

Bidvest Automotive

One of South Africa's largest motor vehicle retailing groups. Bidvest Automotive offers leading motor brands through 116 dealerships, as well as vehicle auctioneering, comprehensive financial services, car and van rental and the full range of Yamaha products.



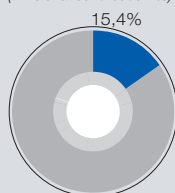
R17,3 billion

Revenue 10,7% increase

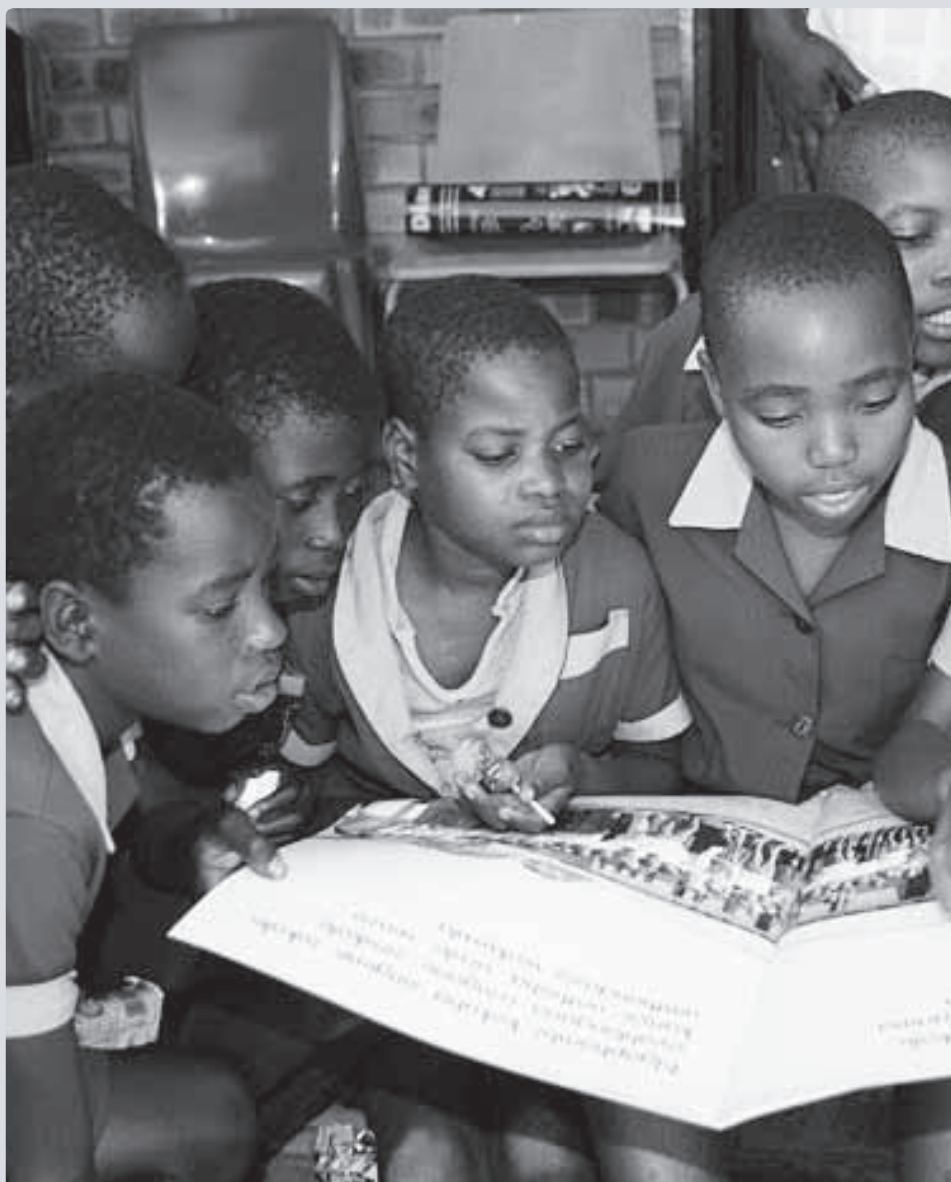
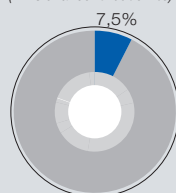
R424,1 million

Trading profit 60,4% increase

Revenue
(Divisional contribution %)



Trading profit
(Divisional contribution %)



Community engagement

Founded in 1998 by McCarthy, the Financial Mail and the READ Education Trust, Rally to Read is an educational initiative founded on a high level of personal involvement by sponsors and supporters. From its early days as a campaign to distribute educational books to a handful of schools in KwaZulu-Natal, Rally to Read has developed into an educational programme that has invested over R50 million in books and teacher training for thousands of rural schools.



