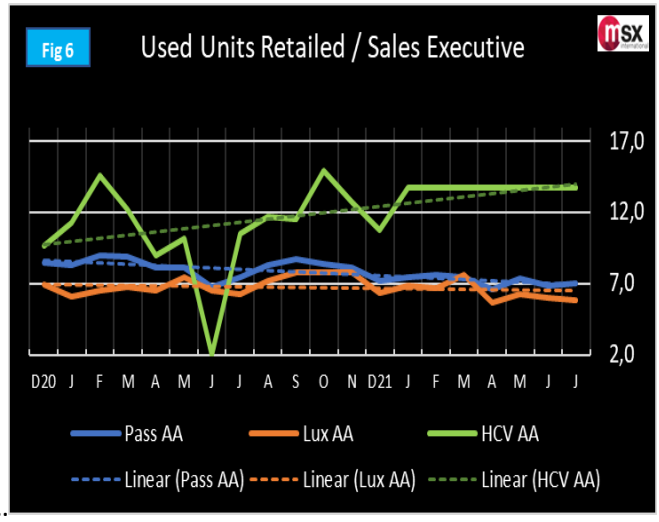


Dealership Productivity Measures

New and Used Units sold per Sales Executive – Fig 5 and Fig 6

Productivity statistics "on average" remain steady.

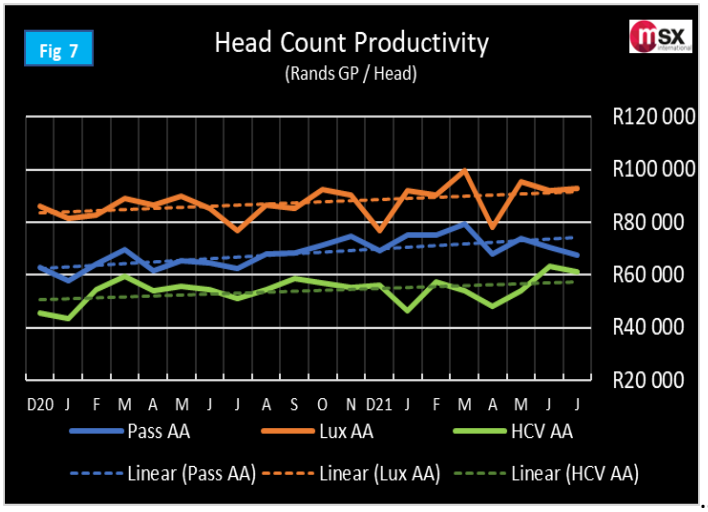


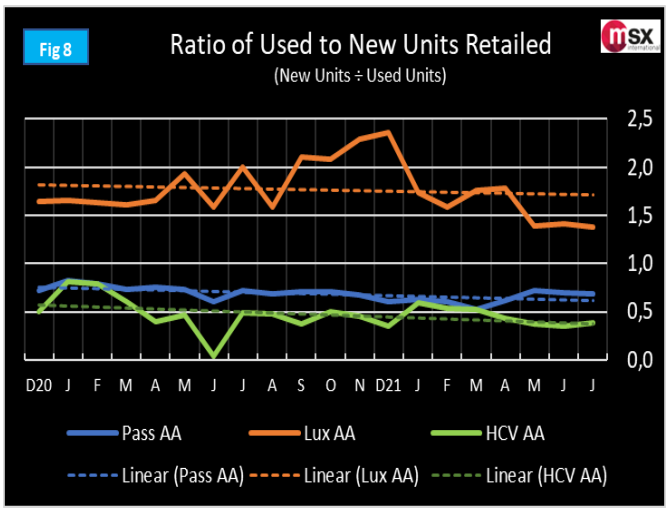


Head Count Productivity - Fig 7 and Fig 8

Gross profit per head (Fig 7) has a general rising trend. A dealership in any one of these segments producing a GP / head at this level, will be profitble. Any dealer falling below this average need to review their operations with a critical eye on head count and profitability.

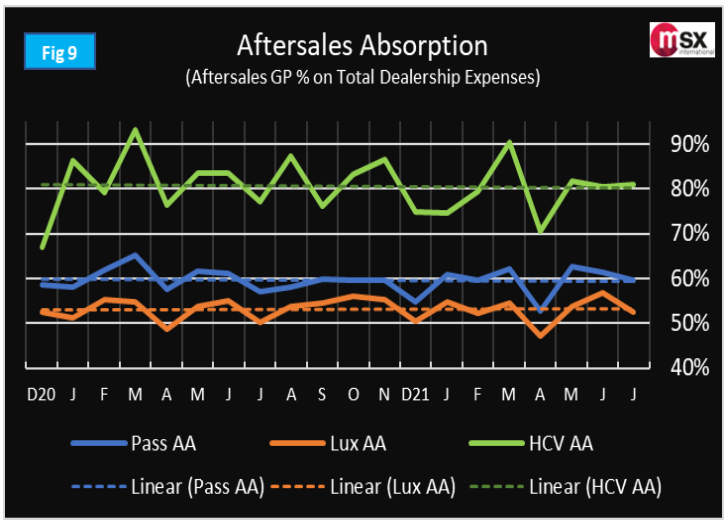
The ratio of Used units to New units(Fig 8) retailed in the last two quarters would suggest no significant trend break.





