

Turners Automotive Group Ltd

Driving in the Right Direction

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Turners Automotive Group (TRA) is an integrated automotive and financial services company, providing Finance, Insurance and Credit Management solutions besides the main Automotive Retailing business. TRA has a leading position in the NZ used car market, leveraging (1) its brand, which is synonymous with used car sales, (2) its nationwide scale, and (3) its marketing and digital insights. Economic headwinds are likely to provide challenges for TRA's retail and finance businesses; however, TRA is well positioned with improved diversity and business quality relative to history. Continued market share gains from additional sites and a retail optimisation strategy are key growth opportunities. TRA is trading on a 9.8% gross yield, a ~10x one-year forward PE, representing +16% upside to our blended spot valuation of NZ\$3.80.

NZX Code	TRA	Financials: Mar/	22A	23E	24E	25E	Valuation (x)	22A	23E	24E	25E
Share price	NZ\$3.27	NPAT* (NZ\$m)	31.3	31.3	29.7	33.7	PE	9.0	9.2	9.7	8.5
Spot Valuation	NZ\$3.80	EPS* (NZc)	36.3	35.7	33.8	38.4	EV/EBIT	73.8	77.7	91.4	71.0
Risk rating	High	EPS growth* (%)	26.7	-1.8	-5.2	13.5	EV/EBITDA	31.7	33.2	34.0	29.3
Issued shares	86.7m	DPS (NZc)	23.0	23.0	23.0	26.0	Price / NTA	3.4	2.8	2.6	2.3
Market cap	NZ\$284m	Imputation (%)	100	100	100	100	Cash div yld (%)	7.0	7.0	7.0	8.0
Avg daily turnover	25.9k (NZ\$97k)	*Based on normalised profits					Gross div yld (%)	9.8	9.8	9.8	11.0

Diverse group of automotive businesses

TRA is a group of primarily automotive focussed businesses with industry-leading positions. TRA's core Automotive Retail segment remains the most significant revenue generator for the group. This is complemented by the Finance and Insurance segments, whose combined profits now account for over 50% of TRA's operating profit. These products are cross-sold to customers purchasing vehicles through TRA's captive retail network, third-party dealers and finance brokers. Furthermore, a niche Credit Management segment helps businesses with difficult to collect debts, providing a partial hedge against economic weakness.

Solid dividend yield at a fair multiple

TRA trades on a 9.8% gross yield and a one-year forward PE of ~10x. It has grown its fully imputed dividend since 2017 at an impressive CAGR of +10%. TRA has a FY25 PBT target of NZ\$50m, implying a +5% CAGR from FY22. We forecast fully imputed dividends of NZ23cps in FY23 and FY24, flat on FY22, as rising interest rates and economic headwinds limit near-term earnings growth, before growing at a +6% CAGR thereafter. A one-year forward PE ratio of 10x appears appropriate for TRA, given that global automotive retail peers trade on an average one-year forward PE of 10x, and general NZ retailers trade on an average PE of 11x.

Impressive brand, market position and digital capabilities

TRA's market-leading position in the automotive industry is commanding. It benefits from diversified vehicle sourcing and nationwide scale, leveraging data insights, digital capabilities and marketing. TRA enjoys high brand awareness and trust from consumers in NZ's retail market. These factors should aid TRA in increasing market share despite the NZ used vehicle market facing a weaker outlook.

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Turners Automotive Group Ltd (TRA)

Market Data (NZ\$)						Spot valuation (NZ\$)					
Priced as at 07 Feb 2023						3.80					
52 week high / low						4.35 / 3.12					
Market capitalisation (NZ\$m)						283.5					
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						4.50%					
Equity beta						0.95					
WACC						8.8%					
Terminal growth						1.5%					
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Sales revenue	260.2	298.5	318.9	326.2	345.0	EV/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Normalised EBITDA	16.7	18.8	19.3	19.1	22.1	EV/EBIT (x)	n/a	n/a	n/a	n/a	n/a
Depreciation and amortisation	(11.4)	(10.7)	(11.0)	(12.0)	(13.0)	PE (x)	11.4	9.0	9.2	9.7	8.5
Normalised EBIT	5.3	8.1	8.2	7.1	9.1	Price/NTA (x)	4.1	3.4	2.8	2.6	2.3
Net interest	32.1	35.1	35.3	34.2	37.7	Free cash flow yield (%)	1.0	-21.0	-0.4	11.8	10.1
Associate income	0	0	0	0	0	Net dividend yield (%)	6.1	7.0	7.0	7.0	8.0
Tax	(12.8)	(11.8)	(12.2)	(11.6)	(13.1)	Gross dividend yield (%)	8.5	9.8	9.8	9.8	11.0
Minority interests	0	0	0	0	0	Capital Structure					
Normalised NPAT	24.5	31.3	31.3	29.7	33.7	Interest cover EBIT (x)	n/a	n/a	n/a	n/a	n/a
Abnormals/other	0	0	0	0	0	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Reported NPAT	24.5	31.3	31.3	29.7	33.7	Net debt/ND+E (%)	58.3	61.7	61.7	60.4	59.4
Normalised EPS (cps)	28.7	36.3	35.7	33.8	38.4	Net debt/EBITDA (x)	19.6	21.3	21.9	21.8	18.7
DPS (cps)	20.0	23.0	23.0	23.0	26.0	Key Ratios					
Growth Rates						Return on assets (%)	6.8	6.5	7.5	8.1	8.6
Revenue (%)	-9.0	14.7	6.8	2.3	5.7	Return on equity (%)	10.5	12.6	11.9	10.9	11.9
EBITDA (%)	>100	12.1	2.8	-1.2	15.9	Return on funds employed (%)	3.5	3.9	3.7	3.5	3.9
EBIT (%)	n/a	51.7	2.3	-14.0	28.7	EBITDA margin (%)	6.4	6.3	6.0	5.8	6.4
Normalised NPAT (%)	61.1	27.5	0.1	-5.2	13.5	EBIT margin (%)	2.0	2.7	2.6	2.2	2.6
Normalised EPS (%)	62.1	26.7	-1.8	-5.2	13.5	Capex to sales (%)	3.1	5.2	6.0	4.9	3.7
Ordinary DPS (%)	42.9	15.0	0.0	0.0	13.0	Capex to depreciation (%)	86	179	208	158	116
Cash Flow (NZ\$m)						Imputation (%)	100	100	100	100	100
EBITDA	16.7	18.8	19.3	19.1	22.1	Pay-out ratio (%)	70	63	64	68	68
Working capital change	(11.3)	(83.1)	(24.3)	7.9	(5.0)	Operating Performance					
Interest & tax paid	22.5	24.5	23.1	22.6	24.6	Revenue	200.9	242.5	262.0	267.4	283.2
Other	(17.0)	(4.2)	0	0	0	Revenue growth (%)	-10.7	20.7	8.0	2.1	5.9
Operating cash flow	10.9	(43.9)	18.1	49.6	41.6	Operating margin (%)	7.7	8.0	8.5	8.2	8.3
Capital expenditure	(8.1)	(15.5)	(19.3)	(16.1)	(12.9)	Operating profit	15.4	19.4	22.1	21.9	23.4
(Acquisitions)/divestments	0.2	3.4	0	0	0	Finance					
Other	(6.3)	(5.6)	(6.0)	(6.3)	(6.4)	Revenue	47.9	51.9	59.2	64.4	68.3
Funding available/(required)	(3.3)	(61.6)	(7.2)	27.2	22.3	Revenue growth (%)	4.6	8.4	14.1	8.7	6.2
Dividends paid	(17.2)	(13.8)	(19.9)	(20.1)	(21.0)	Operating margin (%)	33.0	34.7	26.0	20.5	24.0
Equity raised/(returned)	0	1.2	3.8	0	0	Operating profit	15.8	18.0	15.4	13.2	16.4
(Increase)/decrease in net debt	(20.5)	(74.2)	(23.2)	7.1	1.3	Insurance					
Balance Sheet (NZ\$m)						Revenue	41.9	40.4	42.9	44.4	45.2
Working capital	329.3	412.3	436.6	428.7	433.8	Revenue growth (%)	-5.0	-3.7	6.3	3.6	1.8
Fixed assets	60.3	67.6	83.1	94.3	101.3	Operating margin (%)	22.3	28.7	31.5	32.1	32.5
Intangibles	166.0	164.5	163.2	161.9	160.7	Operating profit	9.4	11.6	13.5	14.3	14.7
Right of use asset	23.6	23.5	22.7	22.4	22.2	Credit Management					
Other assets	89.2	94.4	99.0	102.6	104.1	Revenue	12.8	9.7	11.0	12.5	14.9
Total funds employed	668.3	762.2	804.6	809.9	822.1	Revenue growth (%)	-28.9	-24.2	13.3	13.6	20.0
Net debt/(cash)	327.7	399.4	422.6	415.5	414.2	Operating margin (%)	39.9	31.4	30.0	30.0	30.0
Lease liability	23.2	25.9	23.7	23.3	23.2	Operating profit	5.1	3.0	3.3	3.7	4.5
Other liabilities	83.8	84.6	85.4	87.2	89.0						
Shareholder's funds	233.6	252.4	272.9	283.9	295.6						
Minority interests	0	0	0	0	0						
Total funding sources	668.3	762.2	804.6	809.9	822.1						

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Executive summary: diverse automotive exposure at a fair price

TRA is a high-quality and diversified exposure to the NZ automotive industry. TRA has built a significant advantage over its peers through its 1) brand and marketing, 2) scale and market position, and 3) data and digital focus. These all improve TRA's ability to navigate current economic uncertainty and industry headwinds. TRA can continue to drive earnings growth through a combination of 1) new sites, 2) transitioning consignment sales to the retail network, and 3) organic growth in complementary segments.

1) Trading on a ~10x one-year forward PE and a gross yield of 9.8%, we consider the valuation to be fair

TRA trades in line with peers, on a one-year forward PE of ~10x, this is relative to automotive peers at ~10x and NZ retail peers at ~11x. TRA's attractive 9.8% fully imputed gross yield ranks it the fourth highest among the NZ equities under our coverage and slightly above its peer group averages. Our blended spot TRA valuation is NZ\$3.80, a +16% premium to the last close.

2) Headwinds developing in the used car market; current economic uncertainty and plateauing of long-term car ownership and use

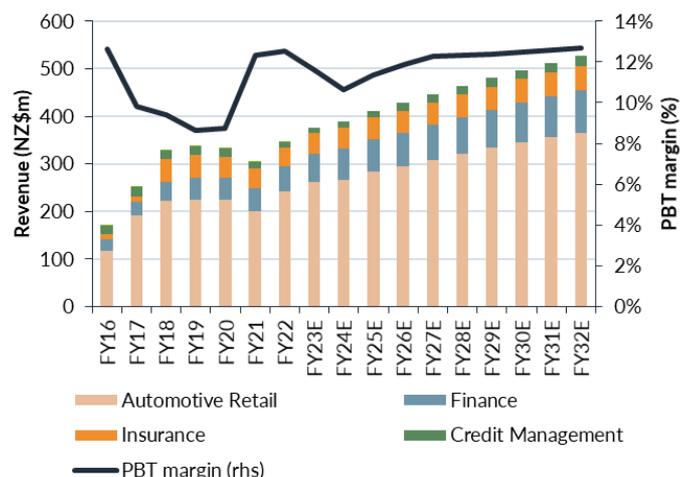
While a growing population and an expansion in vehicles owned per capita have boosted the NZ vehicle fleet over the last 30 years, more recently, population growth has become the sole driver. With increased public transport infrastructure, higher fuel costs, the rise of working from home, and ride-sharing apps, the need for multiple cars per household, or even one for some, has reduced. Used car sales volumes have seen annual declines since 2017, driving many dealers out of the market. Automotive transactions have not been immune to past recessions, albeit used vehicle sales have fared slightly better than new vehicle sales. Through COVID used car prices rose as a shortage of new cars, low finance costs, and cashed-up consumers saw demand outstrip supply. NZ enters 2023 with a likely recession on the horizon. Elevated interest rates and inflation are biting into disposable spending, challenging cyclical consumer-driven sectors. Increasing arrears and rising interest rates will likely squeeze TRA's finance margins near-term. Most used cars are purchased on finance, meaning elevated interest rates currently will make vehicle purchases less affordable for marginal consumers. We expect transaction volumes to be affected in the short term by economic factors but remain flat in the long term. Second-hand car prices may fall near term, driven by a partial reversal of previous rises and impacted by the economic slowdown.

Figure 1. TRA's market share has risen with additional sites and a retail focus, while the NZ used car market has softened



Source: Company, Forsyth Barr analysis, NZTA, *Market share corresponds to vehicles sold to retail customers only

Figure 2. TRA's revenue growth is supported by further market share gains, but we expect margins to be challenging near term



Source: Company, Forsyth Barr analysis

3) TRA's quality, market position and diverse automotive earnings streams position it well

The 'Turners' brand is synonymous with used car sales in NZ. Combined with its digital capabilities and insights, TRA has many competitive advantages in the NZ market. Inside Automotive Retail these allow for a diversity of vehicle sourcing, more accurate pricing of car purchases, and the ability to quickly pivot inventory as demand changes. TRA's three main segments contribute significantly to the group's operating profit, highlighting earnings diversity. Furthermore, the stability of Insurance earnings and recession-aided growth in Credit Management may offset possible reductions from Finance impairments or lower consumer demand for cars. TRA has implemented a material pivot to premium receivables over the last three years, which has seen it switch to outperforming the market in arrears. TRA aims for earnings and market share growth from additional sites, and a strategy shift of selling more consignment vehicles through its retail network.

1. Valuation: trading in line with peers on a solid dividend yield

Our **TRA spot valuation is NZ\$3.80**. This is derived from our blended valuation methodology, including (1) a discounted cash flow (DCF) valuation (33%), (2) an analysis of comparable listed peers in both the global automotive and NZ retail sectors (33%), and (3) a discounted dividend model (DDM) valuation (33%).

1) Discounted Cash Flow (DCF) – NZ\$3.63

We have thoroughly analysed the financials and opportunities available to TRA, the used car market and complementary financial services. We consider TRA's current operations and growth obtainable through retail expansion and customer acquisition in the complementary segments. Our spot DCF valuation for TRA is NZ\$3.63. Our DCF uses a weighted average cost of capital (WACC) of 8.8%, asset beta of 0.95, risk-free rate (Rfr) of 4.5%, terminal growth of +1.5%. Our base case assumes a mild recession in NZ in 2023 with key valuation assumptions in each segment, including:

Automotive Retail:

- Total used car market volumes remain flat over the long term. TRA's retail market share continues to rise from the current 8.1%, to management's target of 10% in FY25 and then increasing from to 13% in FY32.
- A +44% increase in owned vehicles sold, increasing due to additional sites from ~22,000 in FY22 to ~32,000 in FY32
- Consignment growth of +5% annually over the next five years, with higher revenue per vehicle achieved by selling through retail
- Inflation-level revenue growth from TRA's remaining auction wholesale business, given the current commanding market share

Finance

- Total receivables fall -NZ\$15m from 1H23 to ~NZ\$420m by FY24, before growing at a +4% CAGR thereafter
- Interest rates peak by early FY24 and TRA returns to a NIM in FY25 below that seen before the quality pivot was executed, contributing to near-term profit margin compression but a +4.5% CAGR in operating profit over the next five years
- Impairments peak at 1.25% per annum of the receivables book, up from 0.72% in FY22, but down from pre-COVID highs (2.72% in FY19) given the vast improvement in receivables quality since

Insurance

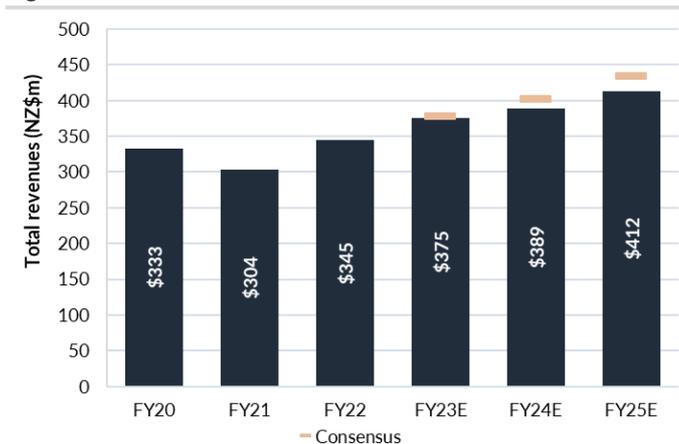
- Inflation-level growth in gross written premium revenue and steady underlying operating profit margins
- Rise in interest revenue from regulatory insurance assets held given the rise in interest rates

Credit Management

- Debt load growth ramps up in FY24 and FY25, but revenue does not reach pre-COVID levels until FY29

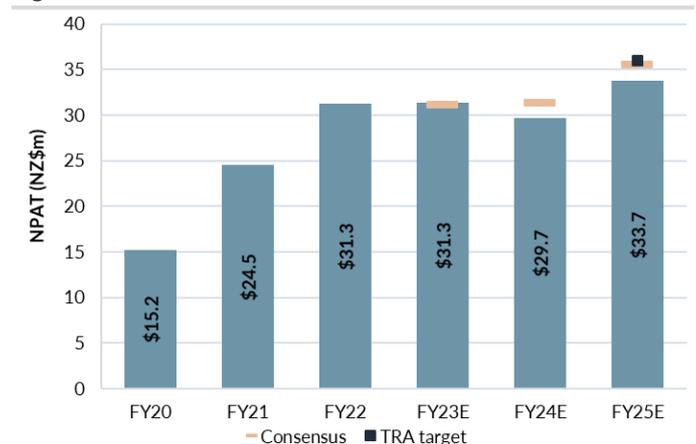
Our FY23 revenue and NPAT forecasts of NZ\$375m and NZ\$31.3m, respectively, align with consensus and company guidance. However, we forecast revenue -3%/-5% and NPAT -5%/-5% below consensus in FY24/FY25, respectively. We surmise this is primarily driven by our more conservative assumptions regarding the forward economic backdrop. Our forecasts are -6% below TRA's FY25 target of NZ\$50m PBT at NZ\$47m but in line with its FY25 dividend target of 26cps with an upper-end payout ratio assumption.