Highlights

- ▶ McCarthy Motor Group more than doubles trading profit to R208 million
- ▶ McCarthy VW/Audi remains top motor franchise profit contributor
- ▶ Virtually all the smaller franchises stage impressive profit turnarounds
- ▶ Used vehicles become an even more significant profit contributor in McCarthy Motor Group with a 34% increase in net contribution
- ▶ Almost 800 000 vehicles serviced and repaired
- ▶ Bidvest Financial Services increases trading profit by 165% from R58,2 million to R154,1 million
- ▶ Substantially improved financial results in motor and financial services despite a decline in retail vehicle sales from 75 114 to 72 291 units
- ▶ Extensive restructuring successfully implemented
- ▶ Continued training of informal mechanics at Orange Farm
- ▶ Owner-driver scheme involving 20 former employees launched
- ▶ Artisan Academies remain leading automotive industry training provider
- ▶ Staff trained to ensure compliance with Consumer Protection Act

Financial indicators

(for the year ended June 30)

	2010 R'm	2009 ⁽¹⁾ R'm
Revenue	17 297,5	15 626,3
Trading profit	424,1	264,4
Operating assets	4 286,1	2 913,4
Operating liabilities	1 952,5	1 913,0
Depreciation	85,7	64,6
Goodwill and intangible assets	238,1	238,1

Sustainable development indicator overview

Employees	6 699	6 719
Total training spend (R'000)	86 736	65 301 ⁽²⁾
Training spend per employee (R)	12 948	9 719 ⁽²⁾
Employees attending HIV/Aids training (%)	59,8	43,5
Lost-time injury frequency rate	2,6	1,8
Work-related fatalities (number)	–	–
BEE procurement (R'000)	7 074 620	5 664 710
CSI spend (R'000)	7 408	3 255
Enterprise development spend (R'000)	1 716	2 982
Total water usage (litres '000)	358 081	316 300 ⁽³⁾
Total electricity usage (kWh '000)	43 765	45 500 ⁽³⁾
Petrol (litres)	6 471 009	7 600 000 ⁽³⁾
Diesel (litres)	489 131	558 000 ⁽³⁾
Total carbon emissions (tonnes)	60 648	66 878
Carbon emissions per employee (tonnes)	9,1	9,6

⁽¹⁾ 2009 sustainable development figures include McCarthy Fleet Services which was transferred to Bidvest Services. Other than the number of employees, the 2009 figures in relation to the transfer, have not been restated as the impact is not considered significant

⁽²⁾ Restated to include learnerships

⁽³⁾ Restated



QUICK LINK: Historic divisional sustainable development data

http://www.bidvest.com/bidvest_ar2010/025.html

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Brand Pretorius, *chief executive*

Positioning and reputation

McCarthy celebrates 100 years in business this year and is one of the most trusted brands in automotive retailing. We are positioned as “the value leader you can trust”. All Bidvest Automotive businesses adopt a long-term business sustainability philosophy, with the accent on appropriate business strategies, sound values, people development and customer retention.

Macro- and trading environment

As South Africa moved out of recession, there was keen focus on new vehicle sales, a lead economic indicator. The new vehicle market recorded a significant improvement and by June passenger vehicle sales were up 27,9% year to date. Gains, however, were from an extremely depressed base.

In 2006, new vehicle sales topped 700 000 and market size was projected to exceed 1 000 000 units by 2011. Unit sales for 2009 reached just 395 000 and in calendar 2010 are expected to recover to about 475 000 units overall – 34% below 2006 levels.

Statistics fail to disclose the financial legacy of vehicle manufacturer optimism from 2006. Considerable investment was required by brand principals to support market expansion that failed to materialise, adding to fixed costs and leading to over-stocking and margin squeeze just as

recession forced unprecedented market contraction. Slow recovery from a low base has yet to offset these effects.

South Africa's return to economic growth was hesitant. Consumers remained under pressure and banks remained risk averse. Credit extension increased only marginally. The macro-environment for motor retailing and associated activities remained challenging. Strong World Cup effects were expected to support vehicle rental. In fact, the tournament's impact occurred much later than expected and was not nearly as substantial as some hoped.

