South Africa - Automotive Retail Financial Performance Trends
December 2022 to November 2023

Executive Overview

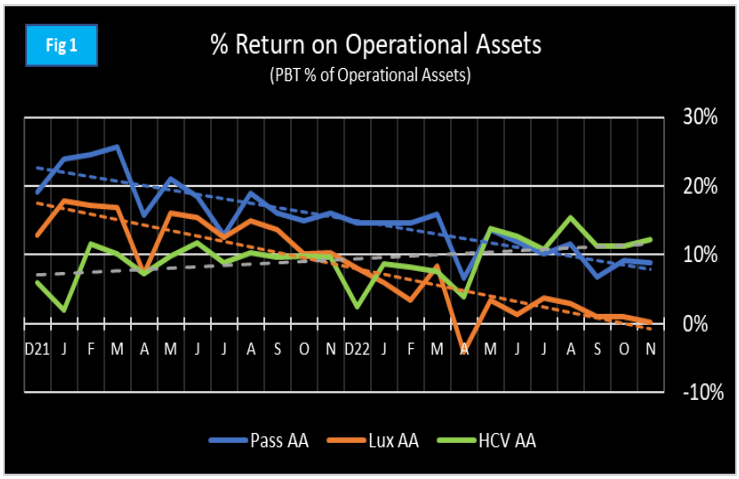
Geopolitical risk is having a negative impact on growth within the global economy. The impact of climate change on some economies is becoming more evident. Constraints on free trade within the Middle East Region and the Red Sea crises including risk mitigation by shipping carriers will have an inflationary impact.

In the South African context the ongoing impact of load shedding and weak export demand continues to dampen consumer confidence and general local economic activity.

MSX's Benchmark KPIs

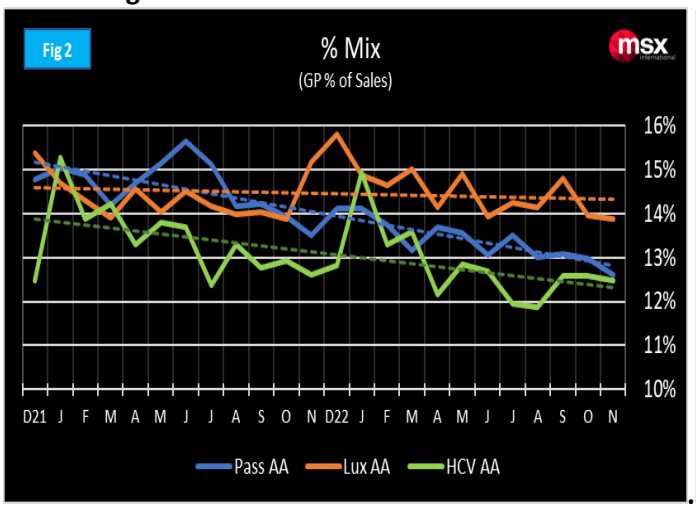
The benchmark KPI's provide a point of context for judging dealer performance. These KPIs are all a calculated average. Trend lines are include to facilitate interpretation.

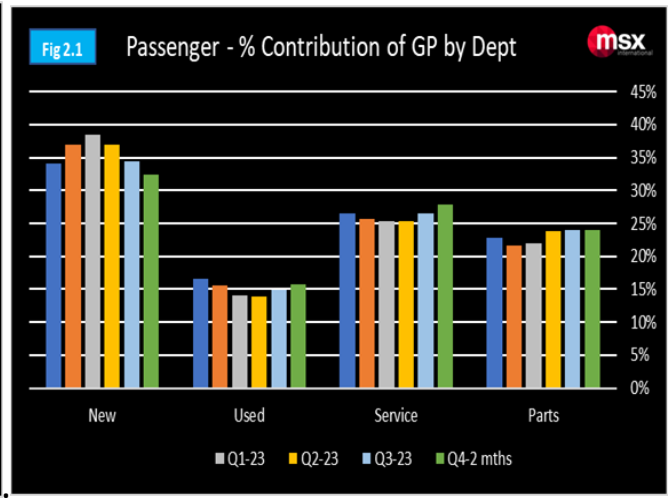
Automotive Retail Network Performance - % Return on Operational Assets - Fig 1



Profitability and returns within the automotive sector are under pressure and reflect a steady decline since December 2022. The combination of lower profit margins (Fig 2) higher levels of expenditure (Fig 3) and a notable increase in inventories, as reflected by lower assets activity (Fig 4), combine to reduce the returns on operations assets. Interestingly Commercial Vehicles have maintained a steady rate of return.