Figure 3. TRA – Historical and forecast revenues



Source: Company, Forsyth Barr analysis, Bloomberg

Figure 4. TRA – Historical and forecast NPAT



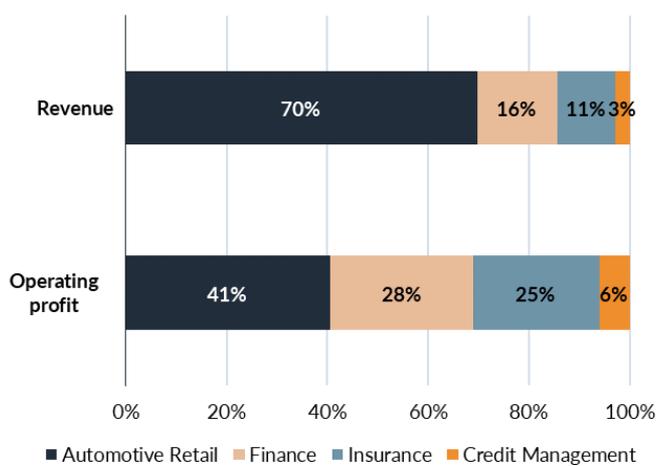
Source: Company, Forsyth Barr analysis, Bloomberg, *TRA FY25 target assumes 28% tax rate

Figure 5. Base case – TRA earnings estimates (NZ\$m)

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Operating revenue	332.2	296.5	342.0	374.8	388.6	411.7
Other income	0.5	7.0	2.5	0.3	0.0	0.0
Total income	332.7	303.5	344.5	375.1	388.6	411.7
Cost of goods sold	(135.0)	(121.7)	(153.2)	(164.1)	(167.1)	(178.4)
Interest expense	(14.9)	(11.3)	(10.9)	(20.9)	(28.2)	(29.0)
Impairment provision expense	(6.0)	(4.0)	(3.0)	(3.0)	(5.3)	(5.1)
Subcontracted service expense	(17.1)	(9.2)	(10.9)	(12.0)	(12.2)	(12.8)
Employee benefits	(55.5)	(52.0)	(56.0)	(62.2)	(63.1)	(64.2)
Commission	(13.4)	(12.7)	(12.9)	(13.8)	(14.1)	(14.4)
Advertising expense	(2.7)	(2.3)	(4.1)	(4.8)	(5.3)	(5.5)
Depreciation & amortisation expense	(11.9)	(11.4)	(10.7)	(11.0)	(12.0)	(13.0)
Systems maintenance	(1.7)	(2.4)	(3.4)	(3.6)	(3.8)	(3.9)
Claims	(26.0)	(21.8)	(21.0)	(21.0)	(21.4)	(21.6)
Other expenses	(19.4)	(17.3)	(15.1)	(15.0)	(14.8)	(17.0)
Total Expenses	(303.6)	(266.2)	(301.4)	(331.6)	(347.4)	(364.9)
Profit before taxation (PBT)	29.1	37.4	43.1	43.5	41.3	46.8
Taxation (expense)/benefit	(13.8)	(12.8)	(11.8)	(12.2)	(11.6)	(13.1)
Profit for the year (NPAT)	15.2	24.5	31.3	31.3	29.7	33.7

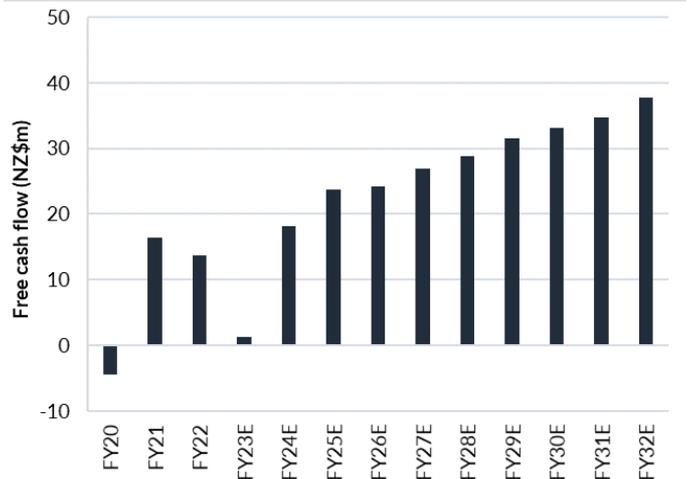
Source: Company, Forsyth Barr analysis

Figure 6. TRA – Breakdown by segment (FY23)



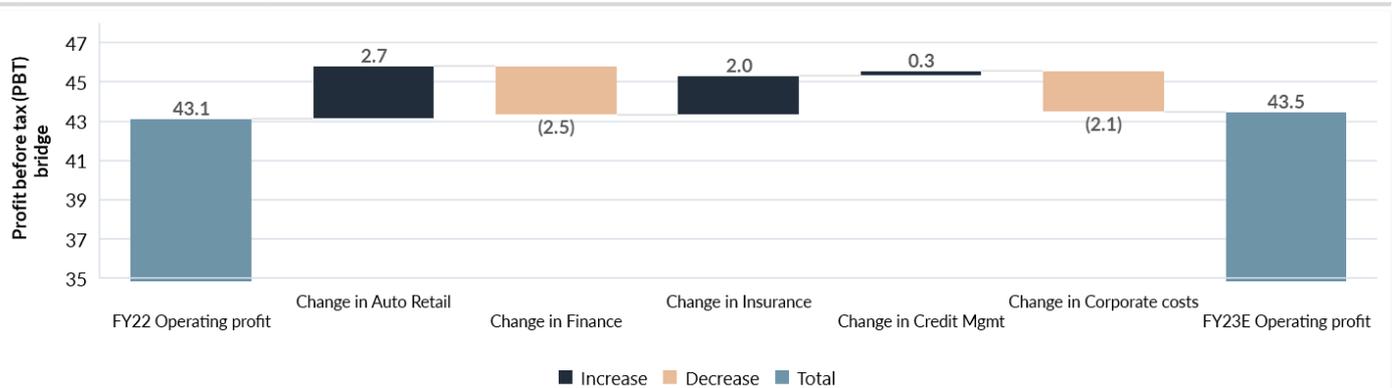
Source: Forsyth Barr analysis, *Operating profit is PBT excluding corporate costs

Figure 7. TRA – Free cash flow (NZ\$m)



Source: Company, Forsyth Barr analysis, * FCF includes debt raised for finance receivables

Figure 8. TRA – PBT bridge FY22 to FY23E (NZ\$m)



Source: Company, Forsyth Barr analysis

2) Assessment against comparable listed companies – NZ\$3.55

We have reviewed comparable listed companies in the global automotive retail sector and combined this with our research of other NZ retailers' operations. Valuing against these two sets of comparable companies allows for the inclusion of market expectations of a softening macroeconomic situation in NZ and automotive sector-specific challenges and opportunities to contribute to the valuation. TRA trades on a one-year forward PE of 10x based on our forecasts and 9x on consensus forecasts. We believe a 10x multiple is fair, given that 1) global automotive retailers currently trade in a range of 7-16x one-year forward PE ratios, at an average of 10x, a -30% discount to their 10 year average, 2) NZ retailers trade on a one-year forward PE of 9-14x, an average of 11x and a slight discount to their ten-year average. With the exclusion of the March/April 2020 period, this last year has seen the automotive retail group trade on its lowest PE ratios in over ten years.

Historically, TRA has traded at a slight discount to both peer groups. However, from mid-2021, it traded at a consistent premium to the automotive peer group average, but now currently in line. Over the last five years it has traded at an average discount of -8% to the NZ retail group, currently this discount is -15% on our forward EPS estimates. Our peer-based valuation is computed from the average PE of the two peer groups (~10x) and our one-year forward EPS estimate. This indicates a TRA spot value of NZ\$3.55. The other two NZX-listed automotive companies (see Appendix 3) lack consensus forecasts to be included in this assessment.

Figure 9. Overview of comparable companies

Name	Used Cars	New Cars	Insurance	Finance	NZ Retailer	Parts & Services	Country	1yr fwd PE
Turners Automotive Group (TRA.NZ)	✓		✓	✓	✓		New Zealand	9.6x
Autosports Group (ASG.AX)	✓	✓	✓	✓		✓	Australia	7.3x
MotorCycle Holdings (MTO.AX)		Motorcycles	✓	✓		✓	Australia	6.5x
Peter Warren Automotive (PWR.AX)	✓	✓	✓	✓		✓	Australia	8.9x
Eagers Automotive (APE.AX)	✓	✓				✓	Australia	11.1x
Kamux Oyj (KAMUX.HE)	✓		✓	✓			Finland	12.2x
America's CAR-MART (CRMT.OQ)	✓			✓			United States	15.9x
IDOM (7599.T)	✓	✓	✓			✓	Japan	6.9x
Automotive peer group							Average	9.8x
Warehouse Group (WHS.NZ)					✓		New Zealand	12.1x
KMD Brands (KMD.NZ)					✓		New Zealand	10.4x
Briscoe Group (BGP.NZ)					✓		New Zealand	14.4x
Michael Hill International (MHJ.NZ)					✓		New Zealand	8.7x
NZ retail peer group							Average	11.4x
Blended peer average						50% Automotive retail, 50% NZ retail		10.5x

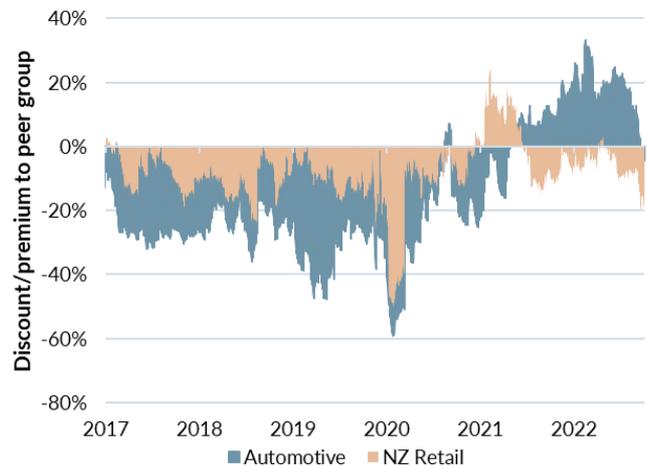
Source: Forsyth Barr analysis, Refinitiv

Figure 10. TRA – Peer group PE ratios



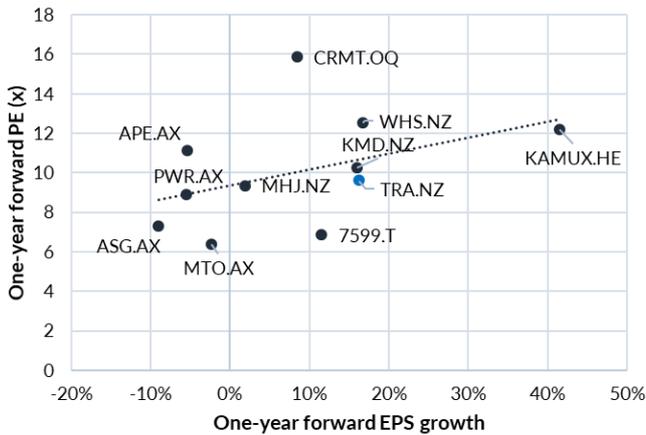
Source: Forsyth Barr analysis, Refinitiv

Figure 11. TRA – Discount/premium to peer groups PE ratios



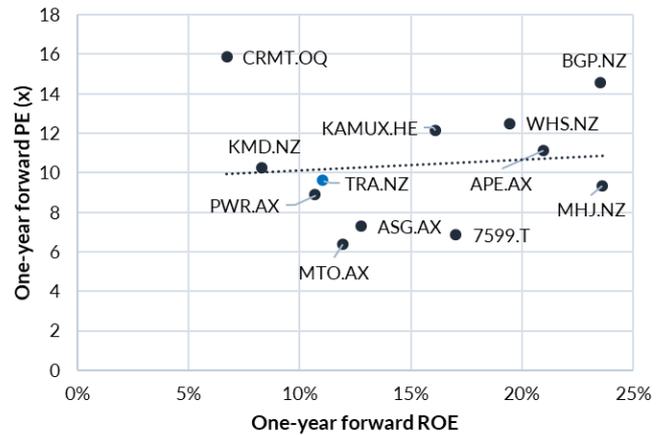
Source: Forsyth Barr analysis, Refinitiv, *Relative to one-year forward PE

Figure 12. Peer group PE versus EPS growth



Source: Forsyth Barr analysis, Refinitiv, *EPS growth corresponds to 2yr fwd/1yr fwd earnings

Figure 13. Peer group PE versus ROE



Source: Forsyth Barr analysis, Refinitiv

Comparable companies in the Australian automotive market all have a parts and services business segment alongside their retail and other add-on sales segments. A parts and services business complements automotive sales, with margins often higher than vehicle sales. TRA could expand into this segment in NZ, leveraging its nationwide presence and brand awareness. Past segment acquisitions, such as the 2017 acquisition of the Autosure insurance brand, have been successful. Expanding into another complimentary automotive area appears consistent with the growth path of the business.

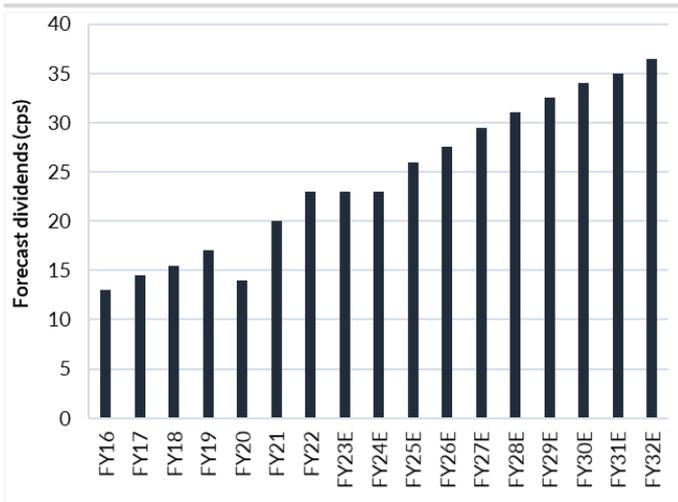
Current nationwide parts and service providers are VTNZ and AA, both owned by large global groups. However, similar to the NZ automotive retail sector, this market is highly fragmented, with many small independent players. As of February 2022, there were 8,067 enterprises in NZ operating in the automotive repair and maintenance industry.

3) Discounted Dividend Model (DDM) – NZ\$4.30

TRA's gross dividend yield of 9.8% is the fourth highest among all NZ companies under our coverage. TRA's impressive history of growing fully imputed dividends year on year since 2017 (exception being the precautionary COVID-related suspension of the final FY20 dividend) is expected to end this year. Both company guidance and our forecasts imply a NZ23cps FY23 dividend, unchanged from FY22. We also expect a flat dividend in FY24, with our forecasts estimating an NPAT fall of -5% as a possible recession impacts NZ consumers and finance margins continue to be compressed. TRA's dividend policy is for a payout between 60% and 70% of NPAT. In the long term, we forecast dividends paid at the mid-point of this payout range but expect it towards the higher end of the range in FY24 to maintain a flat dividend and again in FY25 to achieve TRA's NZ26cps dividend target. From FY24 onwards, we forecast TRA's dividend to grow at a +6% CAGR through to FY32. TRA's gross yield exceeds that of its peer groups. Global automotive retail peers have an average gross dividend yield of 8.3%, and NZ retailers have an average gross dividend yield of 7.9%.

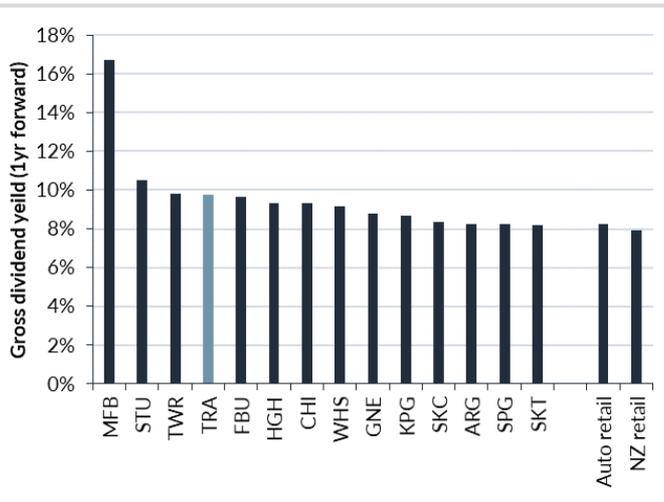
Our dividend discount model yields a spot valuation of NZ\$4.30, with a cost of equity of 8.8%.