After more than two years of extremely difficult trading, one positive is the emergence of a spirit of partnership between retailers and manufacturers as the industry confronts new realities and applies recent learnings.

Strategic and industry dynamics

Modest economic growth, higher levels of business and consumer confidence, lower interest rates and enhanced vehicle affordability contributed to a meaningful recovery in overall unit sales. Corporate customers accounted for much of the activity. Consumers remained cautious. Low rates eased debt servicing costs, but household debt as a percentage of disposable income remained high. Extension of vehicle replacement cycles

put pressure on workshop utilisation and parts sales.

The first half saw a strong upsurge in used vehicle sales, but greater balance was apparent in the second half. At industry level the used-to-new ratio (at 2,3 used cars for every new car financed in November 2009) had recovered by June 2010 to 1,6 used cars for every new car.

We sold 29 697 new vehicles, 2% less than the 30 290 units sold in 2009. Used vehicle sales declined by 5% to 42 594 units. Total retail vehicle sales amounted to 72 291 units. Used-car profitability along with parts and service made a major contribution to the business.

Across the industry as a whole, the vehicle population shrank as the number of scrapped vehicles moved higher than the number of new registrations.

At Bidvest Financial Services, soft interest rates were negative for returns on bank deposits, though a strong recovery by the JSE was positive for the investment portfolio. Notwithstanding the reduction in vehicle sales, the BFS underwriting profits were 15,6% up thanks to improved penetration levels in all products, tight expense and claims controls and good retention strategies.

Industry-wide, the level of vehicle rental activity fell 0,8% for the 12-month period, reflecting cutbacks on corporate travel and consumer belt-tightening. Budget was also impacted by reduced international travel as a result of the global financial crisis.

Efficiencies

In an effort to improve efficiencies, a number of restructuring initiatives were implemented.

The asset-based finance business, McCarthy Fleet Solutions was sold to Bidvest Bank. We also sold 50% of McCarthy Vehicle Imports (the channel for importing Chery and Foton) to Imperial Holdings. Imperial took management responsibility for the resulting joint venture, now named Amalgamated Automotive Distributors.

The construction machinery operations of McCarthy Heavy Equipment were wound down and the materials handling division transferred with effect from May 1 2010 to Afcom, a subsidiary of Bidvest Industrial and Commercial.

Yamaha Distributors has been repositioned as an independent business reporting separately into Bidvest.

The three remaining businesses, McCarthy Motor Group, BFS and Budget Car and Van Rental, also started operating as independent businesses during the last quarter of the financial year.

The McCarthy corporate office was collapsed and the functions taken on by the three core operational divisions.

The restructure applies the Bidvest philosophy of smaller, focused business units, local autonomy and decentralisation of corporate services. Simultaneously, the potential succession problem was solved. Each division is led by an experienced management team, with in-depth knowledge of each operational area. The

retirement of Bidvest Automotive chief executive, Brand Pretorius, is scheduled for March 2011.

Bidvest Automotive's asset-base was much reduced, enabling significant interest savings.

Unfortunately, retrenchments continued and the number of employees fell from 6 942, before restructuring, to 6 699. By the final quarter, almost all loss-makers in the motor group were moving back into profit and margin recovery was under way.

Quality people drive our businesses and leaner teams continue to apply our long-term policy of optimum customer service to secure strong repeat business.

Performance

Performance as a whole across the restructured and decentralised division was satisfactory. Trading profit rose 60,4% to R424,1 million (2009: R264,4 million). Revenue at R17,3 billion was 10,7% higher (2009: R15,6 billion).

Following extensive rationalisation and restructuring over the past two years, McCarthy Motor Group staged a strong turnaround. Trading profit more than doubled to R208 million despite a 4% decline in vehicle sales to 72 291 units.

Increased emphasis on used-vehicle trading resulted in an improvement of 34% in profit contribution, despite lower sales volumes. Parts and service revenues increased.

Pleasing results were recorded at BFS as it transitions to a multi-channel business model while retaining its strong automotive linkages. The business increased operating profit by 165% from R58,2 million to R154,1 million.

Budget Car and Van Rental, Yamaha Distributors and AAD delivered disappointing returns.

Operating profit at Budget Car and Van Rental declined by 25% from R86,7 million to R64,8 million, mainly due to conservative used-car buyback offerings from McCarthy dealers and low levels of fleet utilisation during the last quarter of the financial year.