% Mix – Fig 2



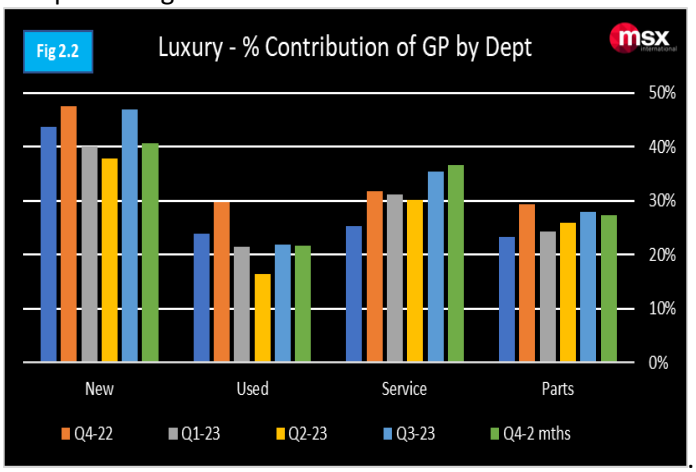


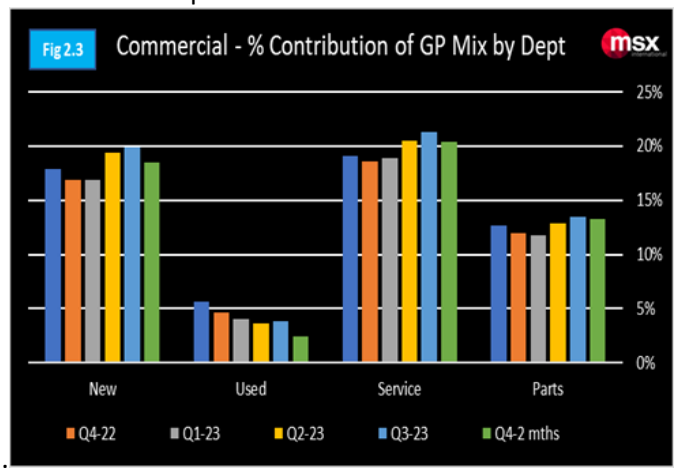
The % Mix trend (Fig 2) highlights the pressure on margins faced by both Passenger and Commercial categories. The margins for Luxury have remained steady.
The contribution by department for each category is reflected in (Fig 2.1 , 2.2 and 2.3).

The percentage contribution in Passenger (Fig 2.1) from New department has declined whereas the percentage contribution in the other departments has increased. This is a clear indication that profitability on new department sales is under severe pressure.

The percentage contribution in Luxury (Fig2.2) has declined in New vehicles but is partly offset by by a gain in service. The decline in new department contribution reflects the fall in demand in the luxury segment.

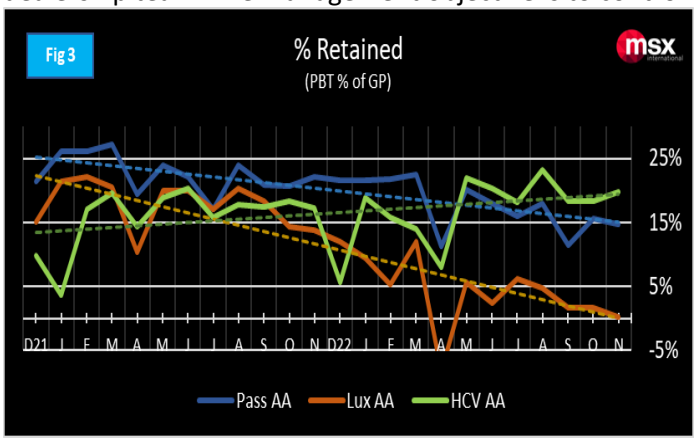
The percentage contribution in Commercial Vehicles has declined in all departments.