Figure 14. TRA – Dividends



Source: Company, Forsyth Barr analysis

Figure 15. NZX highest gross dividend yields



Source: Forsyth Barr analysis, Refinitiv, Forsyth Barr one-year forward dividend estimates

2. New Zealand used car industry: headwinds coming

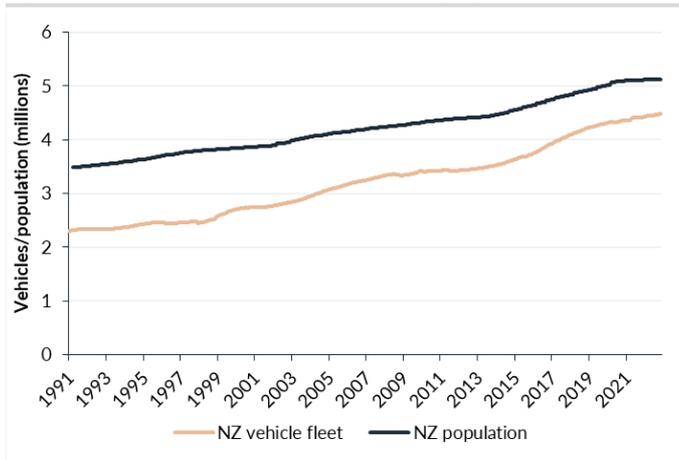
2.1 Car ownership and use in New Zealand

The total NZ vehicle fleet represents 4.5m cars and has grown at a CAGR of +2.1% since 1991. This growth has outpaced NZ's population CAGR of +1.2% over the same period due to a nationwide increase in car ownership. This increase in the NZ motor vehicle fleet, combined with consumers' desire to upgrade and change cars, created an environment for motor vehicle dealers to thrive. Car ownership is a deeply-entrenched concept in NZ, with the need for a motor vehicle in NZ clear. Low-density and population centres that are spread out with limited public transport options leave cars as (often) the only choice. NZ vehicle ownership per capita is high, coming in second in the OECD behind the United States. While current themes in the industry may ease private vehicle use and stall long-term ownership growth, it is not easy to see the need for personal cars reducing materially.

Increased household car ownership has supported high fleet growth, but growth is starting to slow

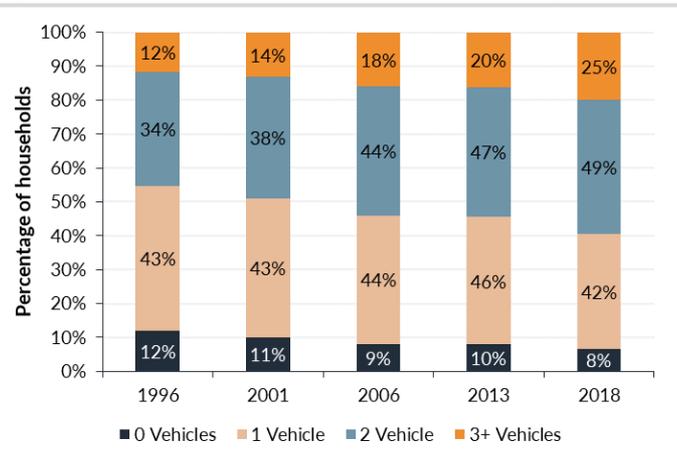
Household access to a vehicle has grown consistently over the last three decades. The number of households without a car has decreased from 12% in the 1996 NZ Census to only 8% in 2018. Over the same time, households with two or more cars have increased from 45% to 74%. A car often reveals something about the user, much more than just transport from A to B. The numerous types of vehicles available, the desire to 'keep up with the Joneses' and ensure suitability see customers heading either to the new or used car market to trade in their old vehicle and purchase another more suitable or desired vehicle. This turnover in vehicle ownership is a fundamental factor in the volume used car dealers require for their businesses.

Figure 16. New Zealand vehicle fleet and population



Source: Forsyth Barr analysis, Stats NZ

Figure 17. New Zealand household vehicle ownership



Source: Forsyth Barr analysis, Stats NZ census

Over the last five years, the main drivers behind the growth in the NZ vehicle fleet have changed. While historically, population growth and an expansion in the number of vehicles owned per capita have multiplied together to drive growth in the NZ vehicle fleet. Since the start of 2018 however, this has solely been driven by population growth. The NZ vehicle fleet has grown at a CAGR of +1.3%, in line with the CAGR of the NZ population at +1.1% since 2018, and below the CAGR in the number of NZ households at +1.8%. Indicating that nearly all recent growth in the NZ vehicle fleet has stemmed from population growth, we forecast this trend to continue. Currently, the number of vehicles owned per 100 people in NZ sits at ~87, similar to late 2018 levels. As a result of 1) an increase in access to and use of public transport, 2) the growth of ridesharing apps such as Uber, 3) a structural increase in working from home and 4) higher fuel costs, we estimate that vehicle ownership per capita may remain around these levels for the foreseeable future. Therefore, additional growth in the NZ vehicle fleet is likely to be in line with future population growth. Given the lack of alternative transport options available in rural NZ, we envisage diverging trends between urban and rural areas. TRA's nationwide presence and absence of single location concentration should mitigate some of the more exposed urban car ownership trends.

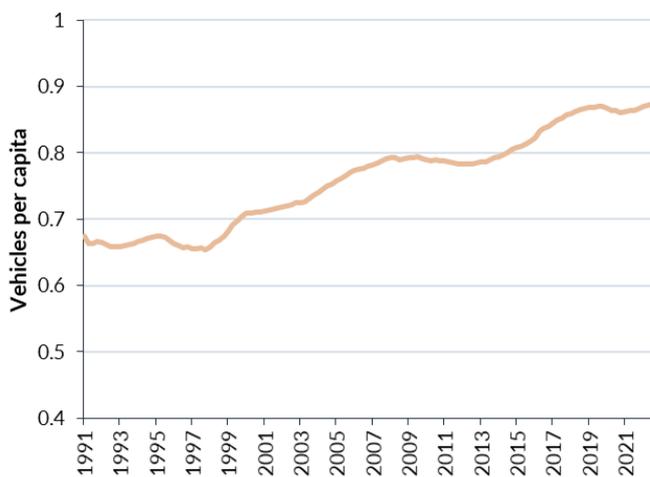
The total NZ vehicle fleet comprises of light passenger vehicles (75%), light commercial vehicles (16%), motorcycles (4%) and heavy trucks (4%), with the remaining being buses and other special purpose vehicles. These proportions have remained relatively stable since 2000. However, the most significant growth has recently been in light commercial and motorcycles. The light commercial category (utes and vans) has seen substantial growth over the last five years, growing at a CAGR of more than +4%, three times faster than light passenger vehicles. TRA's diverse inventory and sourcing abilities limit exposure to singular vehicle types.

Public transport is on the rise, reducing the need for a personal car in some urban areas

Recent NZTA household transport surveys show a gradual transition from individual car use to alternative forms of transport. Public transportation and cycling saw the most significant growth in trip numbers from 2015–2021, up +22% each. While over the same period, trips taken in a car, driving or as a passenger, fell -0.6% and -3.5% respectively. Even with these movements, car use still dominates the mode of transport in NZ, with 82% of all trips taken in a car. Public transport still only makes up ~3% of trips taken. A caveat should be made that this most recent survey was undertaken during the years when NZ experienced COVID-lockdowns. This period saw transport uniquely affected by these circumstances, through limited public transport use and a shift to working from home.

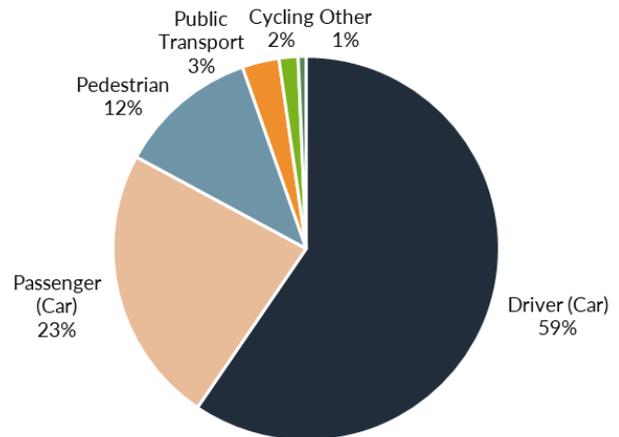
A public transport problem, evidenced in these statistics, is that while it only makes up ~3% of trips, it makes up ~5% of the time taken in transport. It indicates the unattractively slow nature of this form of transport for many users. Continual central and local Government investment in public transport infrastructure throughout NZ and the Government's goal of reducing total kilometres travelled in light vehicles by -20% by 2035 should in theory reduce the need for personal vehicle ownership. Governments favour public transport, with its ability to lower both congestion in cities and the carbon footprint of transportation, one of NZ's most carbon-intensive sectors. We see the continual uptake of public transport in larger NZ cities slowly alleviating some of the use and need for personal cars. However, the convenience factor will still see many own a personal vehicle.

Figure 18. New Zealand vehicle ownership



Source: Forsyth Barr analysis, Stats NZ

Figure 19. New Zealand transport use (2018–2021 survey)



Source: Forsyth Barr analysis, NZTA

Increased uptake in ride-sharing may be limiting personal car use

Uber launched in NZ in 2014, and since then, many other ridesharing apps, such as Ola, have entered to take a share of the personal transportation market. The uptake of these applications has been a global phenomenon and continues to expand. Utilisation across NZ's largest cities has been high, but the service has yet to reach smaller towns and cities. So far, this has likely predominantly affected taxi services rather than car sales and use. The recent NZTA survey showed that ridesharing apps have only impacted personal car use at the fringes, with passenger trips falling faster than the number of driven trips.

With more electric vehicles (EVs) entering the market and often favoured by ridesharing drivers, lower running costs could see the costs for users continue to fall. The evolution of autonomous EVs should see transport costs fall further. A recent University of Auckland study among residents of an Auckland suburb found that while people are open to these new technologies and car-sharing, they almost all still want to retain their personal cars. These entrenched attitudes around car ownership, notably among NZ's middle class, are unlikely to disappear over the medium term. However, falling car purchases by younger generations may be harmful to long-term car ownership trends. Full licenses held by the 16–24 age group have been flat over the last decade, whereas total licenses are up +17%. This lack of growth in full license uptake by the younger generation and instead choosing to stay on a learners or restricted license longer, or not obtain one at all, indicates the possible favouring of transport alternatives as a long-term solution over car ownership for some.

Fuel cost increases and the rise of working from home

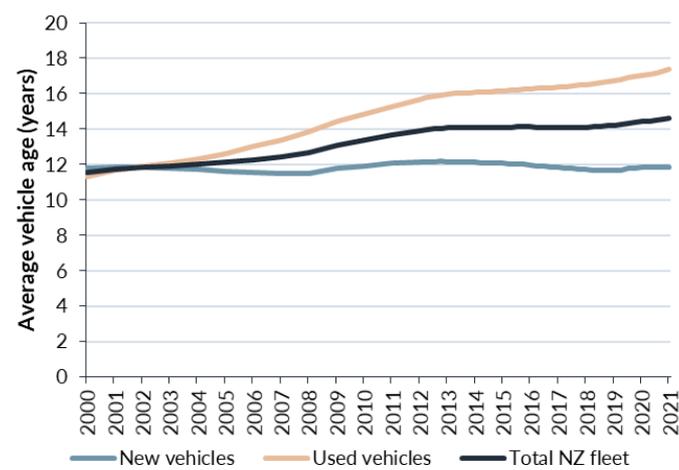
Fuel costs (petrol and diesel) rose substantially from March 2020 to July 2022 (+73%) before the NZ Government implemented a short-term fuel subsidy. This fuel subsidy has now been extended to the end of June 2023. These rising fuel costs have impacted users of larger vehicles materially. As such, the used car market has seen an increase in the supply of these vehicles as consumers seek to switch to more fuel-efficient vehicles, helping to drive vehicle turnover. A small number of other vehicle users have likely turned to cheaper alternative transport sources such as public transport to mitigate these higher costs and are reducing private vehicle use.

COVID lockdowns increased the number of people working from home, either permanently or part-time, reducing the need for or use of vehicles for some. While we expect this to have led to a small number selling vehicles, the working-from-home impact has likely surpassed its peak, with those seeking to work from home permanently already doing so and likely have made a choice about vehicle ownership. While the total NZ fleet grew from 2019 to 2021, total kilometres travelled in vehicles remained approximately flat, indicating less distance travelled per car; however, with the COVID era now passed, we expect this may increase.

New Zealand's ageing vehicle fleet should support new and used vehicle demand

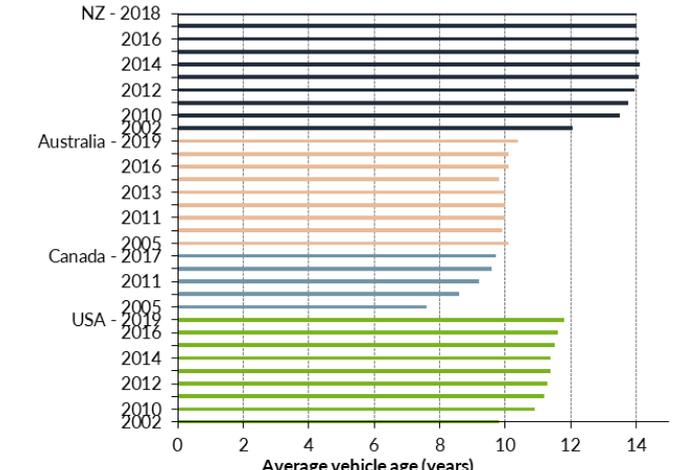
The average vehicle in NZ is now nearly 15 years old. This has grown consistently over the last two decades due to used vehicles being kept on the road longer. NZ's average vehicle age exceeds other nations with high car ownership and has for some time. Used vehicles leaving the NZ fleet have an average age of ~19 years. Currently, over 800k vehicles in NZ are aged over 20 years and thus nearing the end of their economic lives. These vehicles may need to be replaced soon, providing some confidence that demand will continue to be present in the used car market. However, with continual vehicle technology improvements and less distance travelled per vehicle, the average vehicle age in the NZ fleet could continue to rise.

Figure 20. The NZ vehicle fleet continues to age ...



Source: Forsyth Barr analysis, MoT

Figure 21. ... and has been older than other nations for decades



Source: Forsyth Barr analysis, NZTA

Company cars and the option of leasing

While consumer cars constitute most of the market, commercial cars also hold a noticeable share. Consumers generally prefer the option of financing or outright purchasing personal cars, whereas companies typically lease their fleets. Leasing has several advantages for companies; no significant upfront costs, modern cars, fixed monthly payments, no value depreciation, no vehicle maintenance administration and the handling of all purchasing and selling taken care of. Lease contracts can offer companies flexibility in fleet management at a low capital outlay. Contracts typically last between one and five years and often have a clause limiting the distance travelled. There are numerous leasing companies in NZ offering a wide array of vehicles. At the end of the lease, many vehicles are then sold through dealerships. This recycles capital for leasing companies to purchase new vehicles that their clients prefer. This high turnover in leasing fleets ensures they are an essential part of the used car market in NZ.

TRA is the only major player selling these previously leased fleets in NZ.

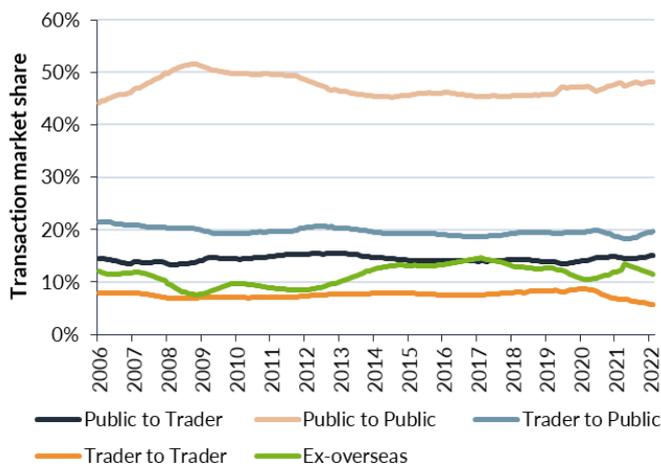
2.2 Used car transactions and market breakdown

In NZ, nearly 50% of all used car transactions are private transactions between individuals and do not involve dealers or traders. This is reasonably entrenched, having been the dominant avenue for used car sales since data has been available. While cost-effective for both parties, private transactions require implicit trust between the buyer and seller and can be risky given that 1) transaction value is usually material and 2) resolving subsequent issues is complicated. A private vehicle transaction does not fall under the Consumer Guarantees Act (CGA), giving the purchaser less protection in these transactions. Purchasing from a dealer does fall under the CGA. Selling directly to a dealer has the benefit of being paid immediately. When members of the public purchase cars (representing 79% of total transactions) 40% are undertaken via a dealer, and 60% through private transactions. When selling, the public use a dealer only 24% of the time (excluding vehicle write-offs) and the remaining 76% are sold privately (a member of the public selling a vehicle is present in 63% of total market transactions).

Transaction breakdowns have remained steady through the business cycle and despite technology changes

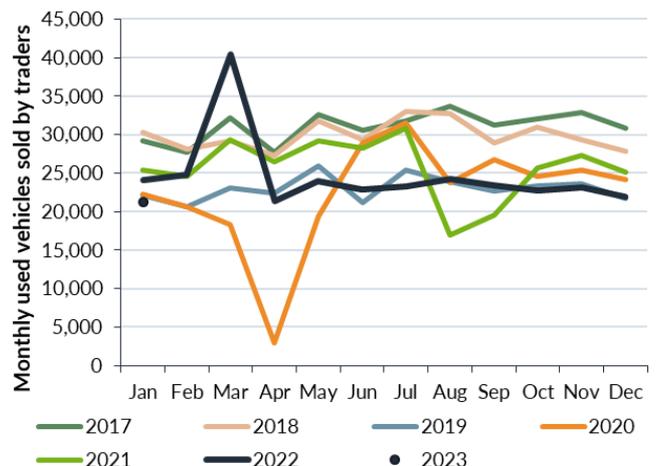
Platforms such as Trade Me have made the buying and selling of used cars privately easier and more trustworthy for both parties. However, even with the extensive use of these platforms, many in the market still prefer transactions through traders. Given that this significant technology shift has already occurred and transaction types have remained steady, we do not envision a material shift towards traders or private transactions in the foreseeable future. A Trade Me listing costs the public between NZ\$59 to NZ\$139 for a car priced between NZ\$5,000 to NZ\$10,000, depending on the listing package. For a dealer like TRA, listing more than ten cars per year on Trade Me, it costs between NZ\$59 to NZ\$249 for each similarly priced car. Where TRA sees Trade Me as just one of its many marketing channels, it may be the only channel for other smaller dealers.

