South Africa - Automotive Retail Financial Performance Trends
February 2021 to September 2022

Executive Overview

Recessionary head winds are expected around the globe, which will impact the South African automotive sector from both local demand and exports.

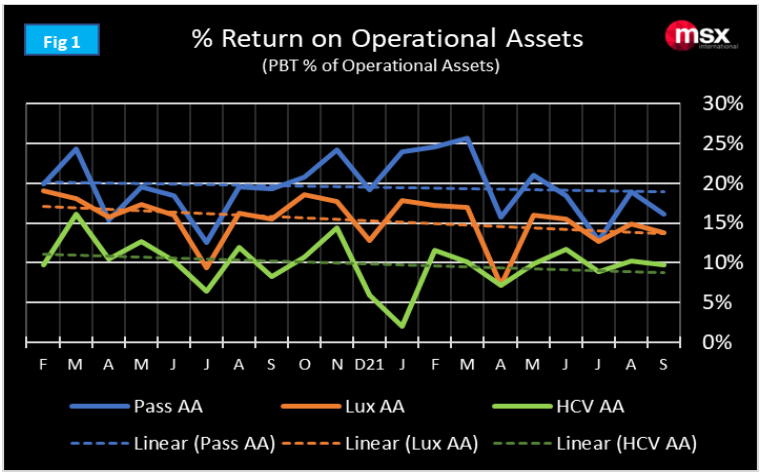
Efforts to combat inflation are a global phenomenon and the authorities in South Africa are determined to slow inflation without dramatically affecting economic growth.

The South Africa automotive sector continues to enjoy steady demand from its diverse customer base though the cost of borrowing will negatively impact this demand in the months ahead.

MSX's Benchmark KPIs

The benchmark KPI's provide a point of context for performance. The KPIs are all the average performance for the particular metric.

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



The percentage returns on operational assets in all three segments show gradual decline. The three variables that combine to give the % return on operational assets are the % Mix (Gross Profit) x % Retained (PBT as % of Gross Profit x Activity (Asset Turns). One or a combination of these will explain the cause for a given trend.

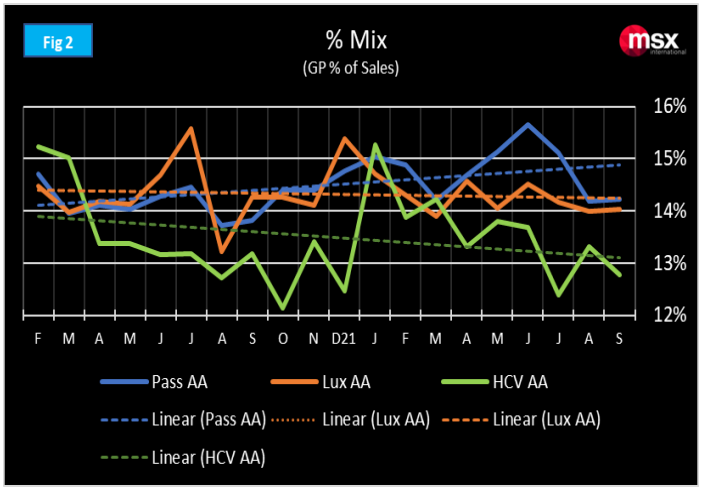
In the Passenger, Luxury and Commercial segments the decline is attributable to a drop in % Mix and Activity. % Retained has remained consistent.