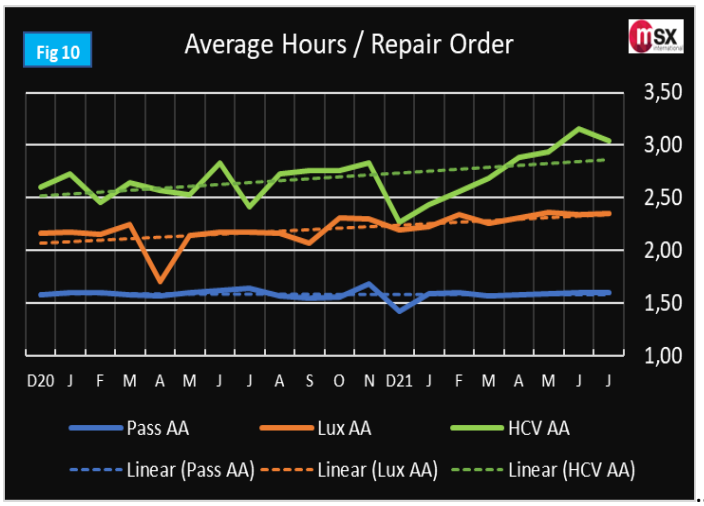
Aftersales Absorption - Fig 9

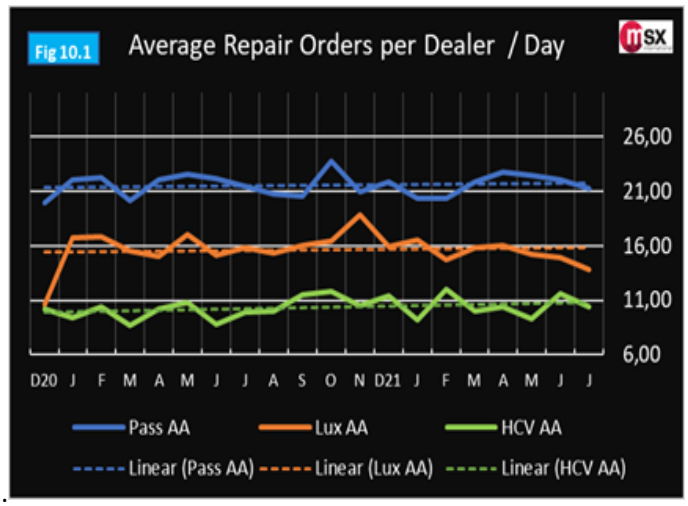
The twenty-month trend lines, indicate that the contribution from aftersales on average is consistent. Any dealership not achieving this absorption rate, needs to review their business model to determine where it's the expense base that requires a review or the gross margins generated by parts and service that need adjustment or a combination of both.



Service Productivity Measure - Figs 10, 10.1 and 11

The twenty-month trend lines for hours per repair order (Fig 10) trends show an uptick for HCV, but remains steady for luxury and passenger.

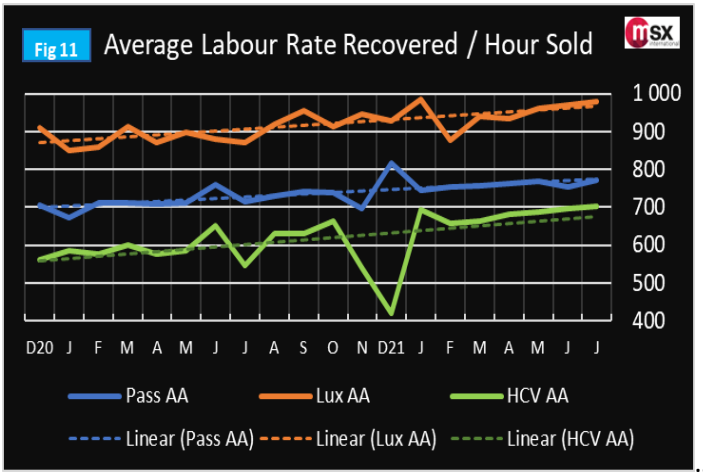




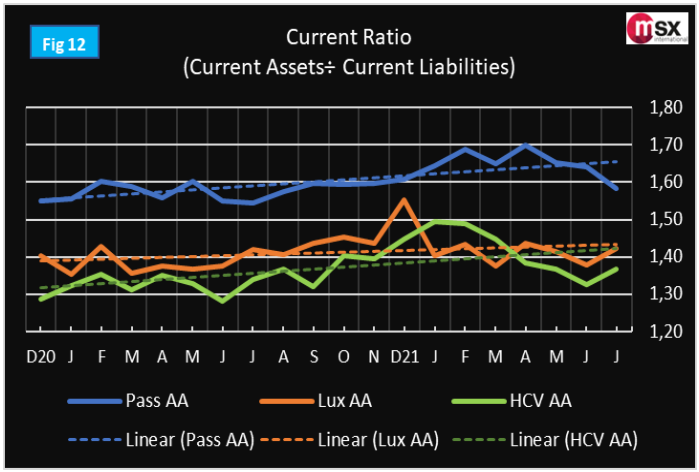
The twenty-month trend for hours per repair order reflects a increase in the HCV segment and remains stable in the passenger and luxury segments.

The twenty-month average RO / dealer per Day (Fig 10.1) continues to show a fairly stable pattern.

A rise in the average labour rate recovered (Fig 11) would suggest that adjustments for inflation are steadily filtering through the industry.



Dealership Liquidity : Current Ratio – Fig 12



Liquidity levels show a trend break for the first time in twenty months and are declining. Dealers are utilising funds to finance inventories and possibly operational expenses.

Future Prospects

Recessionary economic head winds can be expected in all segments of the SA economy. Anticipating and forward planning for challenges that face dealers and their team , that they can influence,should be a priority.

MSX International SSA



Athol Quin
Operations Director
Sub-Saharan Africa
Mobile: +27(0) 83 460 1812
Email: aquin@msxi.com



John Templeton
Client Services Director
Sub-Saharan Africa
Mobile +27(0)83 276 2990
Email: jtempleton@msxi.com