Figure 22. Used vehicle transactions by type



Source: Forsyth Barr analysis, NZTA

Figure 23. Monthly used vehicle transactions sold from trader



Source: Forsyth Barr analysis, NZTA

Monthly changes in registrations sourced from NZTA can be regarded as a proxy for used car transactions, providing both transaction volumes and breakdowns with the different transacting parties. Public purchases from registered traders currently constitute 20% of the total market, with trade-ins or direct sales to traders from the public make up another 15%, and imports (another form of trader-to-public transactions) are currently 11%. Imports have historically shown the most volatility in transaction share. The remaining portion of transactions is the dominant public-to-public transactions (48%) and a small trader-to-trader portion (6%). Registration numbers between public-trader-public inflate the total volume of cars sold by double-counting a car when a trader purchases it from the public and then counting again once resold (either to the public or to another trader).

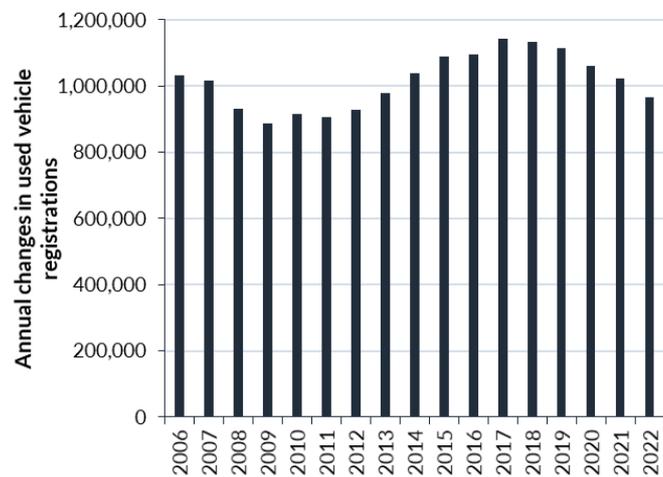
While ~89% of all used vehicle transactions are domestic cars, the remainder is imported. Lately, used car import volumes have shown to be similar to the volume of new car imports. As a result of the newly adopted Clean Car Import Standard (see Appendix 1), which limits vehicle models allowed for import without a fee, we see imports being constrained given the lack of EVs being produced in our largest import country, Japan (95% of imports). The import constraining legislation is one of many reasons we view TRA's less reliance on imports positively, compared to import-focussed competitors such as NZ Automotive Investments' (NZA.NZ) owned '2 Cheap Cars' brand. TRA has also seen traditional import dealers sourcing vehicles through its wholesale channel, indicating the inability for many to import in the volume needed. TRA's local sourcing ability enhanced by its strong brand presence has been invaluable in the strategy shift away from a reliability on imports. In 1H23 TRA had ~14% share of the used vehicle domestic sourcing market in NZ.

Used vehicle transactions have trended downward since 2017

Total used car transactions in NZ have seen annual declines since 2017 when they reached 1.1m. Most recently, in 2022, there were ~965,000 used car transactions in NZ, a total fall of -15% over the five years. This is the first fall since 2006–2009 during the GFC, where transactions fell -14%. Total used vehicle sales have illustrated a cyclical nature and not a high correlation to the size of the total NZ vehicle fleet. This cyclical nature has been exacerbated by changes in regulation impacting the import of motor vehicles, both recently with the Clean Car Standard (see Appendix 1) and in 2008 with the creation of different emission standards for imported vehicles. These previous standards saw subsequent changes in the following years. Over the near term, we forecast a reduced number of transactions for used cars, given the short-term economic weakness and higher interest rates limiting marginal consumers’ ability to make vehicle purchases. Longer term, we forecast used car transactions to remain flat on current levels.

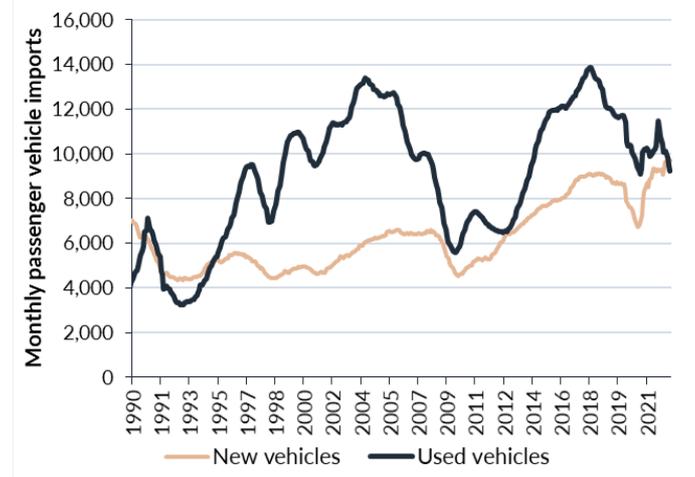
Compared with new vehicle transactions (imports), used vehicle sales hold up slightly better during downturns. During the GFC, monthly new car sales plummeted by -31% from March 2006 to December 2009. While used car sales are cyclical, this comparison with new car sales shows relatively low volatility. New cars have limited price points, focussing on the high end. Used cars with price variations provide the ability to ‘trade down’, a trend that is more pronounced in economic downturns. See section 2.8 for additional analysis of the automotive market during a recession.

Figure 24. Total used vehicle transactions in New Zealand



Source: Forsyth Barr analysis, NZTA

Figure 25. Monthly New Zealand vehicle imports



Source: Forsyth Barr analysis, NZTA, Motor Industry Association (MIA), *12 month average

For dealers such as TRA, there are two ways to generate revenue from vehicle sales:

- **Buying & selling owned stock:** This model focusses on the dealer purchasing used vehicles with the aim of selling them on at a higher price, collecting the difference as profit. The dealer takes price risk on the underlying car and holds the car on the balance sheet as inventory. These vehicles are either sourced by import (usually from Japan) or purchased domestically from the public or other dealers. TRA is the largest domestic sourcer of used vehicles in NZ with ~14% market share.
- **Consignment sales:** Involves selling a vehicle on behalf of a client and collecting a fee once sold. Dealers here can leverage their network and expertise to sell the vehicle quickly at an attractive price, saving time and effort for the client. Sellers are usually leasing organisations, finance companies or NZ Government departments. The dealer takes on no price risk, and the car is not considered inventory. Relationships and contracts are critical to this business model. Cars sold on consignment are historically sold through wholesale auction channels rather than through retail networks. TRA is the only major player in the NZ consignment market.

TRA utilises both sourcing options allowing it to remain flexible and grow through the cycle. Purchasing and selling pre-owned vehicles allows the dealer more choice over cars advertised for sale and thus can ensure a more appropriate inventory. However, this does involve taking the risk on the underlying car, relying on accurate pricing at the point of acquisition. Consignment vehicles limit the dealership’s inventory choice, and the volumes can be volatile. However, with no price risk on the underlying car, the risk to the dealer is minimised, as is the working capital needed. NZ dealers relying on imports are facing supply constraints, with used car sources in Japan running low, as seen by the reduced import levels of used cars into NZ in 2022. Traditional import dealers are purchasing more domestically sourced cars through the wholesale channels in which TRA operates.

2.3 Used car prices

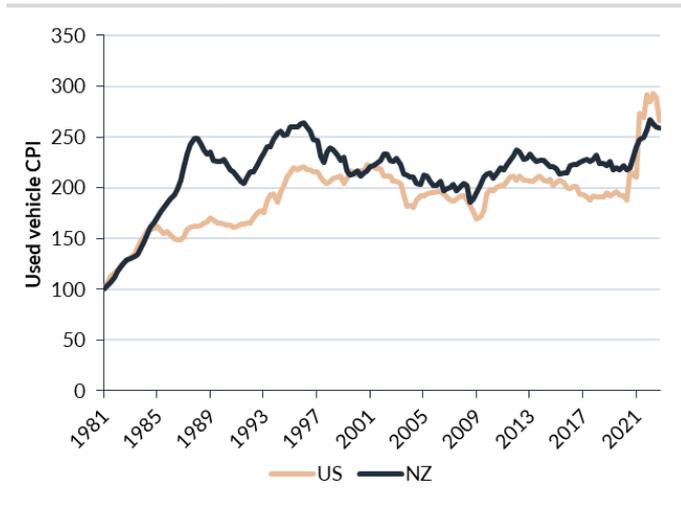
Used car prices have surged since 2020 through a combination of several factors:

- **Supply chain shortages**, notably microchips, have limited the production of new vehicles. A modern car can contain upwards of 3,000 microchips. COVID restrictions and a global surge in personal electronics demand impacted the availability of these chips globally; and as a result, automakers were forced to reduce the production of vehicles. With fewer new vehicles entering the market, consumers turned to the used market to upgrade their vehicles.
- **Increased demand for durable goods** through the COVID pandemic. The unexpected surge in demand for goods such as electronics, home improvement equipment and cars caused these markets to react with price rises. Significant government stimulus globally through this period supported household savings, combined with low-interest rates and soaring house prices, household balance sheets strengthened. Consumers reallocated spending away from travel and services, which is now returning.
- **General CPI inflation**, flowing through increased demand for higher wages, and the prices of dealerships running costs. This has led those in the automotive industry increasing prices to maintain profit margins.
- The rise in **international shipping costs** has impacted the total import cost for new and used vehicles entering NZ. This led to higher prices for consumers after including the dealership margin.

Aggregating these factors caused the Stats NZ used car price index to rise +23% from early 2020 to its March 2022 highs. The index has subsequently fallen by -3%. This appreciation of car prices is substantially ahead of the +2.3% and +0.8% CAGRs the index experienced since 1981 and 2000, respectively. Many markets globally have experienced the same phenomenon. The United States saw a more extreme case where its used vehicle CPI increased by +56% over the 18 months from mid-2020. Since then, used vehicle prices in the US have fallen by -9%. The US-based Manheim used vehicle price index suggests wholesale used cars have fallen -14% since their January 2022 peak.

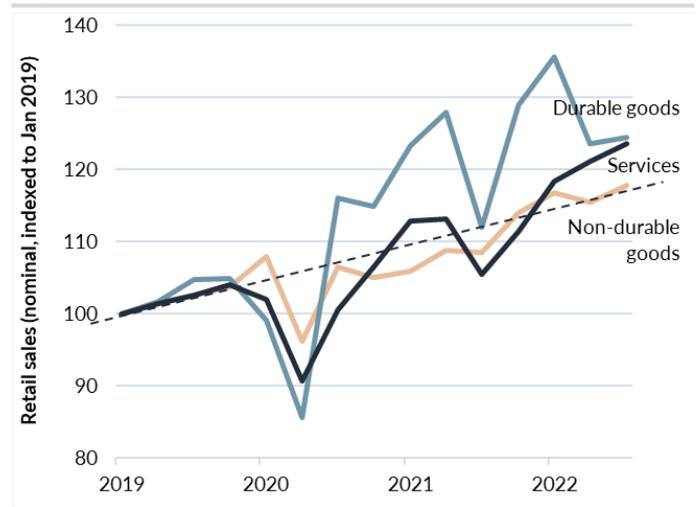
Approximately 80% of cars in NZ are worth less than NZ\$20,000. While individual cars depreciate over time, this is offset in the index by technological and safety developments seen in cars over time, increasing the price of new and then used vehicles.

Figure 26. Used car price indices



Source: Forsyth Barr analysis, Stats NZ, FRED

Figure 27. New Zealand retail sales breakdown

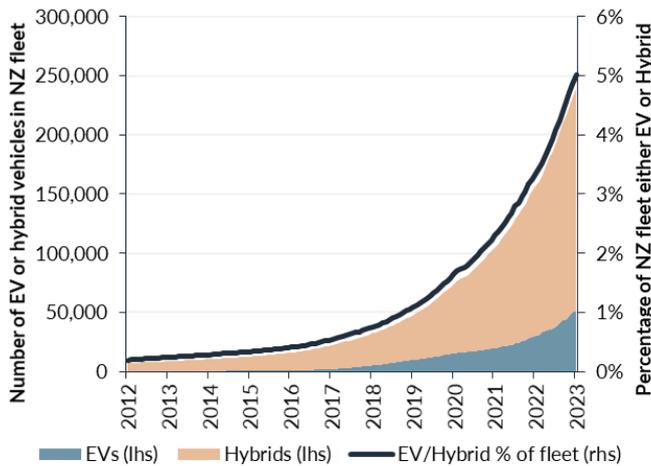


Source: Forsyth Barr analysis, Stats NZ

2.4 EVs and hybrids in the car market

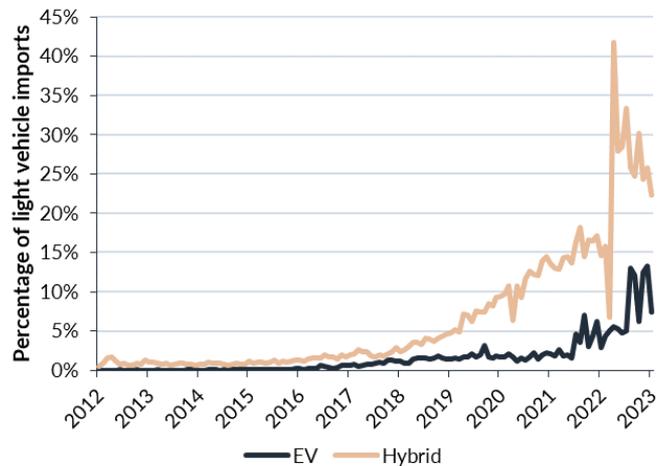
A variety of alternative energy vehicles, such as hybrid electric vehicles (HEVs)/plug-in hybrid electric vehicles (PHEVs) or fully electric vehicles (EVs), have become increasingly popular in NZ and around the world. They now make up a material portion of imports and are becoming a prominent part of the NZ vehicle fleet. Since the NZ Government's Clean Car Discount (see Appendix 1) was introduced in April 2022, there has been a sizable increase in the number of hybrids and EVs entering NZ. In the months following the legislation, the hybrid portion of total registrations has been over 25%. As such, internal combustion engines (ICE), while making up the vast majority of the NZ fleet, have begun to be phased out. Fully electric vehicles have averaged over 11% of new light vehicles registered monthly since August 2022. While these statistics show a substantial change, they may overstate the actual move toward EVs given the artificially low absolute number of petrol and diesel registrations in the months following March 2022. ICE vehicle registrations saw a +124% spike from February 2022 to pre-register in March to avoid the fees associated with importing a high-emissions vehicle. According to a Finder survey of NZ consumers in June 2021, ~45% of respondents would consider an EV for their next car, with the majority of those put off by the current prices. However overstated, the most recent registrations show a clear electrification of the NZ vehicle fleet. Even when combining EVs and hybrids, they made up less than 1% of the total fleet in 2017. Cumulatively as of January 2023, they made up 5% of the total fleet and growing share exponentially. Consumer demand for EVs has multiplied, which will eventually flow through to the used car market. TRA is appealing to this market directly through EV sales at dealerships and having them available in its car subscription programme. Over time, we see the used car market gradually converting available inventory to more EVs without a structural change in transaction breakdowns and volume.

Figure 28. NZ electric vehicle fleet



Source: Forsyth Barr analysis, Ministry of Transport (MoT)

Figure 29. EV and Hybrid import share



Source: Forsyth Barr analysis, MoT

Countries worldwide are moving towards implementing bans on new registrations of ICE vehicles. The NZ Government is yet to announce one for NZ. However, in signing up for the Glasgow Declaration at COP26, they have committed to implementing one on all new ICE vehicle sales by 2040. Our thesis is that a ban will likely be introduced before 2040, given the desire for the NZ Government to be 'climate leaders' and the Climate Change Commission proposing a ban on new ICE registrations between 2030 and 2035. However, the Motor Industry Association called this proposal "overly ambitious", with the industry supporting alternative fuels such as hydrogen in reducing the transport sector's CO₂ emissions. A survey undertaken in September 2022 by electric car maker Polestar found that only 28% of NZ consumers support an ICE ban on new vehicles within the next ten years.

Figure 30. Countries have plans to phase away from ICE vehicle sales in favour of lower emission alternatives

Year of ban	Country	Ban type
2025	Norway	New passenger car sales
2030	United Kingdom	Non-electric car sales, hybrids from 2035, commercial vehicles from 2040
2030	Germany	New ICE vehicle sales
2035	China	New private vehicle sales & registrations
2035	Canada	New light ICE vehicle sales
2035	Japan	New diesel/petrol only cars, hybrids allowed
2035	United States	Privately owned light duty vehicles
2040	Spain	New passenger car sales

Source: Forsyth Barr analysis

European countries are leading the way with bans to be implemented from 2025 in Norway and 2030 in the United Kingdom, Germany and Denmark. North America will ban new ICE car sales in 2035. The opinion on hybrid vehicles also differs among countries. Many, including the United Kingdom, allow longer timeframes before bans are implemented, given HEV/PHEVs' place as a transition technology, not a final solution. However, Japan, the source of ~95% of NZ's car imports, has not stated a ban for hybrids as they have for ICEs, viewing them as acceptable in a climate change-focussed world. Most automakers have made commitments to electrify vehicle production too.

Once NZ has announced a ban on ICE, and later, possibly a timed large scale fleet phase-out of ICEs, we expect a segmented vehicle market to evolve between EVs and, to a minor degree, hybrids, as opposed to ICE vehicles over the next two to three decades. How used vehicle dealers adapt to this changing market will depend on their ability to source EVs, either domestically or through imports. This ability to adjust inventory in response to changes in consumer demand has proven to be highly beneficial through COVID. Petrol costs soared +73% from March 2020 to July 2022 (when the NZ Government implemented a short-term fuel subsidy), fuelling inquiries for smaller, more fuel-efficient cars and away from larger petrol-hungry vehicles. Dealers who pivoted inventory gained market share, while those stuck with an unfavourable fleet for consumer demand saw losses on held inventory. Petrol costs have since fallen -22% from the July 2022 peak.