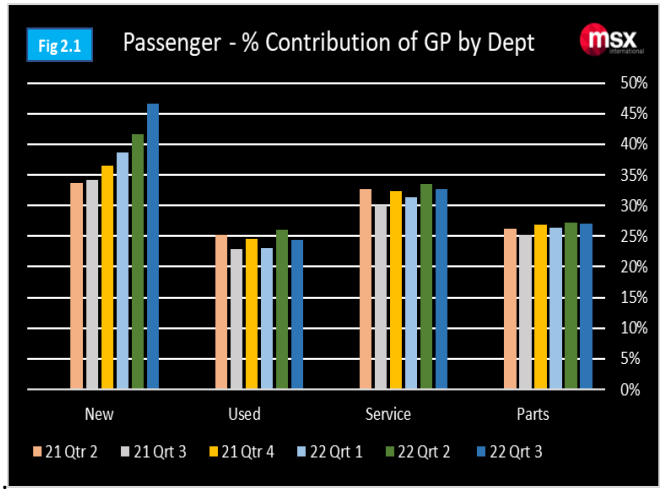
% Mix – Fig 2

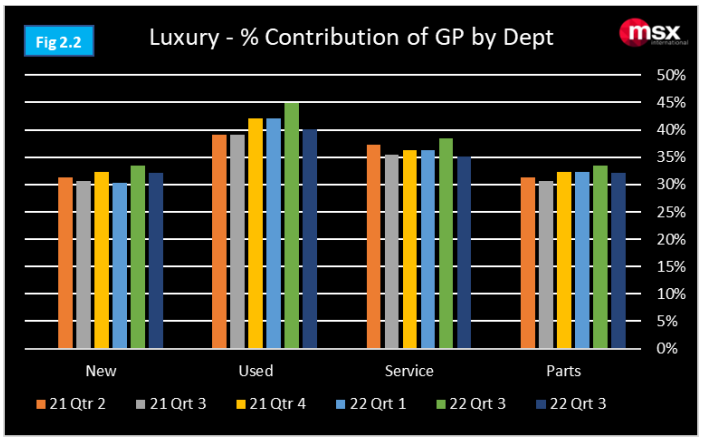
The Passenger segment (Fig2) had a surge in % Mix in June which has tapered with a significant improvement in gross profit generated for new vehicles (Fig.2.1)

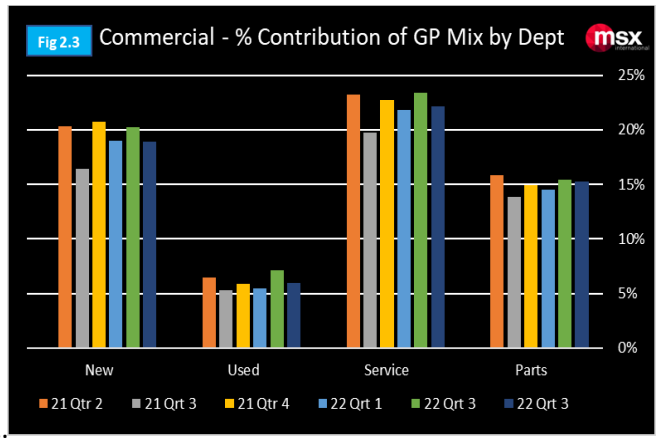
The Luxury segment has maintained steady margins over the period and has the main gross profit contribution coming from used vehicles (Fig 2.2)

The Heavy Commercial segment has reflected a steady decline in margin since January this year, with the service departments making the largest contribution to gross profit.