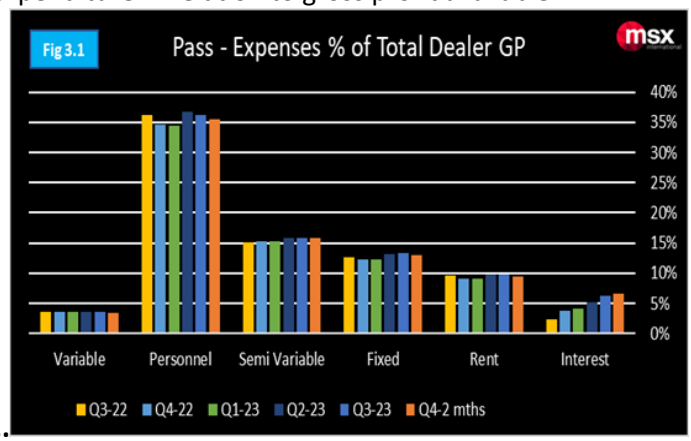




% Retained – Fig 3

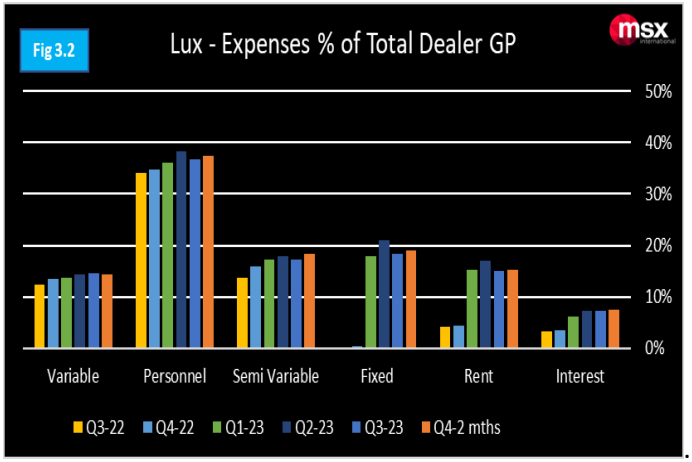
The % Retained is the Net Profit expressed as a % of the Gross Profit. It's a measure of the control of expense by the dealership team. The management objective is to control expenditure in relation to gross profit available.

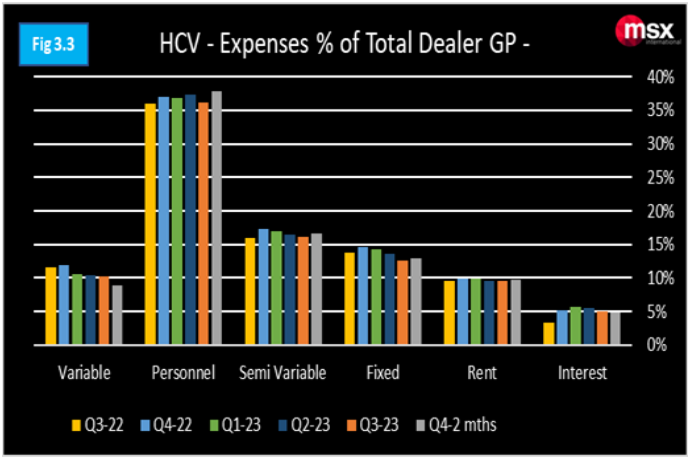




A reduction in the percentage retained for Passenger and Luxury would suggest that a focus on reducing expenditure is necessary. Commercial Vehicles are showing a gain in Retained which suggests that expenditure levels are satisfactory.

The level of expenditure in all three segments (Fig 3.1,3.2 and 3.3) remains steady with personnel costs the largest.