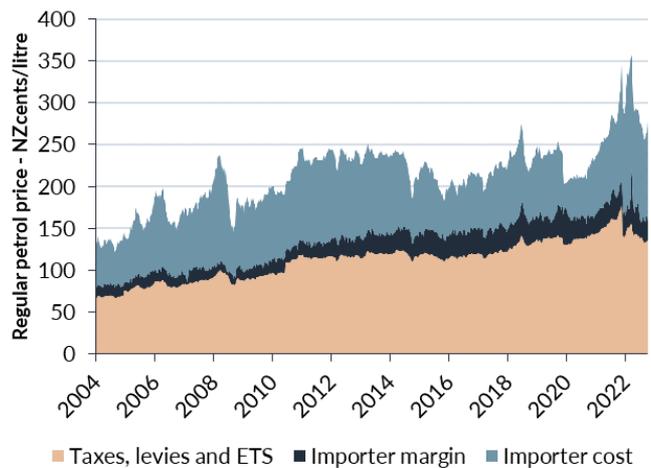
Given NZ's current reliance on Japan for imports and Japanese car brands lagging behind global peers in EV development and global production commitments, we foresee difficulties sourcing emission compliant, appropriately priced EVs through this channel. Substantial global EV demand may also hinder the availability of imports from the small number of other right-hand drive nations; however, given our small size relative to other nations, we may not see a significant vehicle shortfall in imports. Domestic sourcing of EVs will only be available after a three to seven-year lag on new EV imports to NZ. TRA appears attractively placed in this segment in the future. Its consignment relationships with leasing companies should provide substantial EV inventory to sell within three to five years after import, given the current high demand from corporations to lease environmentally friendly vehicles immediately. This may contribute to relative earnings stability for TRA's Automotive Retail over the medium-term compared to other dealers who may struggle to source EVs/hybrids. The lag could be substantially longer for consumer-purchased EVs to enter the second-hand market.

Figure 31. Automotive manufacturers EV adoption plans

Manufacturer	Target
Honda	To sell only EVs and hybrids in Europe after 2022
Mercedes-Benz	New vehicle platforms to be EV only from 2025
Stellantis	70% of European and 40% of U.S. sales to be EV/PHEV in four years
Toyota	Represent 75% of European sales by 2026 and 40% of U.S. sales by 2030
Volvo	100% EVs by 2030
Mazda	100% EVs by 2030
BMW	50% of global sales to be EVs by 2030
Volkswagen	50% of global sales to be EVs by 2030, 100% of global sales by 2040
GM	Fully electric by 2035

Source: Forsyth Barr analysis

Figure 32. New Zealand petrol cost



Source: Forsyth Barr analysis, MBIE

We also note that many in the automotive industry see hydrogen and other alternative fuel sources as important in lowering transport emissions. Regardless of the alternative fuel type used, we envision the transition path and roll out the impact to be analogous to the process described above for EVs.

Fully autonomous cars may pose a different risk and change the industry outlook should they develop and gain widespread adoption. Given the current technological limitations and relatively high prices, this is a medium to long-term risk which may be mitigated through natural progression in the sector. Most dealers in NZ, including TRA, operate a business model agnostic to the type of vehicles being transacted and instead focus on volume turnover. Consumers have always needed vehicle changes, whether upgrading, downgrading, side-shifting, seeking more fuel-efficiency or adopting updated technology. Continuous vehicle change and development have been present in the industry for decades, and dealers have continued to remain successful through these shifts.

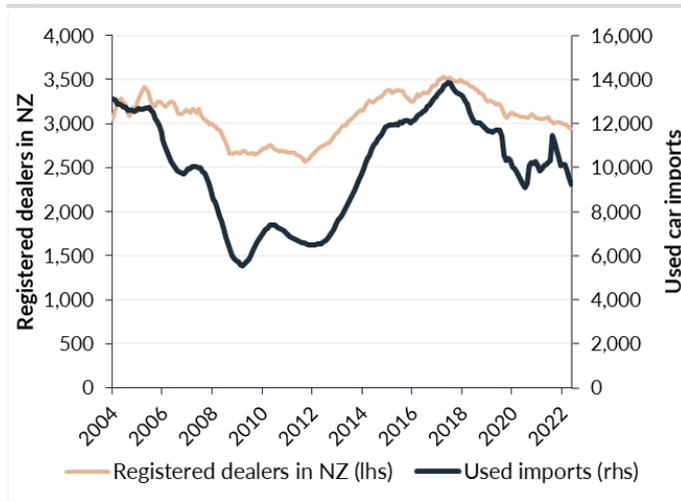
2.5 Motor vehicle dealers in New Zealand

Most motor vehicle dealers in NZ are largely small independent businesses with very few national brands. Since late 2017 the number of registered motor vehicle dealers in NZ has fallen -17% to 2,940 (-4% in 2022 alone), the lowest since mid-2013. The second-hand car market is very competitive, and dealers are often co-located in dense areas. Supplying the right car at the right price is critical to winning the customer. We estimate there are ~600 dealers per 1m population in NZ, whereas the United States has ~20% less at only ~480 dealers per 1m population, highlighting the competitive nature of the NZ industry.

TRA has a dominant market position, with a retail market share of 8.1% in 1H23 (excluding wholesale sales). The next largest dealer/network has ~3% market share (NZA.NZ), with no other brands exceeding 1% market share. With TRA's nationwide array of vehicles, it offers a superior variety of cars compared to other dealers. Combining this with its pricing, financing options, and brand recognition allow for high customer conversion despite a competitive marketplace. TRA's brand and scale have led to its success in the attractive domestic sourcing avenue for vehicles, with a share of ~14% of the vehicles the public sell to dealers.

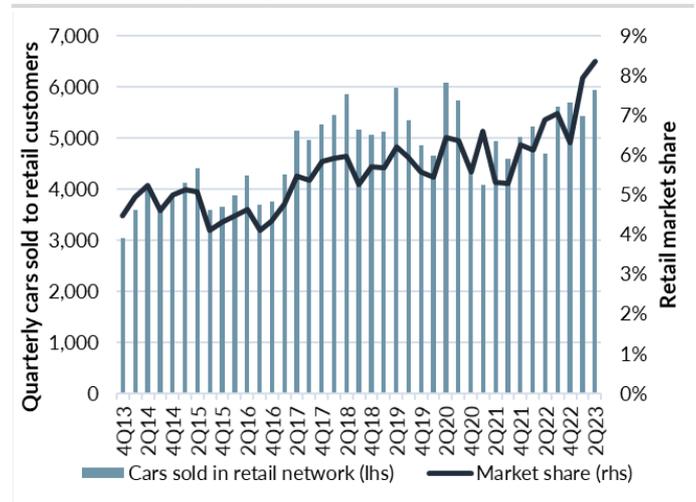
Online browsing of vehicles is now commonplace for potential customers before visiting dealerships in person. Ensuring vehicles are seen by the customer can be vital to securing a potential transaction. While websites like Trade Me and Auto Trader NZ are predominantly for listings of private used cars, they are also used by dealers. TRA lists most of its cars for sale on Trade Me but also operates its own website given its brand recognition and size. TRA has a data advantage via its website, using this information to understand customer desires at a point in time more effectively than other dealers and allowing it to price accordingly.

Figure 33. New Zealand registered car dealers and car imports



Source: Forsyth Barr analysis, MBIE, NZTA

Figure 34. TRA quarterly retail car volumes and market share



Source: Forsyth Barr analysis, company data, NZTA

2.6 Use of financing in used car purchasing

Financing a car purchase, new or used, is common in NZ, with ~80% of all vehicles purchased with some form of vehicle financing. Approximately 13% of New Zealanders have had a car loan in the past three years, and 85% of all vehicles financed are used vehicles, with an average contract length of four years on a car which is on average 10 years old. The automotive finance industry is relatively widespread in NZ, with many brands competing for market share. TRA's brand Oxford Finance estimates its market share at ~9%, down slightly due to its pivot to higher quality consumers. Like many industries, an online presence has become increasingly relevant, with a substantial shift towards consumers finding a car loan online compared to arranging through traditional dealerships or lenders. Often, online comparative tools are used by consumers before selecting a lender. As a result, competitive pricing on offerings is increasingly needed to win these customers. Some 30-40% of dealer transactions have automotive loans arranged at the dealership.

Automotive finance loans have interest rates significantly higher than consumer mortgages, with the current average floating rate at ~13% compared to ~6% for a mortgage. Terms generally do not exceed five years in length and have fees associated with the establishment of the loan paid upfront or spread over the contract's life. Technological developments have driven significant growth in data and insight to accurately price finance contracts with default probabilities and arrears modelling. Contracts nearly always incur additional penalties, either through fees or higher interest rates, when a customer fails to make a payment or defaults on the contract. Automotive contracts are secured by the vehicle, which is sold through a competitive process to offset losses in the event of default. However, in the event of a default and vehicle repossession, only about half of the outstanding balance is usually recovered.

Late in 2021, the NZ Government implemented changes to the CCCFA, making it considerably more challenging for prospective buyers to get approved for a car loan. The NZ Motor Industry Association reported seeing loan approvals fall by -50% to -90%, stating "the vast majority of New Zealand consumers require credit in order to be able to purchase a motor vehicle" and successfully lobbied to overturn the changes (see Appendix 1). Since its lows in December 2021, demand for personal loans has rose back +18% according to credit bureau Centrix. Additional add-ons, such as insurance, are offered when purchasing a used car on finance, with some lenders allowing this cost to be financed alongside the loan. The nature of these add-ons was the focus of an NZ Commerce Commission investigation in 2021, however, no legislation changes were sparked following this report. Dealers often work alongside financiers and insurers through vertical integration like TRA, or in partnerships and commission agreements to provide these add-ons.

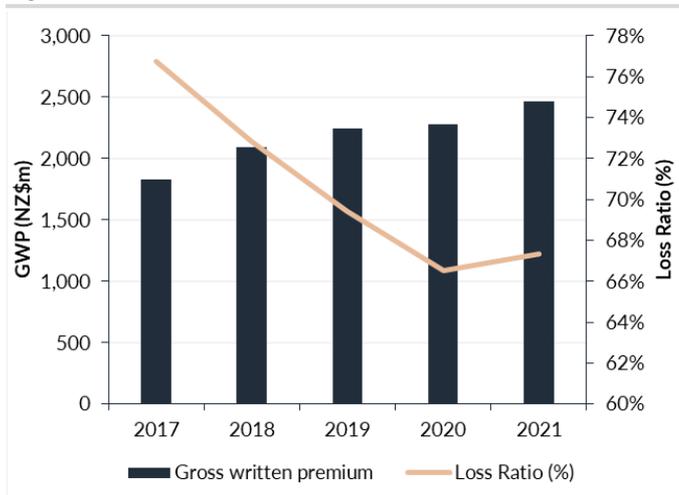
In KPMG's 2022 non-bank Financial Institutions Performance Survey (in which TRA participated), KPMG illustrated the sector's key themes and issues. These included: economic uncertainty threatening to inflate arrears, a cooling housing market reducing consumer balance sheets, regulatory involvement such as the CCCFA, the importance of credit quality and provisioning, and access to and cost of funding. The total non-bank lending sector saw its NPAT rise +57% in the year to September 2022, led by a significant uplift in net interest income. Total loans grew +13%, and net interest margins expanded on average by +75bps. Similar themes will likely impact the automotive finance industry to the broader automotive retail sector. We forecast NZ fleet growth to be in line with population growth over the long term, impacting the ability of finance companies to grow significantly without taking additional market share, thereby increasing competition in the market. We do not expect the growth of EVs to alter the automotive finance market materially. Vehicle financing arrears rose +5.3% in December 2022, reaching the highest seen since June 2020, according to Centrix.

2.7 Mechanical breakdown and automotive insurance in New Zealand

Motor vehicle insurance of all forms constitutes ~1/3 of all Gross Written Premiums (GWP) in NZ, growing in line with the more significant home and contents insurance market over the last five years at a +6.1% CAGR. The total market has also seen an improved loss ratio, falling from over 76% in 2017 to under 68% in 2021. While Australian insurance companies IAG and Suncorp dominate the NZ consumer insurance market, TRA's insurance focus is primarily on the smaller specialised mechanical breakdown insurance market. Vehicle insurance has seen a steady rise in premiums, growing at a +5% CAGR over the last 40 years. Since 1Q20, the CPI for automotive insurance has grown by +11%. However, this is below the rise in prices of used cars and car parts over the same time, which has been largely offset due to lower car usage due to COVID lockdowns. Pricing an automotive insurance contract involves assessing many factors, including the car's model, value, the cost to repair, and information about the driver and their claims history. EVs historically lacked enough information and repair data to ensure accurate pricing. However, this data has built up, and EV insurance offerings are now widespread.

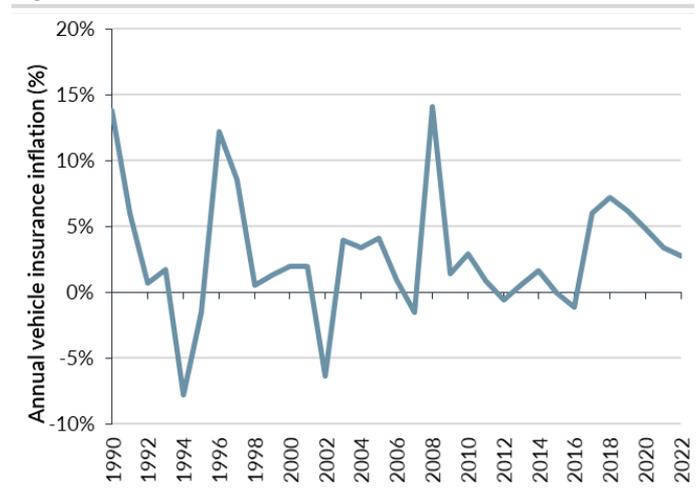
The Mechanical Breakdown Insurance (MBI) market, in which TRA operates, involves insuring vehicles in the event of unforeseen mechanical events. The market started due to customers wanting peace of mind when purchasing used imports with an unknown servicing history. In NZ, there are four major underwriters of this insurance, with TRA having ~50% share. This insurance is often sold as protection or warranties through other brands, such as AA and Ford. The MBI industry may also be impacted by the lower number of imported cars, which have historically been the largest market for MBI. Therefore, competition may increase for firms aiming to continue to grow in real terms.

Figure 35. New Zealand motor vehicle related insurance



Source: Forsyth Barr analysis, Insurance Council NZ

Figure 36. New Zealand motor vehicle related insurance CPI



Source: Forsyth Barr analysis, StatsNZ

2.8 Impact of a recession on the automotive industry

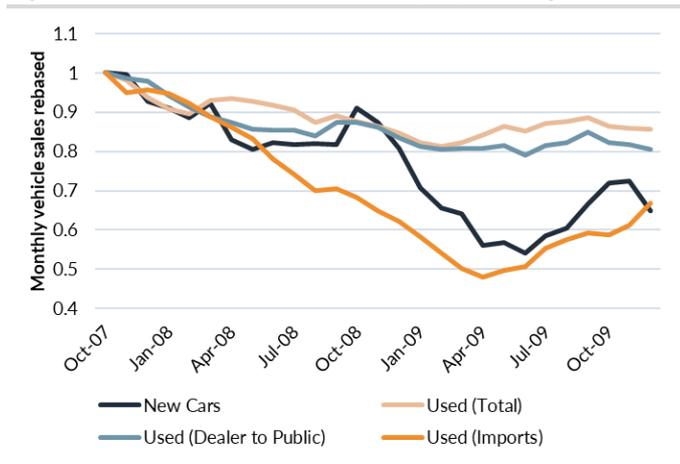
With signs of a recession growing, we analyse how TRA, and the markets it operates in, have fared in prior economic slowdowns and consider how prepared TRA is. The RBNZ is now forecasting four consecutive quarters of negative GDP. Consumer confidence is at near all-time lows, and rising inflation and interest rates are putting the squeeze on the consumer. For a consumer exposed business like TRA, these are clear headwinds. **We positively view TRA's quality improvement and diversity across its four segments and believe it should endure this period better than its peers.** TRA's quality improvement in the receivables book (and halting growth) should help avoid the worst of rising consumer arrears. Used car transactions typically hold up better than imports in an economic slowdown. Given TRA's range of price offerings, the 'trade down' dynamic, and a large cohort of older vehicles needing replacement, we expect these themes to hold this downturn too.

Domestically transacted used vehicles fare better than new and used imports

Imports of new and used cars have fallen on average by -42% during past NZ economic slowdowns. During the GFC period, numbers were also impacted by the adoption of import emission standards. Total used car transactions have fallen only -27% on average during these times. The specific transaction type trader-to-public, the most relevant to TRA's ongoing strategy, fell on average -32% during slowdowns. We expect the theme of domestically sourced used vehicles fared better than imports to continue through this cycle.

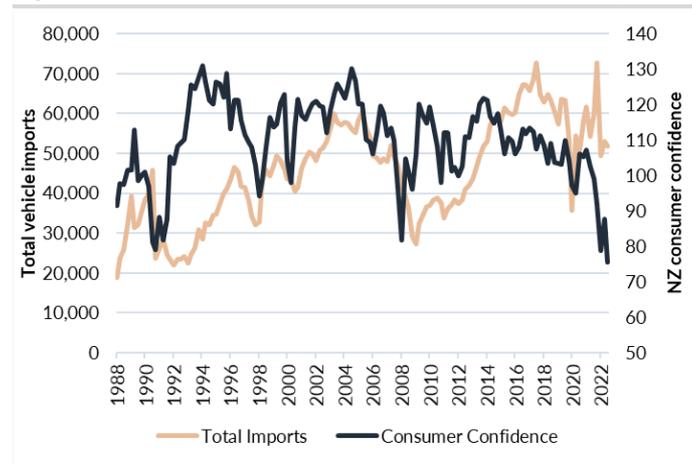
With consumer and business budgets stretched during economically challenging times, upgrades to vehicles or expansions to fleets are often the first to be affected. This significantly reduces demand for imports (both new and used). For dealers importing either new or used vehicles, consumer confidence is a crucial metric to gauge future demand, thus illustrating a correlation between these two variables. With expectations of a likely recession, import quantities have declined. This reduction in new cars and likely leased vehicles will impact TRA on the three to five year consignment lag given their large footprint in this industry, however, likely at a level below the total new car fall. This is because leasing companies have tended to gain share from retail consumers in the purchase of new cars during economic slowdowns.