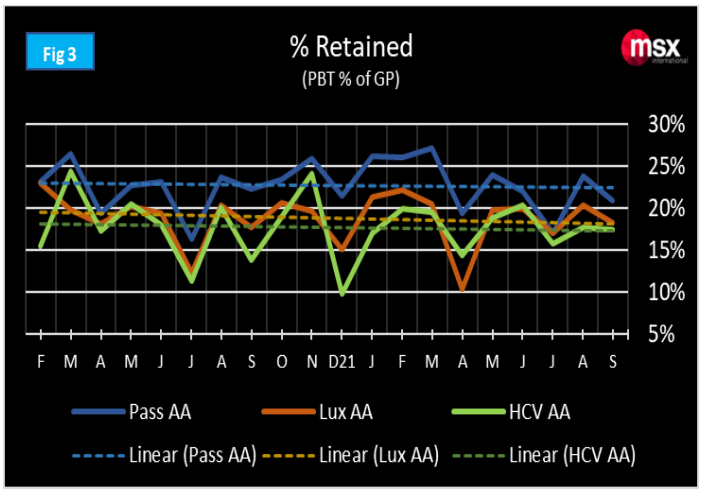


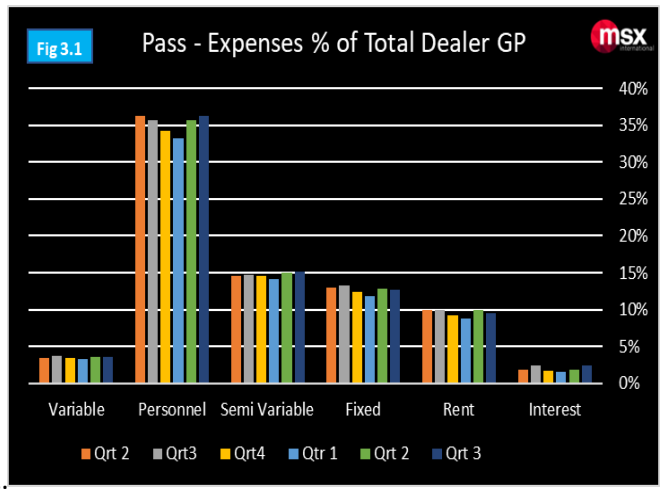


% Retained – Fig 3

% Retained is the ratio of Net Profit to Gross Profit (Net Profit ***Retained***). The trend lines for % Retained (Fig 3) remain steady and level for the twenty-month period. This would suggest that expenditure is well controlled in each of the segments. The value of this analysis is to ensure that one's own pattern of expenditure is in line with these trends. If they are better no action is required.

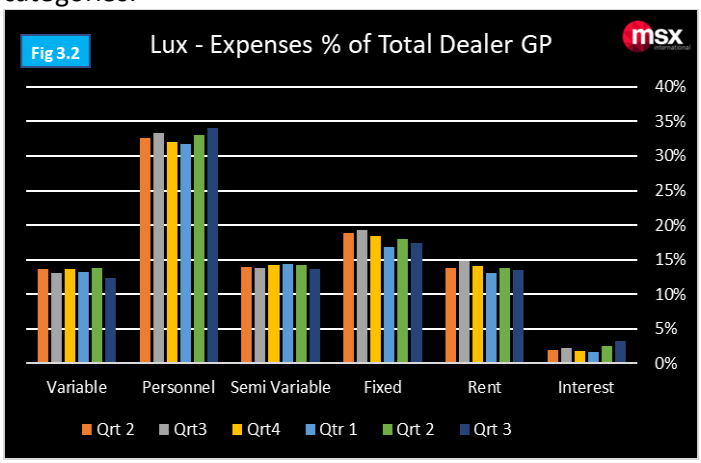
In the Passenger segment (Fig3.1) the pattern of expenditure remains consistent with personnel costs representing 35% of total gross margin. An increase on the quarterly average in all six categories is evident.

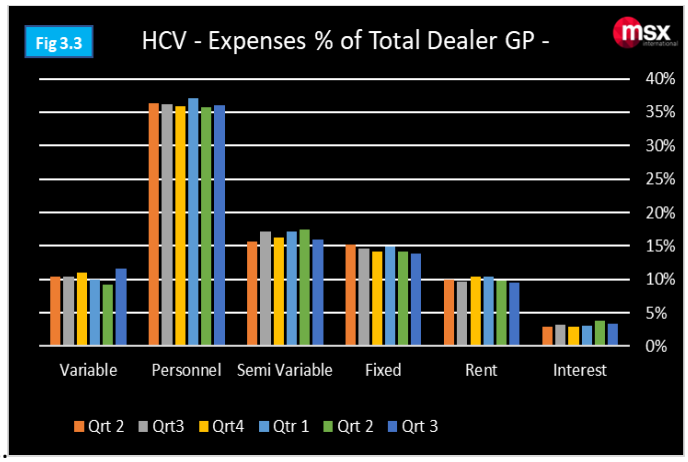




In the Luxury segment (Fig 3.2) Personnel and Interest costs in Qrt 3 have been incurred at a higher rate that the other expenses.