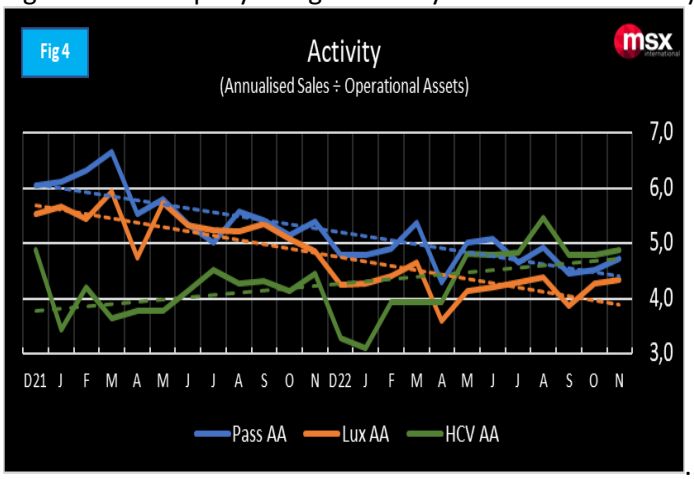


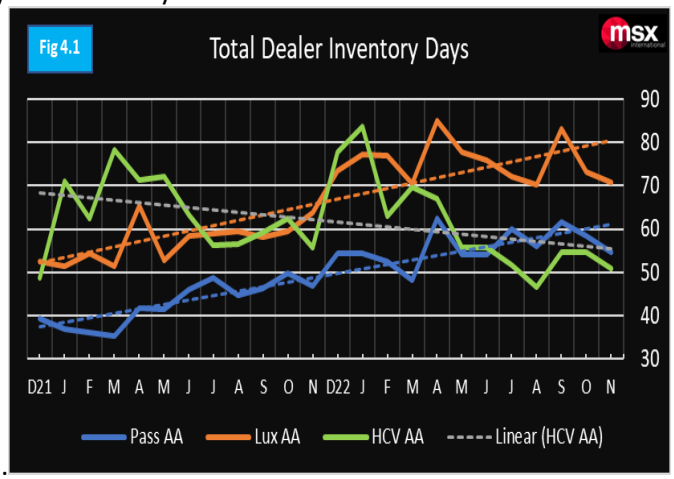
Employee costs remain the largest contributor and **Interest** costs in all three categories show a **Step** increase.

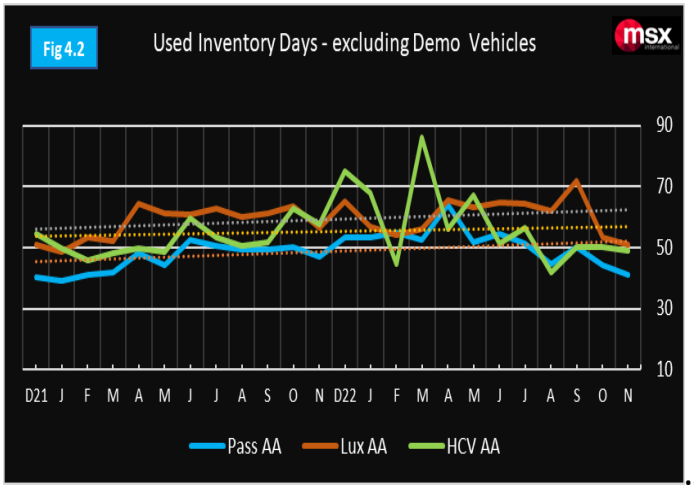
Asset Activity- Fig 4 and Fig 4.1

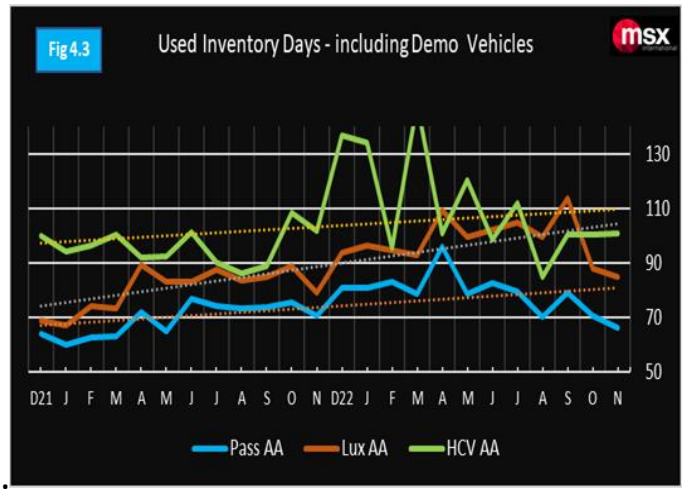
Activity measures the number of times operational assets are cycled in a year. The decline in assets activity (Fig 4) for Passenger and Luxury highlights the fact that dealers on turning stock at a much slower rate. Activity is the product of two variables, sales divided by inventory. Sales are lower and inventory higher , resulting in lower activity. Inventory levels for the three categories (Fig 4.1 to 4.3) show steady increases. A buildup of both new and used inventory for Passenger and Luxury categories is evident. New and Used inventory managers need to focus on addressing the challenge of a steady increase in new and used inventory.