Figure 37. New Zealand vehicle sales by type during the GFC



Source: Forsyth Barr analysis, NZTA

Figure 38. Consumer confidence and New Zealand car imports



Source: Forsyth Barr analysis, Westpac's McDermott Miller Consumer Confidence survey, NZTA

For consumers, purchasing on finance has become more expensive, and for some, it is no longer an option due to more stringent affordability measures and higher interest rates. We anticipate this will reduce the number of consumers who can purchase higher-priced cars during this slowdown. Total used car transactions peaked in 2017 and have already fallen -18% on a 12-month rolling basis. Similarly, the trader-to-public transactions have fallen -18% since its peak in mid-2021. We believe two possible reasons for this fall are 1) consumers are unable to meet the high finance costs to purchase vehicles, as ~80% of vehicles purchases use finance, and more stringent affordability measures have reduced credit availability for marginal borrowers, and 2) consumer demand for switching or replacing cars has reduced.

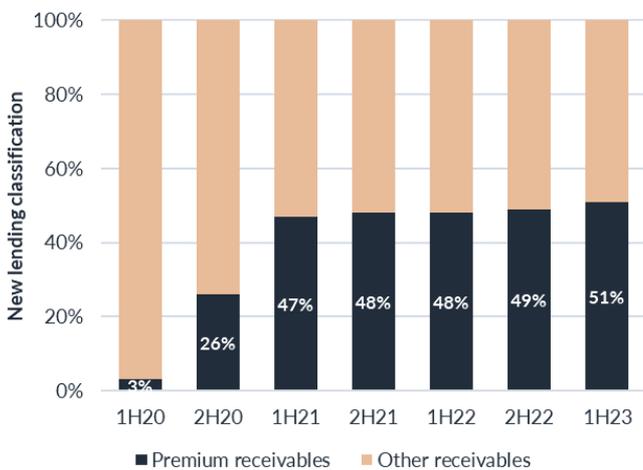
TRA's significant scale over competitors, superior data insights supporting pricing capabilities, and impressive brand trust and marketing may mitigate a portion of the headwind created by these difficulties. With an uncertain outlook, TRA's domestic sourcing model is a crucial advantage over import-heavy competitors. TRA's ability to obtain day-by-day consumer insights through its scale provides confidence in the pricing model for car purchases from the public. It is allowing TRA to more consistently on-sell at a positive margin. The 'Turners' brand awareness and trust enter this period at their highest levels. We believe this bodes well for TRA as consumers demand known and trustworthy brands more than ever during recessions.

Automotive finance hit hard in the GFC but TRA has a significantly higher quality book now

The GFC significantly impacted Dorchester's finance book (which at the time was a deposit taker and property development lender). Dorchester losses were in line with all other NZ finance companies during the period. We expect a vastly improved outcome during the coming years. TRA holds a very different position this time, with an automotive focus and vastly different customer credit controls. This is coupled with a recently implemented pivot towards higher quality, premium finance receivables. Now ~50% of finance receivables are classified as 'premium', and less than 5% are considered 'subprime', a substantial change from only 3% 'premium' at 1H20. This has led the average credit score for new lending to rise from ~660 at 1H20 to ~720 at 1H23. We expect these receivables to continue to outperform the lending market during the upcoming economic downturn (see Figure 58). TRA commented that it has ceased growth in the finance book as the uncertain economic outlook approached. This pivot to quality is partly a combination of the improving position of NZ consumers but primarily driven by a conscious tightening of TRA's credit policy.

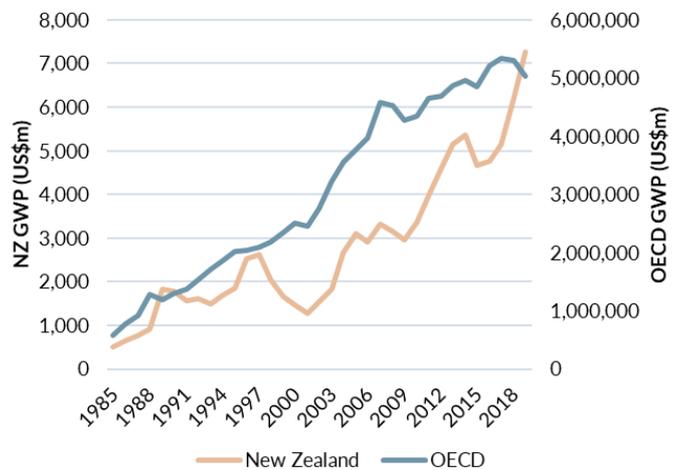
Arrears and impairments will be a key focus over the next year of reporting. TRA saw impairment charges of only NZ\$3m in FY22 (we expect similar in FY23E); we forecast charges of NZ\$5.3m and NZ\$5.1m in FY24 and FY25, respectively. TRA's percentage of receivables still performing increased from 87% in FY18 to 98% in FY22. Arrears exhibit some correlation to the unemployment rate, with higher correlations exhibited in lower-quality loan categories. Given the quality of TRA's receivables, a material increase in the unemployment rate above current forecasts would be necessary before arrears and defaults become a substantial concern.

Figure 39. TRA – Premium tilt to new lending



Source: Forsyth Barr analysis, company data

Figure 40. Total insurance GWP



Source: Forsyth Barr analysis, OECD

Insurance, a conservative business in uncertain times

We believe TRA's MBI business will hold up well during an economic slowdown. We forecast inflation-level gross written premium (GWP) growth. However, insurance GWP can exhibit cyclical characteristics in NZ. During the GFC, total GWP fell -11% in NZ and -7% across the whole OECD. At the same time, we expect some cyclical to prevail in the MBI market. We believe this will be offset by a continuation of TRA's insurance segment developing relationships with more dealers and finance companies to attach MBI directly at the point of sale. The insurance segment should also see an uplift in operating profit due to the higher interest rates received on the regulatory financial assets held by TRA. Alongside this, a continued focus on cost management and risk-based pricing should see TRA's insurance segment perform well through this uncertain economic period.

Recessions, rising arrears and bad debts a helping hand for Credit Management

TRA's Credit Management division has been impacted negatively by low consumer debt levels through COVID and retail banks' lenience in collecting overdue debts. This division should see an improved performance during adverse economic times through a rise in debt load due to increased consumer arrears. It is likely to provide a natural hedge for the other business segments, albeit on a small scale. A recession will only accelerate growth in the debt load. While we expect the collection percentage of debt loaded to decrease during this slowdown, as consumers' balance sheets deteriorate, this is only a slight headwind compared with the significant debt load increase expected. TRA has managed Credit Management well, illustrating its ability to cut fixed costs when the outlook is deteriorating. Management's ability to manage costs in a business that saw revenue halve bodes well for TRA. TRA does not take on any credit risk in this segment. Credit Management debts do not have an automotive focus, which helps diversify Group earnings to an extent. We positively view its unique position in the group with its counter-cyclical nature and low capital requirements.

3. Turners Automotive Group: diverse and quality auto businesses

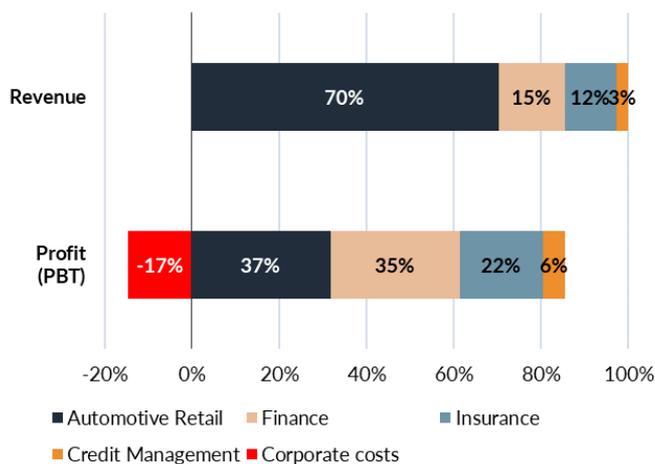
3.1 Overview of Turners Automotive Group (TRA)

TRA is NZ's leading used car dealer, operating 29 branches across NZ and selling ~35,000 vehicles annually. In addition to Automotive Retail, TRA has diversified operations through its Finance, Insurance and Credit Management businesses that now contribute over 50% of segment operating profits (PBT before corporate costs). Each of these segments complements one another, with TRA integrating customer acquisitions through the wider group. There is a clear customer stream between Automotive Retailing, Finance, and Insurance, with 35% of used cars purchased on finance and 33% purchased with TRA's MBI. These internal referrals constitute ~20% of new lending for the Finance segment and ~25% of the MBI contracts. Credit Management (debt collection) stands alone in the group but remains attractive with its countercyclical nature, low capital needs and high cash flow. Each business segment is a leader in its industry.

Starting in 1967 with one dealership in Auckland and as a subsidiary to Turners & Growers (TGG.NZ), through organic growth and acquisitions, TRA's dealerships canvas the length of NZ. The brand has grown to be well-known, well-regarded and synonymous with used car sales. Through diversified revenue streams, TRA offers a high-quality exposure to the NZ automotive market. The performance of TRA over the last five years has seen improved operating and return metrics, diversification and overall quality improvements. TRA has taken advantage of opportunities in the used car market during COVID while also navigating the lockdowns and increases in interest rates well. TRA's 1H23 result saw revenue up +9% and NPAT up +59% from 1H20, the last non COVID affected half year.

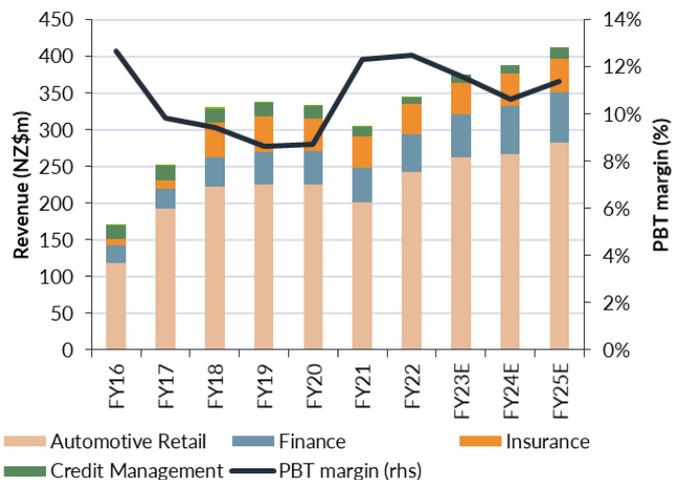
TRA generated 70% of revenue through the sale of used vehicles in FY22, although, given the relatively slim operating profit margins (8%) compared with the other segments (27% to 35%), Automotive Retail only constituted 37% of operating profit in FY22. TRA has focussed on growing its annuity segment profits, and in FY21 and FY22 generated more operating profit from the annuity sources of Finance and Insurance than from non-annuity sources. These diverse profit streams should serve TRA well in light of the slowing economic conditions in NZ. While the Finance segment is currently impacted by margin compression from the substantial interest rate increases, TRA's impressive quality pivot in receivables enacted over the last three years should see Finance re-emerge as a strong growth contributor to group earnings. TRA has successfully managed business expenses, growing the PBT margin from 8.6% in FY19 to 12.5% in FY22. Our base case assumes revenue continues to grow over the forecast horizon from market share gains, however, at slowing rates. We expect margins to fall in FY23 and trough in FY24 as interest rate increases impact funding costs and consumer weakness becomes pronounced through rising arrears and waning used car demand.

Figure 41. TRA – Revenue and profit breakdown (FY22)



Source: Company, Forsyth Barr analysis

Figure 42. TRA – Revenue and PBT margin



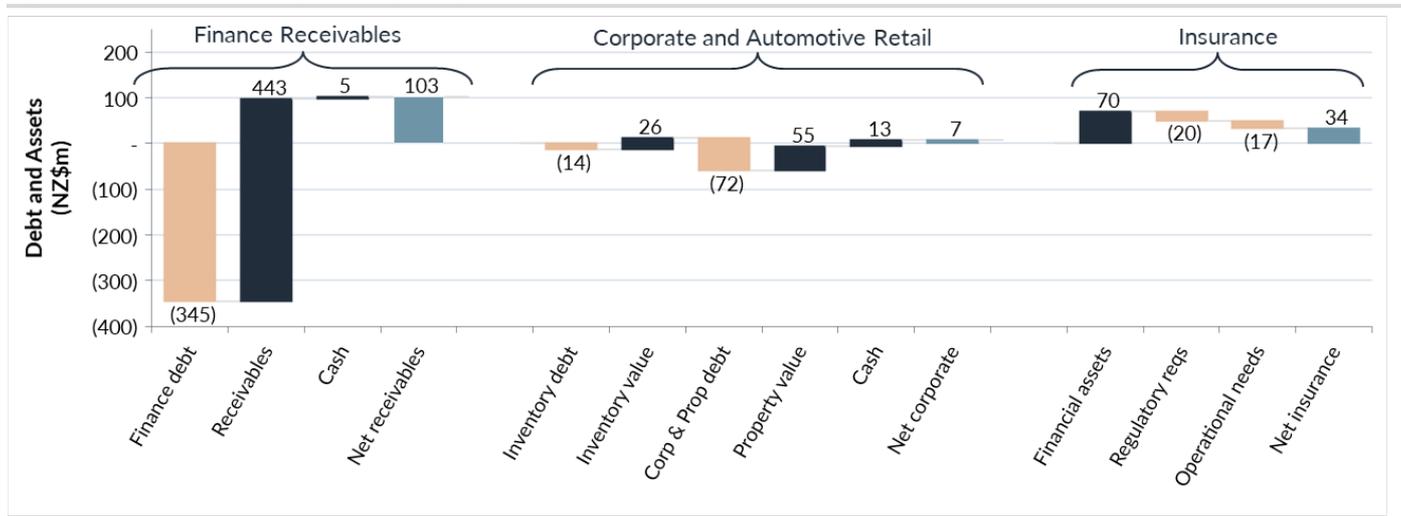
Source: Company, Forsyth Barr analysis

While TRA has borrowings totalling NZ\$431m as of 1H23, 80% of this is attributable to the Finance business. Finance receivables and cash currently sit at NZ\$443m and NZ\$5m, respectively, equating to net assets of NZ\$103m for the receivables book and a debt-to-equity ratio of 3.3x. Considering the quality of the receivables and leverage among peers, we see this as a comfortable position. The remaining debt is apportioned between NZ\$14m of working capital and NZ\$72m for corporate and property. However, existing inventory assets are worth NZ\$26m and TRA's property portfolio had a value of NZ\$55m as of March 2022 (another ~NZ\$30m of TRA's retail property is owned by the insurance division), leaving net assets debt at the corporate of +NZ\$7m when including the remaining cash (i.e. positive net assets at the corporate level).

We see TRA as conservatively geared, albeit appropriately so, with core debt maintainable and entering slowing economic times in a much-improved position relative to its history. TRA's has NZ\$70m of insurance assets. Its minimum solvency capital is NZ\$20m, with an additional NZ\$16.5m held as actual solvency capital and the remaining assets (NZ\$34m) are net insurance investments. Approximately NZ\$30m are property sites utilised by TRA's Automotive Retail segment.

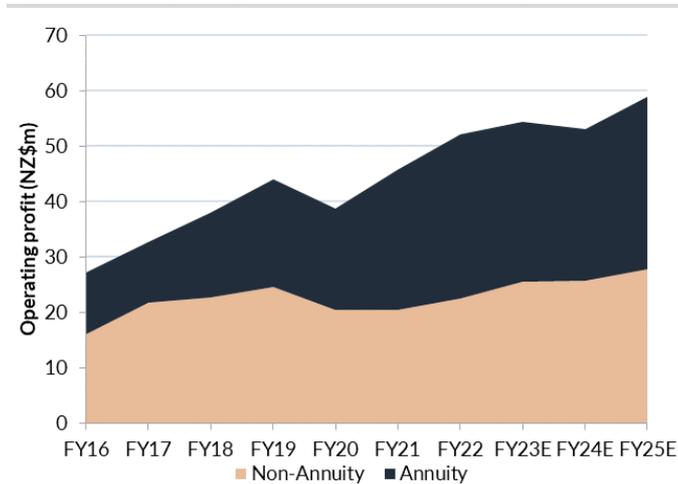
TRA hedges ~50% of the finance receivables debt, while the remaining unhedged portion sees interest cost at ~125bps over the benchmark. TRA does not undertake any hedging on the corporate (property and inventory) debt, with interest received from NZ\$66m of financial assets held in the insurance segment acting as a natural partial hedge to these interest costs. We forecast total group interest costs continuing to rise for TRA from \$10.9m in FY22 to \$28.2m in FY24, reflecting the +245bps increase in the NZ two-year swap rate seen over the last year from 2.42% to 4.87%.