Yamaha Distributors recorded an increase of 51% in operating profit to R15,5 million from a low base of only R10,3 million. AAD incurred a substantial trading loss of R24,8 million.

Non-financial performance, which includes market share and customer satisfaction, was heartening. In the face of considerable marketplace pressure, Bidvest Automotive remained committed to the principles of long-term business sustainability.

Benchmarks

Accurate, up-to-date industry statistics permit precise benchmarking of performance. We continue to benchmark performance by business unit and department and constantly review criteria. Our dealerships remain among the highest industry earners of variable margin incentives from motor manufacturers, a reflection of our ability to attain targets within specified timeframes.

Rigorous monitoring of underperforming dealerships helped to improve the average performance across all business areas. A special performance group project proved highly successful in the used-vehicle area.

Finance and insurance personnel are assigned to each dealership floor and measured by the finance and insurance income they generate. Individual benchmarking is based on improving the "going rate" (norms achieved per marque per site in the recent past). Benchmarks are reset every quarter. BFS marketers (responsible for several dealerships) are measured on overall performance.

The dealer incentive commission structure was changed at McCarthy Finance. The

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new structure is risk-rated with the focus on the quality and finance rates at which business is written. The revision contributed to improved bad debt experience and improved margins.

Throughout Bidvest Automotive, sustainable business practice is incorporated into benchmarking as we continually measure factors such as market share, employee and customer satisfaction and retention.

Brand and operational dynamics

McCarthy remains one of the industry's strongest retail brands. During the industry crisis, honoured warranties derived some competitive advantage from our position of trust as vehicle buyers looked for a no-risk purchase in the tough times.

McCarthy's smaller motor franchises bore the brunt of the cutbacks, but we retained a well-balanced franchise portfolio. Our automotive brand bouquet remains one of the most extensive in the country, and during the year we added Citroën and Mahindra.

The automotive industry is extremely cyclical and as the cycle turns we are strongly placed to obtain relative advantage from our reputation for fair dealing in good and bad times.

New initiatives

The major new initiative was our comprehensive restructure and creation of decentralised teams. The second important development was the establishment of the vehicle import and distribution joint-venture with Imperial.

Our insurance and financing business – BFS – not only has a new identity, it is in the process of adopting a new multi-channel, multi-product business model. BFS retains a high-profile presence on the

showroom floor of our dealerships, but will now seek additional income streams outside of the motor industry.

Business risks

A stable rand contributed to new-price deflation in 2010, but the risk of a softer currency does exist. Fortunately the motor group is the market leader in used-vehicle retailing and well positioned for any market swing from new to used.

High volatility and the cyclical nature of the automotive business create enduring risks, but leaner structures and stringent expense management have improved our ability to respond.

Though motor retailing remains sensitive to consumer and business confidence, strong performance by our parts and after-sales operations confirms that after-sales service business provides a measure of balance when car sales stall.

The restructure of BFS addresses a major area of risk in that area – reliance on a single distribution channel. Equity market risk has always affected this business and is addressed by portfolio diversification and long-term commitment to strong “value” counters.

Yamaha remains very sensitive to developments affecting the leisure segment of the market. The likelihood of a strong consumer-led recovery appears slim. Two of the divisions have proved remarkably resilient to the economic downturn; namely, parts and accessories and musical instruments.

Sustainable development

Staff morale was a key focus area. We continued to invest in our people and our ability to bounce back was evident as the year progressed.

Economic performance – McCarthy is a level 4 contributor under the DTI Codes. While employment equity remains a challenge, improving only marginally at middle management level, we are determined to improve through training and internal promotion. Stars of Africa (a NUMSA partnership) continues its training of informal mechanics in the Orange Farm community. Training investment amounted to R86,7 million, of which 69% was spent on black participants. We launched an owner-driver scheme involving 20 parts delivery vehicles, owned by former employees – a significant enterprise development project.

Environment – The carbon dioxide emission-based tax has led to an average increase in the retail selling prices of cars of up to 2,5%. In principle, McCarthy is supportive of government's policy, but notes the negative impact on vehicle affordability, a key factor required to improve access to motoring for more South Africans. We achieved considerable success with the launch of South Africa's lowest priced new car, the Chery QQ, imported from China.

Human resources – The aftermath of recession continues to affect staff and 376 employees were retrenched following business closures. Of these, 87 were cross-skilled for deployment in other dealerships. Job security and concern over personal finances were the most pressing issues. With the closure of a further four branches in the dealership network this year (from 120 to 116), staff morale has needed constant support. There was no industrial action and our staff survey again recorded satisfaction levels of over 70%; a consequence, we believe, of open engagement and our determination to live company values.