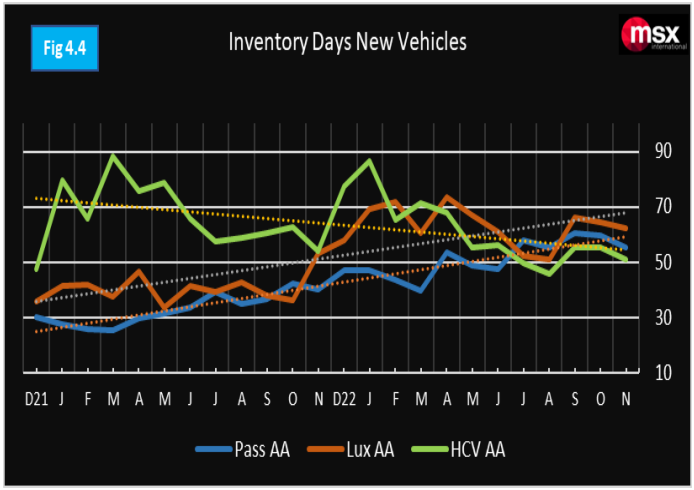
Fig 4.1 shows rapidly rising inventory levels as reflected by the stock days on hand.







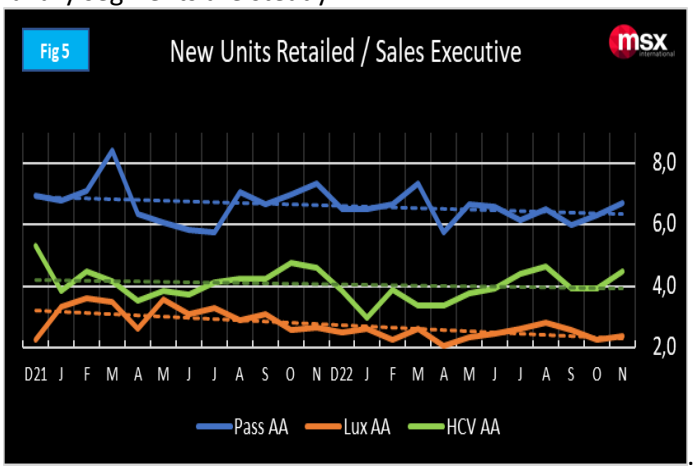


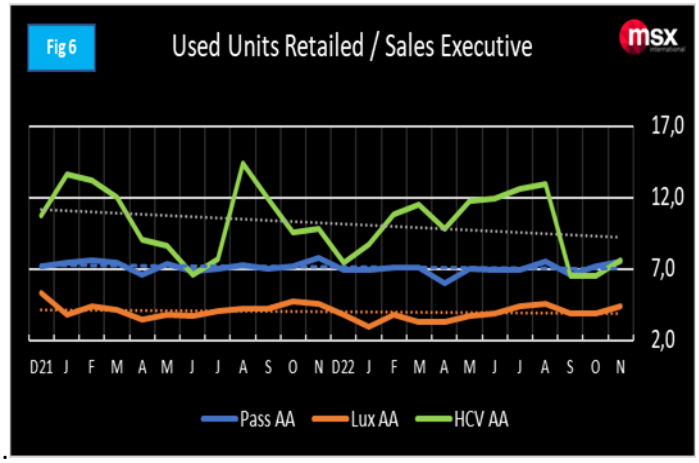


Dealership Productivity Metrics

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

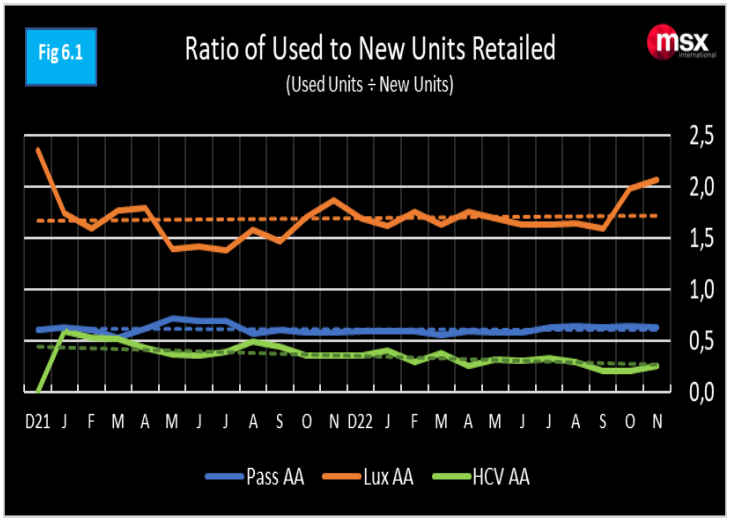
These productivity measures based on actual results are a realistic indication of what can