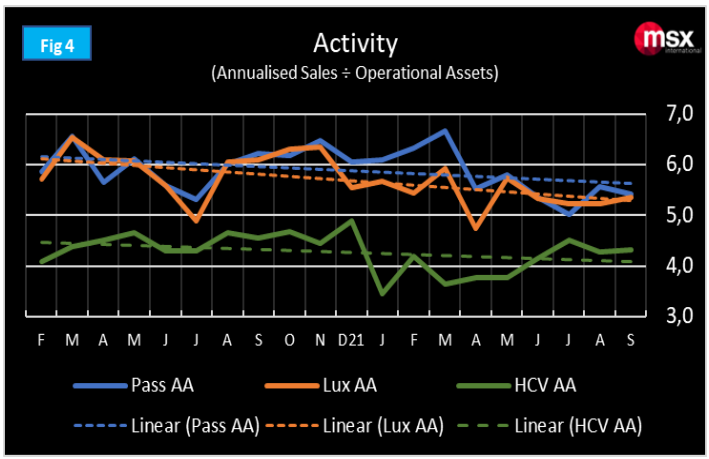
In the HCV segment (Fig 3.2) variable costs have been incurred at a higher level in quarter 3 than the other categories.

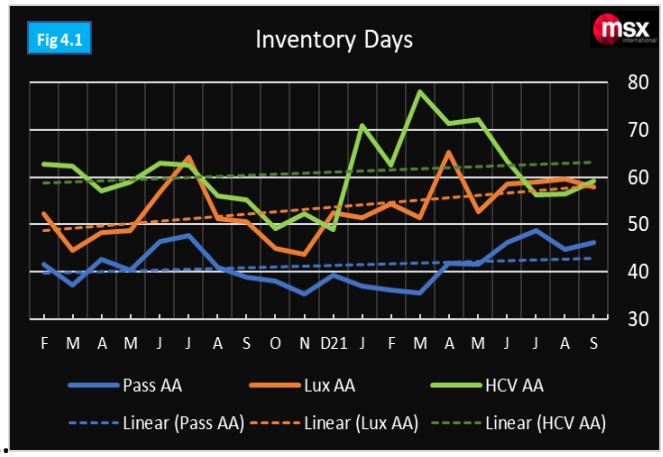




Asset Activity- Fig 4 and Fig 4.1

Activity measures the number of times operational assets are cycled in a year. Activity within Passenger and Luxury is showing a decline and a gain in HCV (Fig 4). Inventory levels (Fig4.1) are resining in all segments.