Figure 43. TRA – Financial position (1H23)



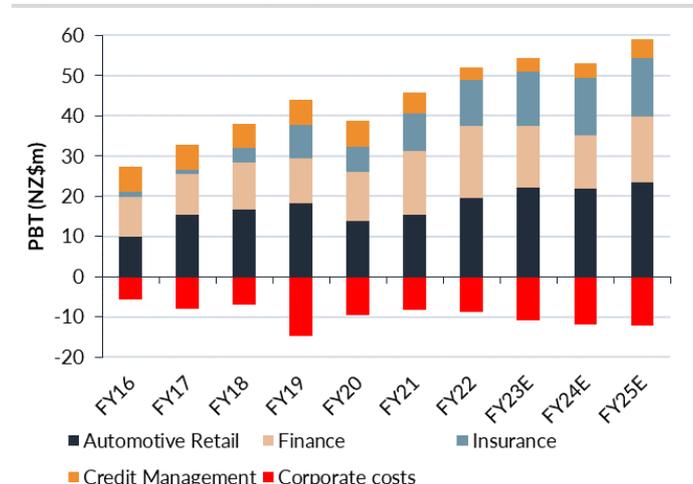
Source: Company, Forsyth Barr analysis

Figure 44. TRA profit growth driven from annuity sources



Source: Company, Forsyth Barr analysis, * Excluding Corporate costs

Figure 45. TRA – PBT by segment

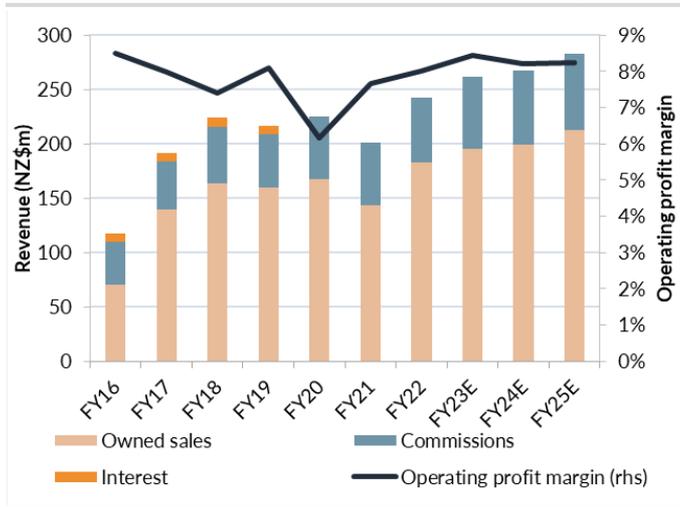


Source: Company, Forsyth Barr analysis

3.2 Automotive Retail

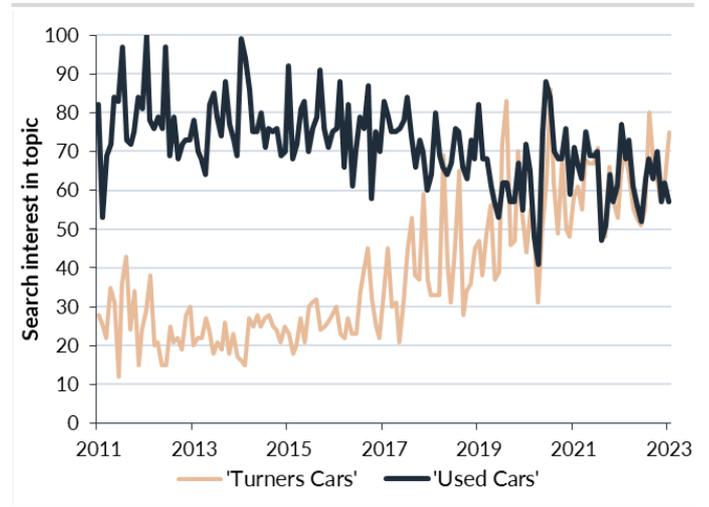
The Automotive Retail division contributed 70% of group revenue in FY22, although only 37% of operating profit at a margin of 8%. TRA is the largest used car dealer by market share in NZ, with 8.1% of the used car retail market in 1H23, leading the market since 2015. In some regional areas, TRA's share is ~15%. This share has risen strongly through improved marketing, digital insights, new retail sites and more consignment sales sold to retail customers. Management has set a market share target of 10% by FY25. This is an achievable target given recent performance, additional sites planned and strategy to sell more consignment vehicles through retail. TRA is the most significant player in the used car market by a substantial margin and benefits from scale. The operating profit margin has been ~8% since FY16, except for a drop to 6.1% in FY20. TRA mitigated the worst of the COVID period in the retail division well by 1) developing ways to transact cars online during lockdowns when many other dealers remained out of the market and 2) taking advantage of the high used car demand seen over the last two years. TRA's market share was ~22% in April 2020 while the nation was in lockdown. In a challenging market, this performance illustrates management's ability to navigate uncertain environments and bodes well for steering through the potential economic slowdown. We also expect TRA to be positively impacted by the January 2023 Auckland floods. TRA stated it lost no vehicles in the floods, and the large number of vehicles written off by insurers (TRA is likely to sell ~50% of these through its damaged vehicle business) in the Auckland region should drive demand for replacement vehicles.

Figure 46. TRA – Automotive Retail revenue and margins



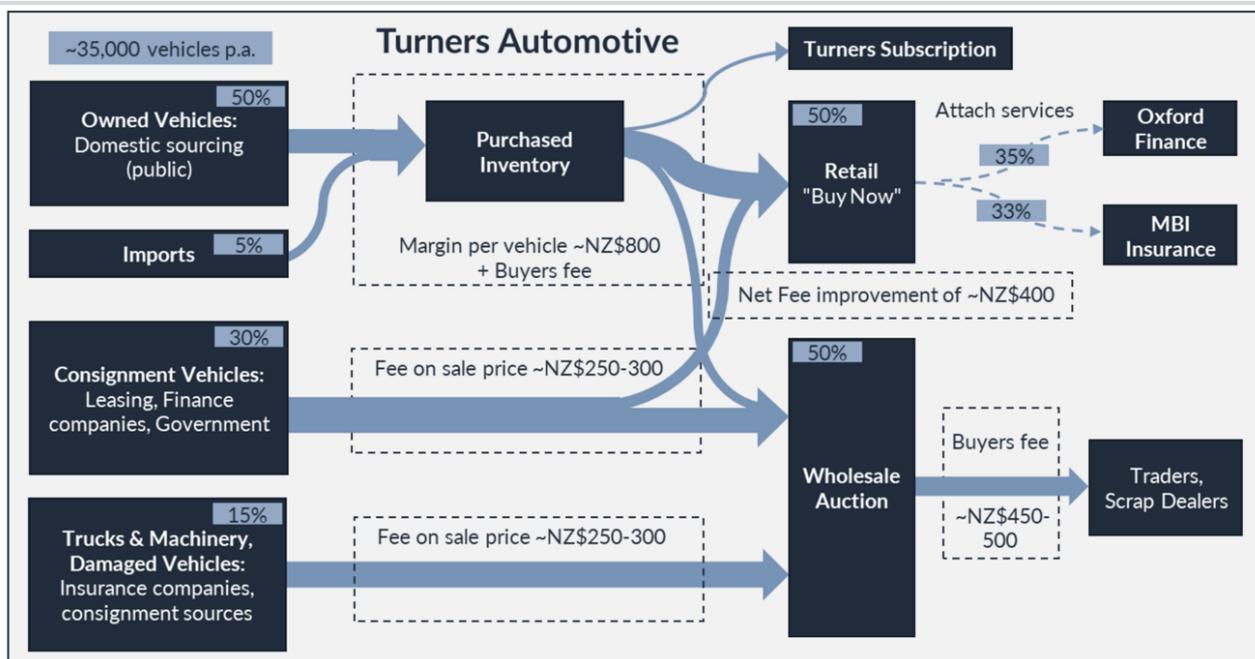
Source: Company, Forsyth Barr analysis

Figure 47. Turners brand is now synonymous with used car sales



Source: Forsyth Barr analysis, Google trends

Figure 48. TRA – Automotive Retail



Source: Company, Forsyth Barr analysis

TRA continues to grow its nationwide footprint

TRA utilises a mixture of owned and leased sites throughout its network, favouring ownership of strategically advantageous sites and leasing the remainder. Recently, TRA has purchased sites and developed them with facilities, ensuring optimal suitability before signing sale and leaseback agreements for the sites. We envisage a scenario where TRA slowly builds up a holding of owned, strategically located sites while managing cash and recycling for future developments. We view TRA's approach to developing new sites positively. While growing the number of sites TRA has also been successfully optimising older sites. We forecast capital expenditure of NZ\$18.7m in FY23, driven by the settlement of purchases in Napier and Tauranga. We expect the development of these sites to cost NZ\$9m and forecast total capital expenditure of NZ\$15.5m in FY24. TRA still lacks a presence in some areas, and we envisage further expansion over the medium-term. We also see additional sites in Christchurch, with TRA's management preferring smaller retail-focused sites, compared to a large traditional auction hub, as is currently the case in Christchurch. The current pipeline of planned new sites is approximately 10. These will drive further market share growth, towards our long-term target of 13%.

Figure 49. TRA nationwide footprint (retail and wholesale sites)



Source: Company

TRA has been growing by adding one to two new retail sites annually, with a target operating profit of NZ\$500,000 per branch per annum. We expect this to continue. These new sites help TRA grow its market share. Each site benefits from the economies of scale of TRA's digital capabilities and nationwide marketing exposure. Compared with its competition, TRA's pricing on used vehicles is competitive and has seen it gain immediate and impressive market share in new local markets, with TRA's most recent sites in Nelson and Rotorua "performing well" and in line or ahead of management forecasts. With continued expansion into new sites and retail optimisation, we forecast owned vehicle volume growth in total of +44% over the next 10 years. TRA should also see its market share rise as smaller dealers continue to leave the market.

Figure 50. TRA – Rotorua branch



Source: Company

Figure 51. TRA's award winning brand



Source: Company

In FY22, 75% of Automotive Retail revenue came from the sale of owned vehicles, with the remainder from commissions on consignment sales or buyers' fees. While owned vehicles constitute a large portion of revenue, this is a low-margin business, with the cost of vehicles amounting to 84% of sales revenue alone.

Through TRA's retail sales, cross-selling finance and insurance allow TRA to increase revenue per customer. TRA sends ~75% of its finance leads to TRA's own Oxford Finance, with the remainder directed to finance companies who are clients of the consignment business. **TRA currently attaches finance on ~35% of retail sales and insurance on ~33% of cars sold.**

Turners Cars, the core of the TRA group

The largest retail division is the sale of used passenger vehicles. TRA focusses on growing the consumer business, and transitioning away from the wholesale (auction) channel to sell vehicles. TRA has been able to cross-sell finance and insurance with TRA's captive retail customers. Days to sale have improved dramatically, lowering working capital commitments. Process improvements and a domestic sourcing focus have lowered days before available for sale from 35 in 1H22 to only 14 in 1H23. The car division volume is split ~50:50 between selling directly owned vehicles and selling cars on consignment.

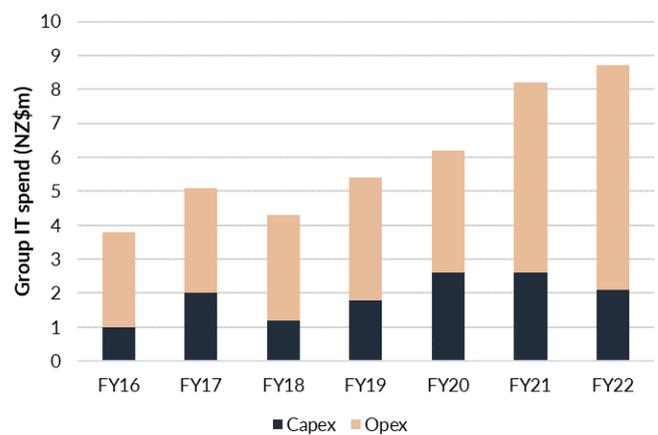
- The strategy in the **directly owned** portion maximises volume sold by offering attractive prices when sourcing cars and charging a smaller margin than competitors to resell at competitive prices. Through market dominance and improved digital insights, TRA has been steadily increasing this resell margin per vehicle. Only ~5% of cars sold by TRA are imported, compared to ~35% for the broader NZ market. The continued expansion of nationwide sites should grow the volume of directly owned vehicles sold.
- For selling cars on **consignment**, TRA has relationships with all financing and leasing companies and NZ Government departments, receiving a fee for selling the car (a percentage of the sale price). TRA is the only player in NZ selling vehicles on consignment, with the value proposition of doing so through a scaled nationwide network too attractive for localised dealers to attempt to gain share. Consignment clients have preferred to send vehicles through TRA's wholesale channel, with a quicker sale time. However, TRA believes it can, more consistently, sell at higher prices through its retail network and is slowly converting these clients to sell through this channel, yielding a material win for both TRA and the consignment clients in revenue achieved.

Figure 52. TRA's 'Tina' marketing campaign has been a success



Source: Company

Figure 53. TRA – Group IT spend



Source: Company, Forsyth Barr analysis

TRA has grown the retail business to where it has many advantages over competitors. With substantially more locations and reach than competitors, TRA leverages this scale to serve customers' needs in their car purchasing journey.

TRA's impressive brand trust and awareness are a strong competitive advantage

The Turners brand has become synonymous with used car sales in NZ. Becoming one of NZ's most trusted brands in a market where trust is often perceived as lacking. The 'Tina' marketing campaign has been an enormous success for TRA, increasing brand awareness nationwide. We believe brand recognition is critical to domestic sourcing, growing market share and staying resilient through the business cycle. Customers who have chosen to purchase from a dealer often have trust as a critical consideration. Here the Turners brand yields significant benefits for TRA. Additionally, a nationwide brand presence allows new regional sites to gain local market share immediately. **TRA are a large scale operator in a very fragmented market.** TRA continues to see high returns on marketing investment. We support this spend and forecast marketing spending growth above inflation in our forecasts.

TRA's scale allows for superior data insights and digital capabilities

TRA has focussed on delivering a customer-centric sales channel, with its physical locations and online channel acting together to enhance the customer experience. Building a solid digital presence is essential where competitors in the future may enter the market with a digital footprint focus, as has been the case in the US. The market-leading data TRA holds have provided unique insights into live market trends, prices and customer demand. Through this, TRA has been able to pivot inventory to meet market demand and trends quickly and price accordingly. The improvement in data analytics has aided more accurate purchasing offers and the rollout of vehicle diagnostic technology in each location has helped TRA limit purchases of 'unsuitable' cars. As a result, TRA has reduced the number of cars sold without profit. TRA continues to focus on buying the right cars at the right prices.

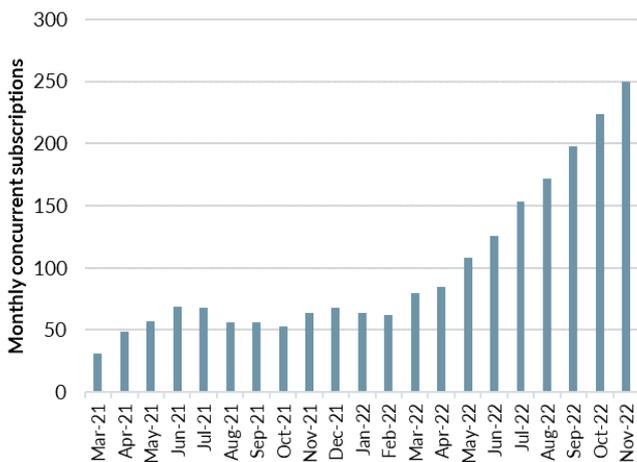
While TRA sells used cars, it does not sell old and dated cars. Relative to the NZ fleet age distribution, which has an average age of ~15 years, TRA's current listings are towards newer models with an average age of ~10 years. This skew to newer vehicles is primarily a result of vehicles sold on consignment where these vehicles are only three to five years old. Research completed by TRA indicates that ~60% of used car purchases are for cars priced under NZ\$10,000 and ~80% are for cars priced under NZ\$20,000. **TRA's business model, with a focus on volume and turnover, is agnostic to the type of vehicles**, whether that be size or the fuel type (petrol, diesel, hybrid or EV). TRA has operated in the used vehicle market for over 50 years, seeing significant technological and vehicle changes through this time while continuing to adapt and operate successfully.

Turners Subscription, a growth play in medium term rentals

In 2020, TRA launched Turners Subscription, allowing customers to pay a weekly rental fee to use a chosen vehicle. With petrol or electricity being the only additional costs for the customer. Insurance, maintenance and registration are all paid by TRA and included in the weekly fee. The subscription allows consumers to change cars each month, within the wide range of vehicles available. The subscriptions offer an array of benefits over financing a car, 1) with no upfront cost, 2) no service costs, and 3) no long-term commitment to a vehicle likely to depreciate. Subscriptions range from NZ\$150pw for a small hatchback to NZ\$250pw for a large SUV. In mid-November 2022, TRA had 250 concurrent subscriptions above its ~200 break-even level, with an average price of NZ\$200pw. Annualising these figures would equate to NZ\$2.6m in additional revenue for the group.

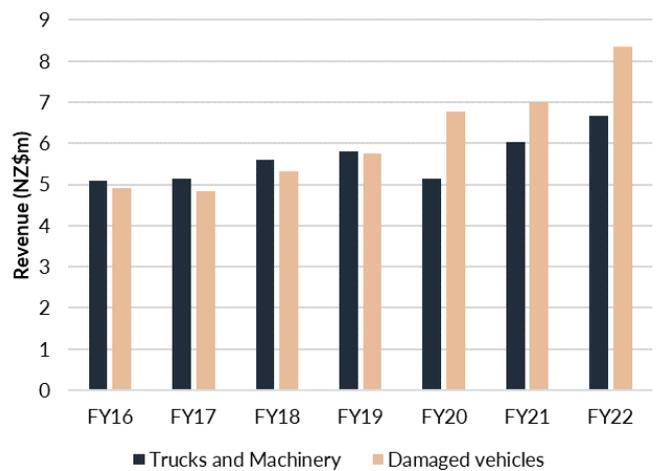
We see this added service as an extension for TRA to mitigate some effects of reduced car ownership trends. Customers are seeking more flexible options with their transport, and providing a weekly car subscription may find a place in the market between short-term rentals or ride sharing and long-term leasing or car purchasing. TRA has partnered with Carly Holdings (CL8.AX) to use existing technology for this purpose, and leveraging TRA's existing national footprint has proven successful. As part of the relationship, TRA purchased a 2.45% stake in CL8.AX (worth A\$100,000). Management remains satisfied with the uptake and has utilised the retail inventory to service subscription needs. However, there are supply issues with EVs in Japan, which could pose a problem in the future as consumers continue to increase their demand for clean vehicles. Only 25% of vehicles in TRA's subscription service are low-emission vehicles.