be achieved.The productivity trends for new (Fig 5) and used (Fig 6) indicate that productivity per sales executive for passenger and luxury segments are steady.



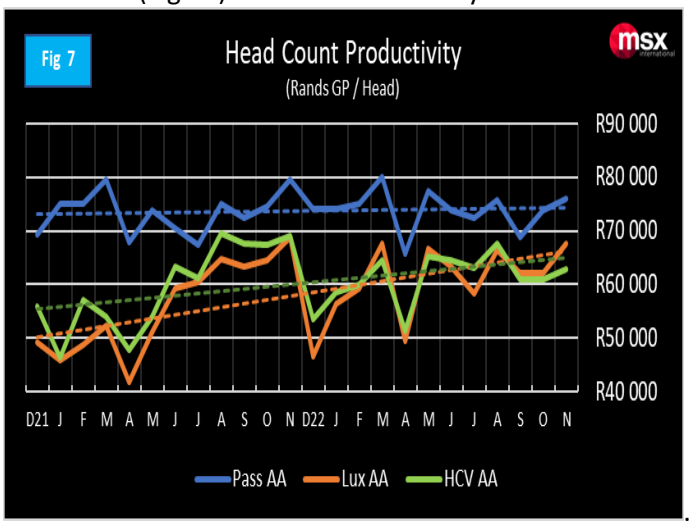


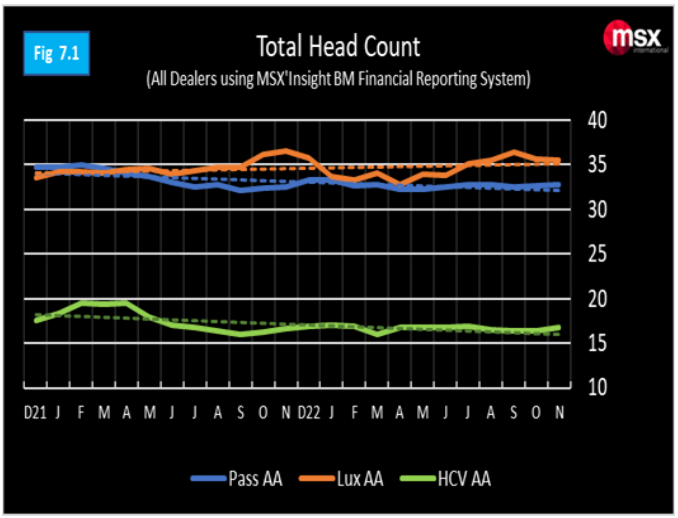
Ratio of Used to New (Fig 6.1)

The trend of the ratio of used to new vehicles retailed is unchanged. Used vehicle sales as reported by dealers continue to outpace the sale of new vehicles.