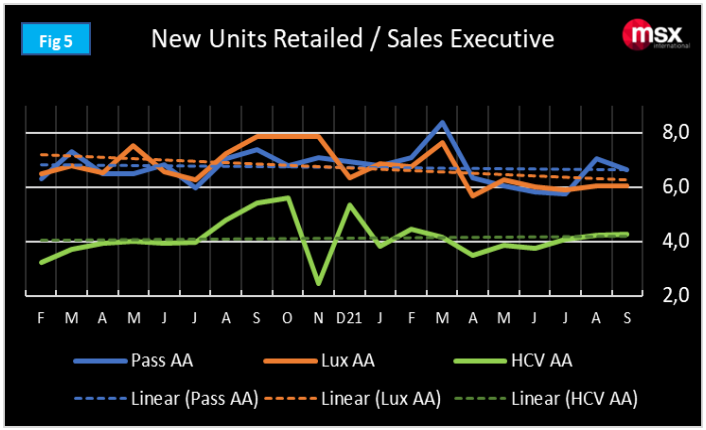


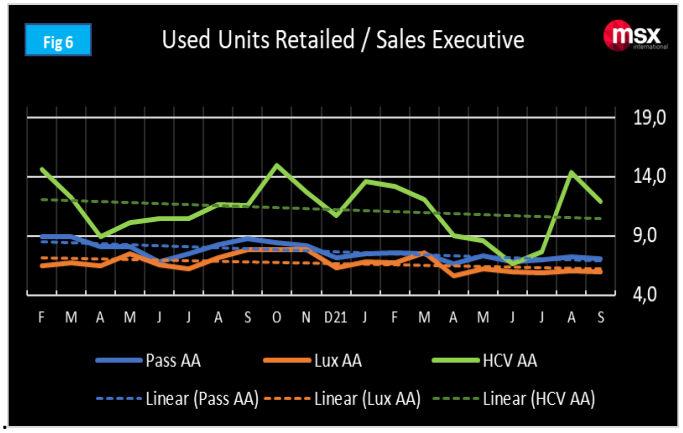


Dealership Productivity Metrics

New and Used Units sold per Sales Executive

The ability of new and used sales executives to better the average trend reflected in Fig 5 and Fig 6 is the challenge. These are the average results. If any one of the dealership sales team in new and used is falling below these levels a question regarding performance is justifiable.

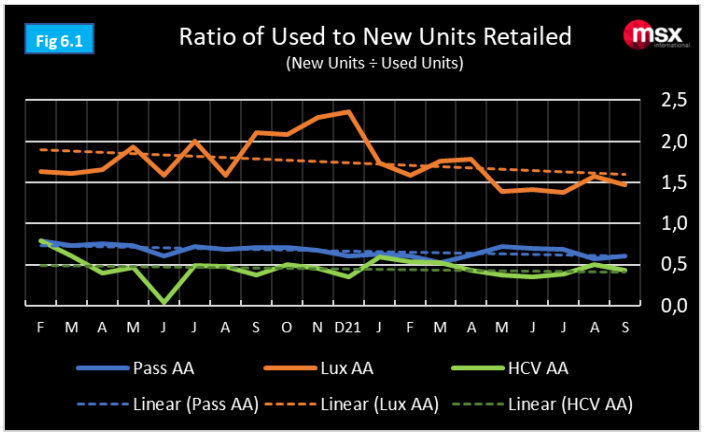


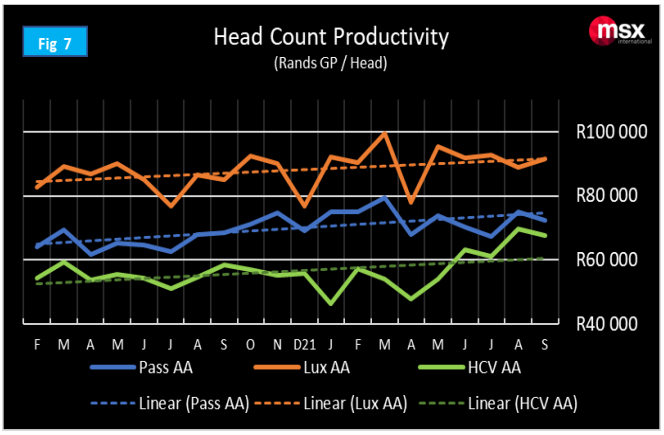


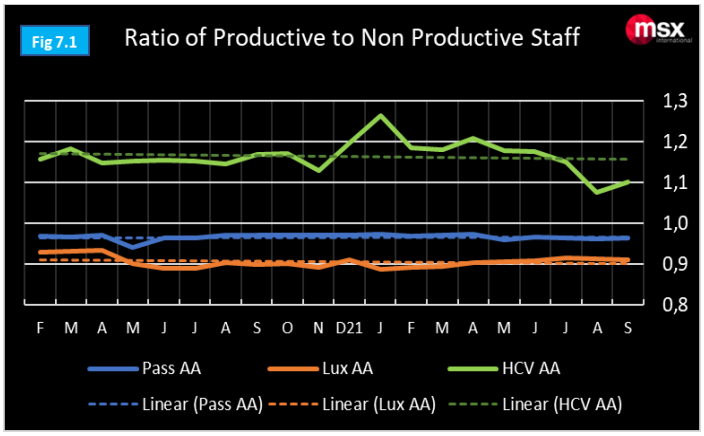
The ratio of Used to New units retailed (Fig 6.1) based on the results of franchised dealers reveals that the Luxury segment still has a strong demand for used units.