Training – McCarthy Automotive Artisan Academies remain the leading automotive industry training provider. We registered new automotive and maintenance qualifications from level NQF2 to NQF5 (380 of our learners achieved NQF certification) and participated in the Department of Labour's new accelerated artisan training programme, engaging 52 trainees. The Midrand academy was upgraded, with an additional R600 000 investment in equipment, to improve the training and transfer of practical skills. Our automotive artisan academies delivered 13 600 training days; 8 340 internally, the balance to external customers. Black students accounted for 77% of total students trained.

Health and safety – The division's LTIFR is still low for the industry at 2,6.

Society – In fraud cases, we take decisive action, listing all losses and the measures taken to resolve these cases and reduce our vulnerability. Transgressors are named and shamed.

Product responsibility – We established a customer complaints resolution centre. Survey scores for used-vehicle customer satisfaction continues to top 85%. We are training customer-facing staff to ensure compliance with the new Consumer Protection Act.

Corporate social investment – Our CSI spend increased to R7,4 million and we were able to garner additional support through corporate sponsors for our flagship programme, Rally to Read. Staff members benefited from their involvement in the "Maintaining the momentum" mini-Rally to Read events.



Future

The benefits of efficiency improvements and rationalisation were felt strongly in the second half and continued momentum is anticipated

in the coming year. A net reduction in the vehicle population in 2010 is an indication that the belt-tightening cycle cannot continue for much longer and meaningful replacement demand should occur.

This creates potential for continued improvement in core motor retailing activities, with positive knock-on effects for BFS. This operation is making a rapid transition to its new multi-channel business model, a platform for further growth.

Budget is also well positioned, with a quality fleet rightsized for a new environment. This division will also benefit in future from a more favourable vehicle buyback arrangement as well as more flexibility in terms of the management of its fleet.

Yamaha Distributors should experience slightly better trading conditions on the back of the modest recovery that is expected in consumer spending.

AAD traded profitably during the last quarter of the financial year and is likely to deliver much-improved results.

The trading environment may become somewhat easier, but challenges will persist for some time. The introduction of a carbon tax on new vehicle sales may encourage consumer down-trading. However, Bidvest Automotive will seek continued revenue gains and significant trading profit growth.

McCarthy Motor Group

The benefit of last year's corrective action came through strongly. Revenue recovered and trading profit moved significantly higher. Our ROFE improved to 22% and cash flows remained healthy. Strong contributions were made by the parts department, after-sales service and used vehicle sales.

Burchmores, our car auctioneer, put in another excellent performance. In the first half, its volumes were boosted by the large number of vehicle repossessions by

financial institutions. Repossession business declined as the economy improved, but the success of Burchmores "wholesale to the public" sales strategy ensured continued momentum in off-the-floor retail sales.

Top performers across our brand bouquet were VW/Audi, Toyota and Mercedes-Benz. Each marque is supported by an extensive dealership network. New model introductions supported sales growth.

BMW/Mini demonstrated the resilience of strong brands. General Motors had a difficult year. Land Rover put in a pleasing performance, bolstered by new model launches. Volvo had a challenging year as the line-up remained static. Our fairly recently established Ford/Mazda dealerships continued to record losses. Pleasing contributions came from Chrysler, Jeep and Dodge, though Mitsubishi had a tough time. The Peugeot franchise got off to a slow start, but improved.

The Peugeot improvement was driven in part by the addition of the Citroën franchise to our existing outlets. The newcomer is internationally aligned with Peugeot and is marketed jointly with its sister brand, contributing to improved viability of these dealerships.

Our Nissan passenger and commercial, Fiat/Alfa and Renault dealerships staged a dramatic turnaround and delivered much-improved returns.

The Mahindra range of SUVs and light commercial vehicles also joined our brand line-up. Our Value Centres now provide a distribution channel for both Mahindra and Suzuki (another brand that had a good year). Chery and Foton are also sold through this channel. Although the losses incurred by the Value Centre network reduced from R73 million to R15 million, its performance remains most disappointing. Of the 19 Value Centres established in 2007, only eight remain. Further rationalisation is likely.