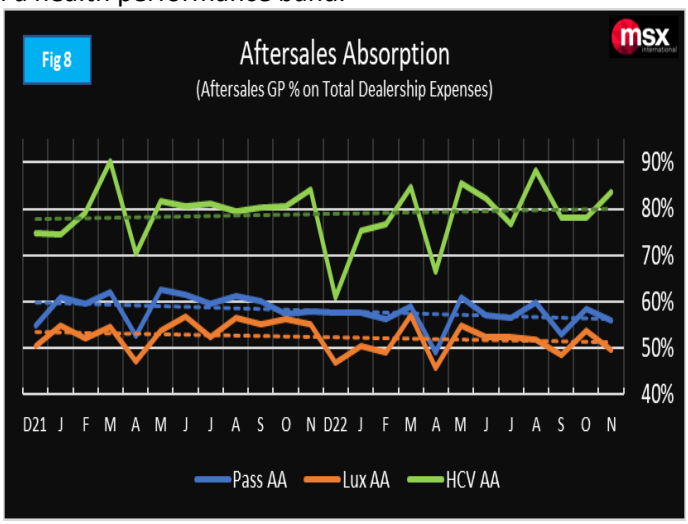
The gross per head (Fig 7) is rising steadily. The rise in Rands GP/Head is attributable to improved gross margin, headcount (Fig7.1) has remained steady.





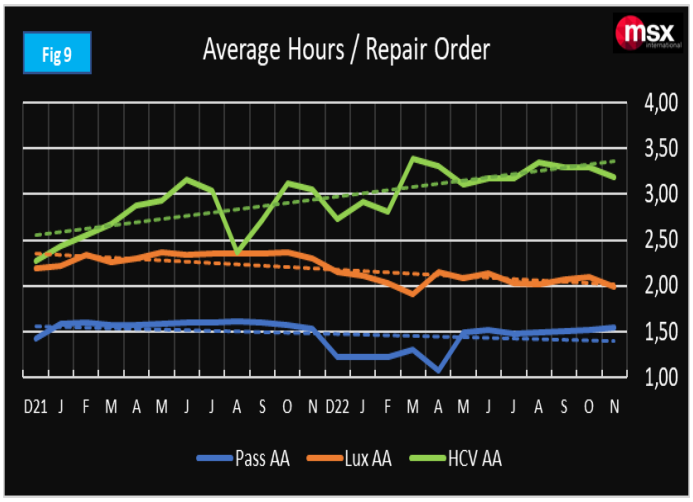
Aftersales Absorption - Fig 8

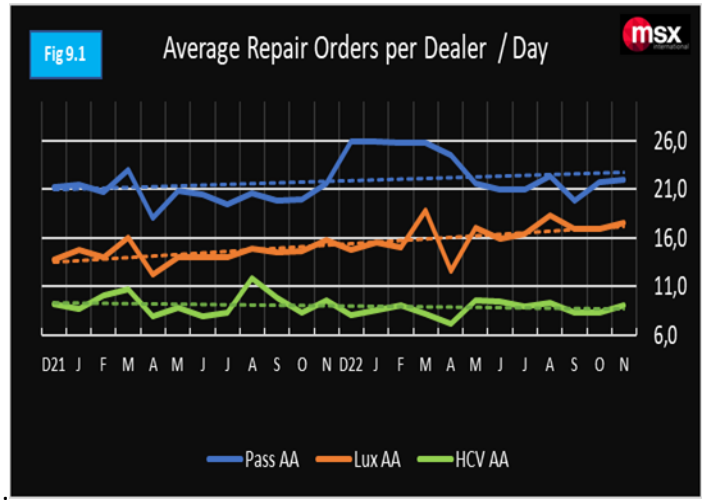
Aftersales Absorption measure the gross profit contribution from aftersales to cover total dealer expenses. The norm is approximately 65% absorption. The average trend line of each segment shows a small decline, but overall aftersales absorption is in a health performance band.