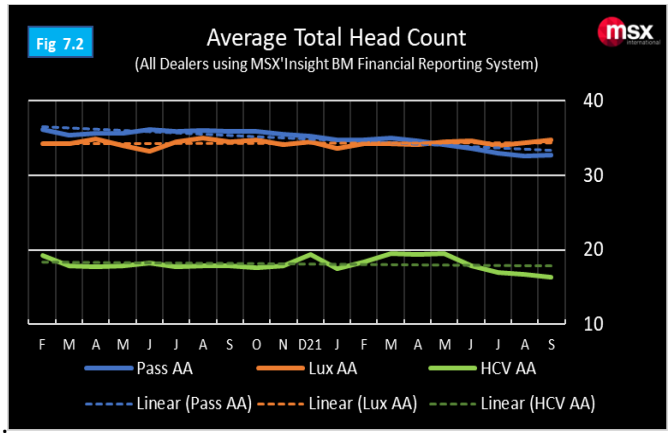
What does each employee (Fig 7) in the dealership generate in terms of gross profit per head. The trends are positive but also conceal a potential decline in heads. The average head count per dealership (Fig7.2) would suggest head count numbers have not declined.

Figure 7.1 reflects on the ability to structure itself with resources that are productive (viz selling or generating revenue) versus those in support roles. These are average statistics which means there are dealers with much better ratios.