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New initiatives included a strong effort to increase the reach of our parts business. Multi-franchise deliveries to customers ensured distribution efficiency while boosting volumes. Our owner-driver scheme handles deliveries in the Gauteng region. This enterprise development initiative has proved its worth in Gauteng and will be extended to KwaZulu-Natal.

The web-based sales tool McCarthy Call-a-Car put in another good performance as did the Club McCarthy loyalty programme. Corporate Marketing, our platform for serving multi-franchise corporate fleets, did well.

We project continued growth in revenue and trading profit in 2011.

BIDVEST FINANCIAL SERVICES

Strong recovery by the JSE was positive for our investment portfolio, driving a meaningful improvement in profit before tax. Revenue also moved higher. The finance business still had to contend with high levels of bad debt and low production volumes. The expected loss ratio fell from over 3% to 1,4%, enabling reduced bad debt provisions.

We did well to maintain a stable claims ratio at a time when claims experience across the insurance industry worsened considerably. We brought down our cost of policy acquisition by increasing product penetration per vehicle sold. Cross-selling into top-up policies, tyre protection and other products and upselling into comprehensive insurance solutions assisted margin management.

Headcount remained stable and expenses were tightly controlled. A re-energised team has bought into the new multi-channel

business model and sees the potential for sustained growth as BFS made the transition into a fully fledged financial services company.

A more focused retail offering on the internet is a priority as more customers use technology (customers enabled by mobile technology already have the capacity to shop the market from the showroom floor).

Sustainability underpins our culture and way of doing business. In vehicle financing it is possible to lift short-term volumes by writing 72-months' business. We prefer a solid core of four- or five-year transactions as this is more sustainable and is usually in the customer's best interest.

Opportunities for increased Bidvest business in the group life and disability insurance categories will be pursued. Increased sales volumes will be sought by creating new brands in new distribution channels. BFS will aim for 10% revenue growth and meaningful profit growth.

BUDGET CAR AND VAN RENTAL

Performance was disappointing in difficult trading conditions. Though rental days were flat, revenue eased higher. Trading profit declined significantly. The Door2Door and Chauffeur division did well from a low base.

While vehicle utilisation fell, productivity (rentals per day per employee) improved by 8%.

The industry's rise in average daily rental (up 1%) was well below inflation. The corporate travel component of our industry's business mix fell by 11%, though the insurance replacement market rose

11%. Leisure and inbound tour rentals eased 3% higher.

Our branch network grew from 84 to 101 sites while R45 million was invested in the relocation of operations at the three main international airports. Vehicle check-out processes improved following the introduction of licence scanning. Customer fraud fell. Savings were made on vehicle maintenance and repair.

We grew the fleet by 12% in anticipation of an increase in World Cup business volumes that did not materialise. We cut back at year-end, realigning fleet size to demand levels. The fleet profile was also realigned, focusing on smaller vehicles in response to corporate economising.

Overall market growth is unlikely in 2011. We will continue to seek market-share gains.

YAMAHA DISTRIBUTORS SOUTH AFRICA

In September 2009 Yamaha was moved out of Bidvest Automotive and became an autonomous business, but reports through the division.

Performance was disappointing as a result of economic pressure on consumers and the leisure market, tighter credit and yen strength.

Market share was maintained by the marine products business and was improved by the motorcycle and music divisions. The music instruments business performed well versus budget and prior year.

Margins were under pressure due to yen strength and the fact that over-stocked competitors sold some inventory below

landed cost. Improvements in margins were evident in the fourth quarter.

The all-new and highly anticipated Super Tenere Adventure Motorcycle was launched late in the fourth quarter and bodes well for 2011.

Signs of a gradual economic recovery are positive for Yamaha, which boasts a resilient international brand with a strong position in the leisure market.

Improved sales and trading profits are anticipated in 2011 on the back of continued web developments and a strong focus on electronic media to further enhance brand loyalty. Gauteng divisions are to be relocated to a "World of Yamaha" facility in Johannesburg.

AMALGAMATED AUTOMOTIVE DISTRIBUTORS (50% joint venture)

AAD underwent further restructuring and meaningful synergies materialised but financial benefits were more than off-set by substantial writedowns of excess and over-aged stock. Significant losses were incurred on vehicles brought in at an unfavourable exchange rate and retailed at much-reduced prices in an extremely competitive market.

Sales of the Chery and Foton ranges recorded meaningful improvements in the second half.

Additional new models (the Chery J3 and the Foton pick-up range) are due to be launched over the next six months. AAD is well positioned to take advantage of its lower cost base the strong rand and improving market conditions.