Service Productivity Metrics - Figs 9, 9.1 and 9.2

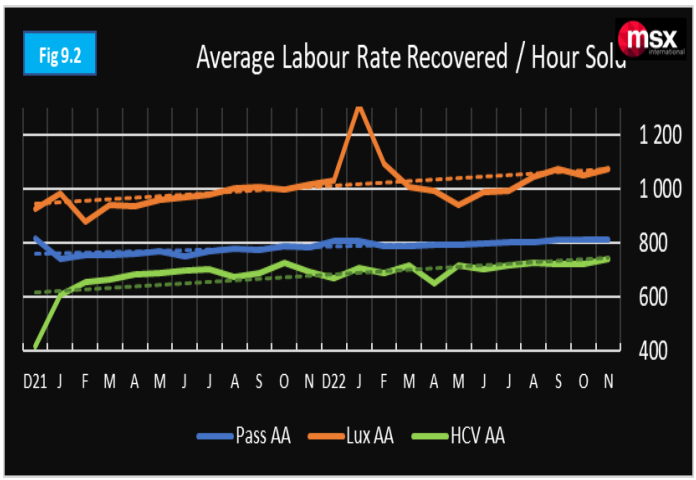
The average hours per repair order (Fig 9) remains steady. Commercial vehicles show a steady gain in 2023. Repair orders per days (Fig 9.1) remains at a consistent level.





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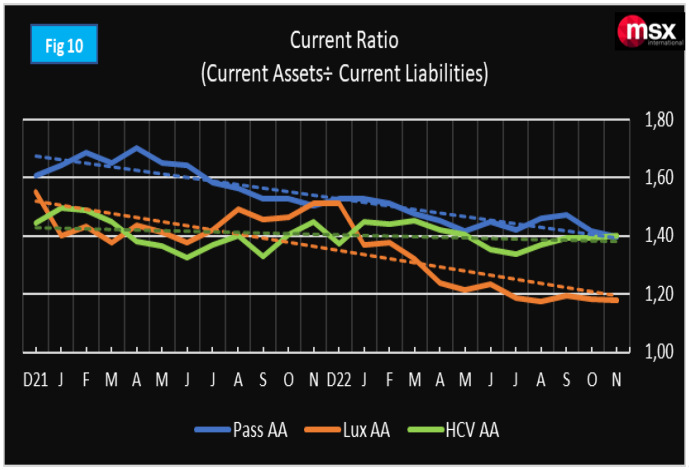
The steady rise in labour rates (Fig 9.2) is a sign that pricing adjustments continue. Two primary factors may contribute to this. The retention of skilled staff at times required a upward adjustment to employee earnings and inflation in general.

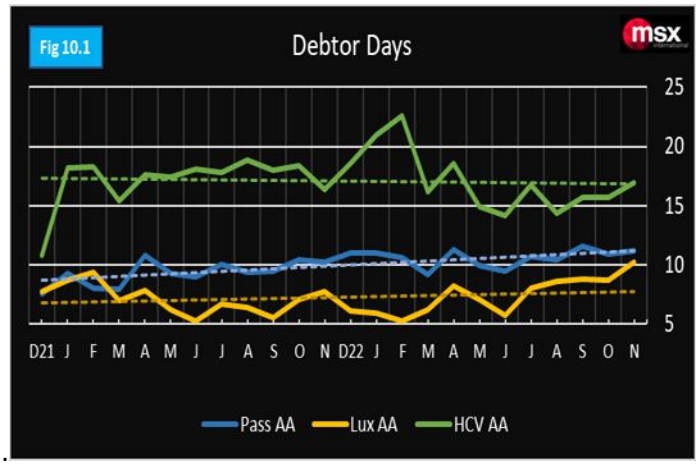


Dealership Liquidity : Current Ratio – Fig 10

The current ratio is used across many industries locally and globally to indicate liquidity in a business. The norm is a cover of 1.2

Dealerships on average are showing reduced liquidity. Dealers would be well advised to marshall the cash reserves and asset management. Total debtors remain in normal bands of performance for each segment.





Future Prospects

In the South African automotive environment, dealers need to give thought to the multiplicity of business risks and how to mitigate these. One of the primary actions to mitigate risk is sound financial management and for this to be a leading activity for all departmental heads.

New and Used inventory management are the two areas of dealer operations as highlighted by the above detailed analysis requiring intense focus.

In an environment where gross margin earnings are declining the rational for every expense need to be reviewed.



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