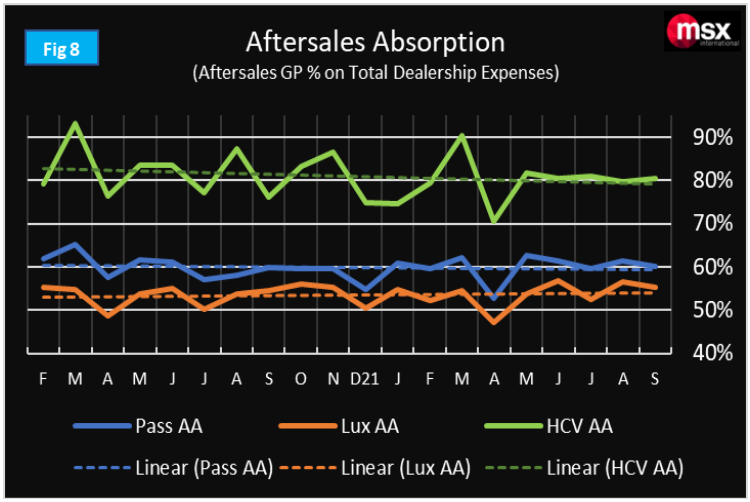






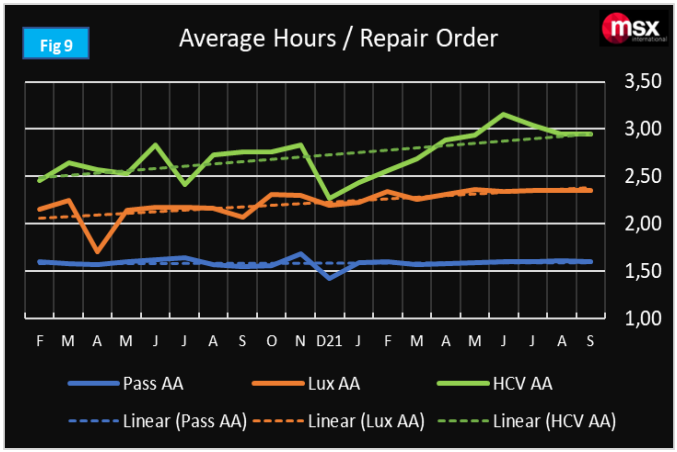
Aftersales Absorption - Fig 8

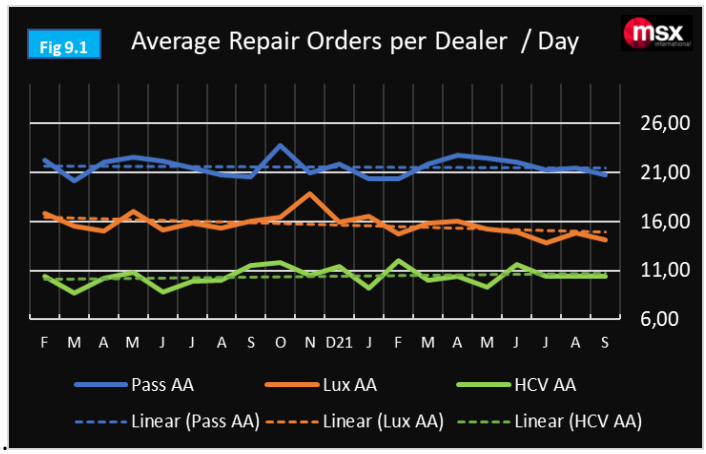
The gross profit contribution to total dealer expenses remains steady in all three segments. These trends reflect the industry average per segment. There are dealers who are significantly better and those who are below. The latter requires action on the part of the dealership management team.

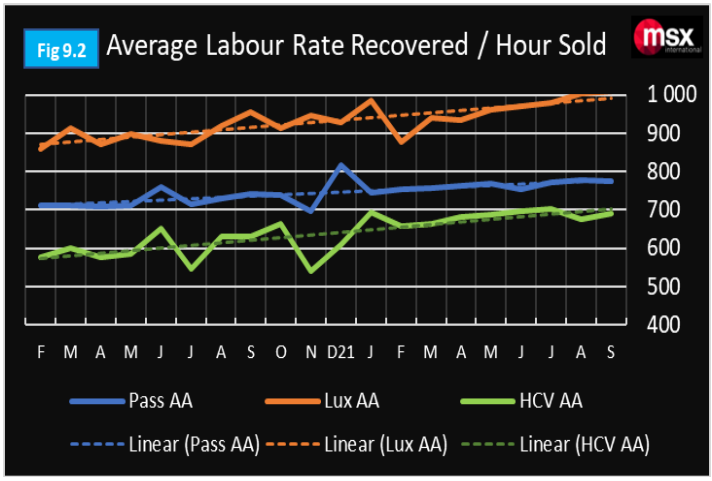


Service Productivity Metrics - Figs 9, 9.1 and 9.2

The statistics are all averages of averages and there will be service department performing at a higher level and those at a lower level. Factors like brand, regional location will have an impact. Against this backdrop the trends look positive. The steady rise in labour rates as shown in Fig 9.2 has an inflation factor underpinning the trend.

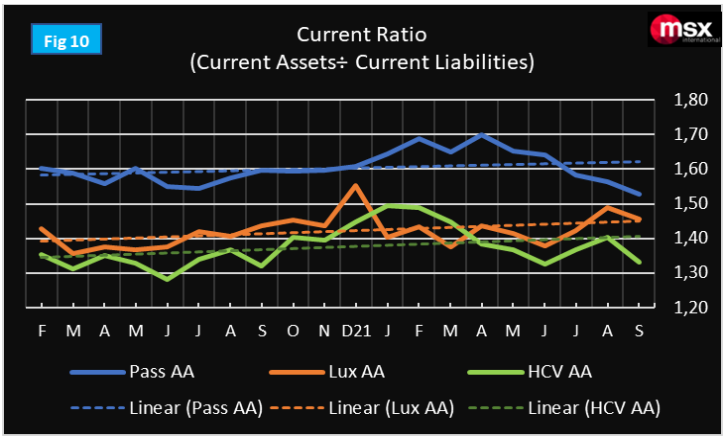






Dealership Liquidity: Current Ratio – Fig 10

Liquidy the measure of the ability for a business to pay its short term liabilities is an important consideration of financial health. Its notable that liquidy levels show an upward trend, though the trends in the 3rd quarter suggest a decline in liquidity.



Future Prospects

Manufacturing and supply chain constraints are diminishing, set against these positive development are negative efforts to constrain inflation and the success of these efforts are not yet apparent. South Africa by all accounts is set to experience a mild recession in 2023. There are grounds for a positive outlook for the Automotive Retail Sector in South Africa

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