Figure 54. TRA – Monthly concurrent subscriptions



Source: Company, Forsyth Barr analysis, *Oct/Nov 22 estimated given comments at 1H23 results

Figure 55. TRA – Commercial division revenue



Source: Company, Forsyth Barr analysis

Commercial division, a consignment and wholesale focussed business

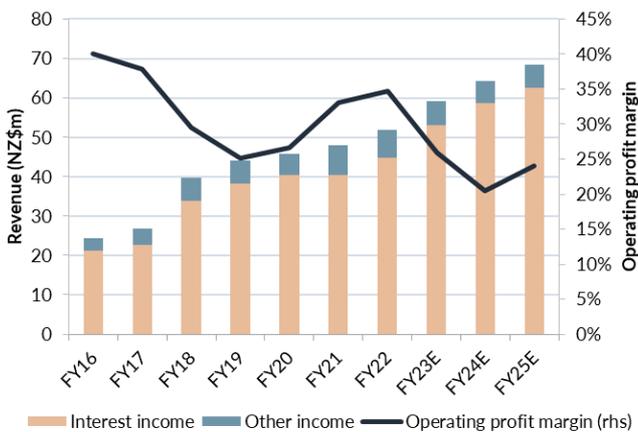
The Commercial vehicle division comprises ~15% of the total Automotive Retail segment volumes. Vehicles are sold (predominantly) on consignment, where TRA receives a fee after selling the vehicle on behalf of various clients. TRA utilises the wholesale auction sales channel, with a substantial number of vehicles transacted online. In addition to consignment fees, TRA also receives a buyer's fee from those purchasing vehicles through the wholesale channel. These buyers fees often constitute 60–70% of the revenue generated from commercial sales. This segment is split between selling trucks and machinery, and another division focussed on selling damaged vehicles/insurance write-offs. TRA has remarketing contracts with most of NZ's biggest insurers and leasing companies. Large events causing widespread damage to vehicles, such as the Timaru hailstorm in November 2019, which saw over 12,000 automotive-related claims in the district and cost NZ\$86.2m, have been positive for TRA's damaged vehicle business, which sells these vehicles to scrap dealers. We envisage a similar positive impact from the January 2023 Auckland floods. Given the nature of these sales, TRA prefers to run separate sites for the Commercial division due to the minimal crossover benefits with the retail division.

3.3 Finance

TRA primarily offers automotive-backed loans to consumers and commercial customers through the Oxford Finance brand. These loans are secured by motor vehicles, with a small portion secured by other assets such as property, boats and equipment. Approximately 20% of loans are originated by the retail division, reflecting the benefits of vertical integration within the TRA group. Oxford Finance loans are currently 80% consumer and 20% commercial, a slight increase in the commercial portion relative to history. Since late 2019, TRA has implemented a pivot towards premium customers with higher credit scores and away from riskier lending with a tighter credit policy, growing the share of 'premium' customers from only 3% at 1H20 to 51% at 1H23. Consequently, most of the growth from NZ\$293m of finance receivables in FY20 to NZ\$423m in FY22 (+44%) has been from these 'premium' customers. TRA estimates its share of the automotive finance market at 9%, down slightly due to implementation of the tighter credit policy, but in a higher-quality market segment. UDC and Avanti Finance are NZ's largest non-bank consumer lenders.

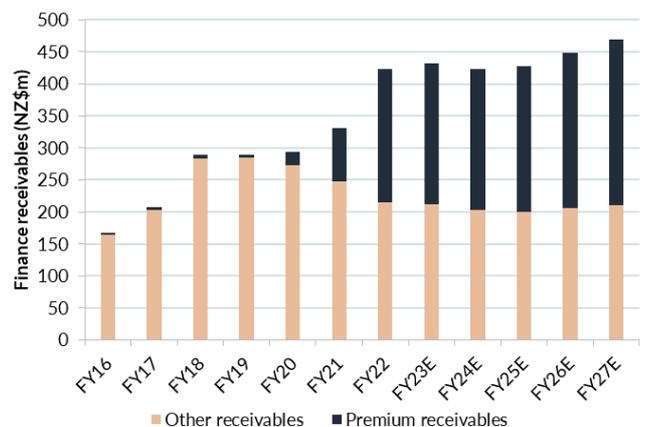
In FY22, Finance segment revenue was NZ\$51.9m, up +13% from FY20, and operating profit grew +48% to NZ\$18.0m over the same two-year period, with predominantly decreasing interest rates. Customers with Oxford Finance tend to have 36 to 48-month fixed-rate contracts. However, on average, an effective 24-month term occurs due to a high portion terminating early through either selling, changing the vehicle or refinancing. This allows for re-pricing in the book to occur relatively quickly, avoiding the worst of margin squeezing. We estimate interest rates charged by TRA averaged 12% in FY22, down from 14% in FY19, reflecting both the improved quality of customers and the decrease in benchmark interest rates over this period. In FY22, 86% of revenue in the finance segment was interest income, in line with historical levels. The remainder comes from fees associated with the establishment of the loan and the collection of bad debts. TRA can obtain funding for these receivables at +1.25% over the benchmark. Net interest margins have been impressive, albeit we expect these to face pressure over the next two years given the rapid increase in benchmark interest rates.

Figure 56. TRA – Finance revenue and profit margin



Source: Company, Forsyth Barr analysis

Figure 57. TRA – Finance receivables

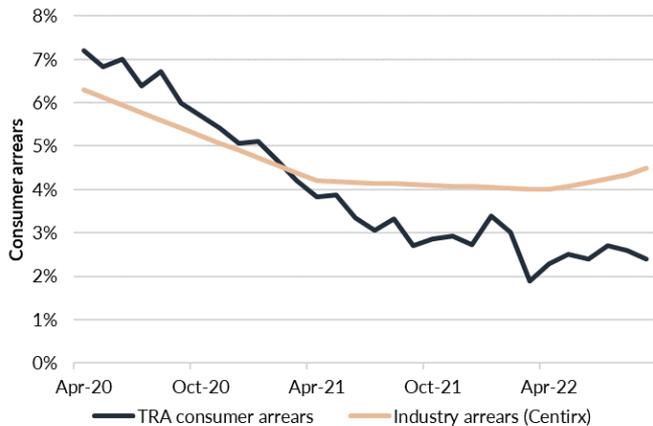


Source: Company, Forsyth Barr analysis

Interest rates increasing over the last year (+245bps in the NZ two-year swap) impacted TRA's finance division margins. Operating profit margin has fallen from 35% in FY22 to 31% in 1H23. Given the fixed nature of auto loan contracts, we forecast a continuation of margin contraction before TRA can fully re-price its book. TRA saw net interest margins (NIM) fall from 7.89% in FY21 to 7.57% in FY22. In contrast, the broader non-bank lending market saw average net interest margins rise +75bps. The difference primarily results from different hedging policies and TRA's reduced risk premium charged to higher quality customers.

TRA is acutely aware of the slowing NZ economy and the impact that it is likely to have on consumer arrears. TRA has said it will not grow the finance book over the short term as the economy navigates this slowdown. The pivot to higher quality loans should help TRA through this period. Although we expect TRA's arrears to still rise through FY24, with signs that this may have already started. Target LVRs on newly originated loans sit at ~80-90%, with some stretching above 100% with the inclusion of add-ons. TRA's 'subprime' portion of the book is currently ~5%, down significantly relative to history, while the 'premium' portion is over 50%. With TRA now implementing a minimum credit score of 500 (above subprime), the 'subprime' portion should continue to decrease. TRA has developed risk-based pricing for finance contracts over the last few years, implementing four risk tiers based on the customer's credit score and profile. A credit score above 735 indicates a 'premium' customer, equating to 'super prime' according to industry data provider Centrix. At the end of FY20 (March FY), TRA's consumer arrears were over 7%, compared to market arrears of 6.4%. Due to TRA's quality shift, arrears at the end of 1H23 were only 2.5%, with the market at 4.5%. While we expect these numbers to rise with the economic slowdown, TRA should remain well-placed relative to the market.

Figure 58. Oxford Finance consumer arrears improvement



Source: Company, Forsyth Barr analysis, Centrix

Figure 59. NZ two-year interest rate swap

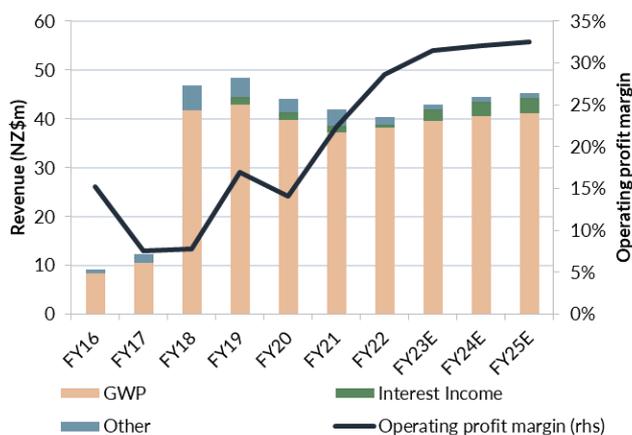


Source: Forsyth Barr analysis, Refinitiv

3.4 Insurance

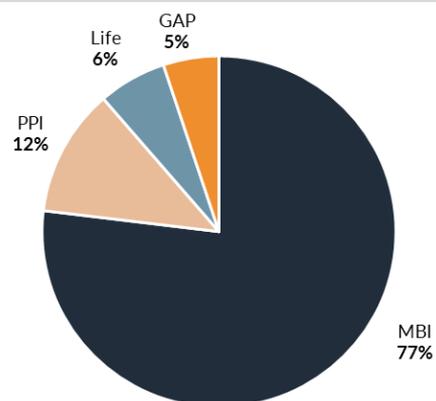
TRA owns the DPL Insurance and Autosure New Zealand insurance brands, offering a range of insurance products distributed through car dealers, finance companies, brokers and advisors. TRA’s main insurance focus is mechanical breakdown insurance (MBI), with only a small exposure to payment protection insurance (PPI), guaranteed asset protection insurance (GAP), and life and funeral insurance. The NZ\$34m Autosure acquisition from Suncorp (2016) was included in TRA’s accounts in FY18. Revenue has fallen -14% from NZ\$46.9m in FY18 to NZ\$40.4m in FY22. However, from FY18 to FY22, operating margins rose substantially from 7.8% to 28.7%, driving operating profit +218% from NZ\$3.6m to NZ\$11.6m. This increased Insurance’s share of the total group operating profit from 10% to 22% over the last four years. This was achieved through significant improvements in contract pricing and expense claims scrutiny. Some premiums doubled over this period for consumers initially incorrectly priced, leading to customers leaving TRA and reduced revenue. However, the pricing adjustments have improved the business and we consider the Autosure acquisition successful. In the future, TRA does not expect this segment to see high growth, given its ~50% market share. Instead, it aims to focus on consistent high profitability. We forecast the margin improvement achieved to be retained in the future and its annuity nature providing reliable and material earnings to the group.

Figure 60. TRA – Insurance revenue and profit margins



Source: Company, Forsyth Barr analysis

Figure 61. TRA – Insurance GWP by type (FY22)



Source: Company, Forsyth Barr analysis

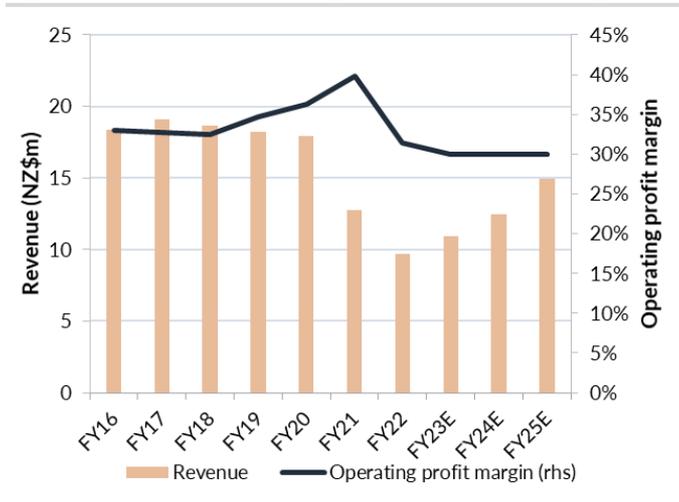
TRA’s Insurance segment generates over 90% of its revenue from insurance contracts, with the remainder mainly from interest income from financial assets held for regulatory or operational purposes. We expect this interest income to materially increase in FY23. TRA primarily focusses on MBI (77% of GWP), with the remainder from other automotive offerings (PPI and GAP) and life insurance contracts, a legacy product offering from DPL. TRA has reinsurance coverage on 75% of this life insurance book and no reinsurance on the MBI, given the lack of catastrophe cover needed. Two counteracting themes have impacted insurance premium pricing on automotive assets over the last two years, 1) the inflationary environment, especially in the automotive industry, causing cars and car parts to rise in price, and 2) the substantial increase in the number of people working from home has reduced car use and, therefore, breakdowns for many customers; thus, they have received premium reductions.

The vehicle insurance portion of TRA's insurance segment (~NZ\$18m of gross written premium) is underwritten by Suncorp New Zealand. TRA acts as a reseller of this insurance and collects a 6% commission on contracts sold. Only this commission is reported as revenue. Approximately 25% of the insurance business within DPL and Autosure is generated internally from TRA retail sales, with a higher attachment rate to imported cars sold over domestically sourced sales. A substantial amount of TRA's mechanical breakdown insurance is distributed through white-label products under brands such as Ford, AA and Avanti Finance. With Autosure's own policies and white-label offerings, TRA has a considerable market share (~50%) in the NZ MBI market.

3.5 Credit Management

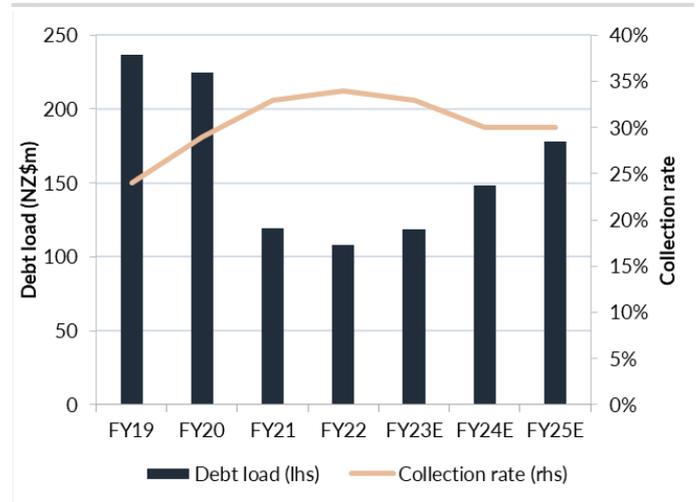
Through its brand EC Credit Control (ECCC), TRA is a debt collector for many SMEs, major trading banks, financial institutions, NZ Government departments and household brands in NZ. ECCC generates commission from collected debt and sells products that help its SME customers with documentation, such as Terms and Conditions of Trade. This business model is capital-light and a solid cash generator for the group. ECCC was acquired through the Dorchester brand in 2012. While not automotive-oriented, it provides a natural counter-cyclical hedge against TRA's other segments. ECCC does not purchase debts for a portion of their value and take on the risk like other debt collectors. Instead, it collects debt on behalf of clients and keeps a percentage of proceeds collected as revenue on a successful collection. This incentivises ECCC to collect debt while protecting the client's brand where possible.

Figure 62. TRA – Credit Management revenue and margins



Source: Company, Forsyth Barr analysis

Figure 63. TRA – Debt load and collection rate



Source: Company, Forsyth Barr analysis

Since FY16, Credit Management's revenue contribution to TRA has fallen from 11% to 3%, and its operating profit share has fallen from 22% to 6%. Most of this fall has occurred since FY20 when clients significantly reduced the debt load that ECCC was asked to collect. During COVID, many large banks extended significantly more lenient credit periods to customers and did not aim to collect debt in arrears from customers. Only recently has ECCC seen the start of a pickup in debt load with the increased economic uncertainty. Debt load is the key revenue driver for ECCC. Its process allows it to collect ~35% of this debt and then keep 10-30% of the collected debt as revenue. We expect the debt load at ECCC to rise over the short to medium term due to 1) a partial normalisation to pre-COVID levels and 2) an economic slowdown causing consumer arrears to rise, increasing the need for debt collectors.

Despite counter-cyclical expectations, we do not expect revenue from Credit Management to reach pre-COVID levels until near the end of our forecast horizon. ECCC is an attractive solution for large retail banks and other small SMEs where their reputation is vital to their business. Being seen as a debt collector, however essential to the finance and banking industry, can hurt a business's reputation and image. ECCC collects debts after they have been passed through to them, often after previous attempts by a bank or SME fail. ECCC has successfully worked with customers with a long-overdue debt to create a repayment plan, however drawn-out the process is. This collection process contrasts with the heavy-handed approach used by some competitors. This customer-focused resolution process has improved satisfaction scores from consumers remarkably for ECCC. In addition, these longer-term payment plans provide annuity revenue to complement active debt collection. A large portion of this built-up annuity was drawn down/paid off during COVID, and we anticipate this could take another two to four years to build up again. Depending on the size of the bank or SME customer, we estimate that ECCC takes between 10-30% of the collected debt as revenue. This business model allowed ECCC to maintain profitability through the COVID period when revenue halved. The divisional operating profit margin reduced from 36% in FY20 to 31% in FY22, even rising to 40% in FY21 as the annuity portion performed on a lower cost base.

Appendices

Appendix 1: Regulatory changes

a) Clean Car Discount – targeting the user of the vehicle

The Clean Car Discount, which came into effect on 1 April 2022, aims to make low-emission vehicles more affordable. The Clean Car Discount consists of rebates for new and used imports with emissions below a threshold. While those imported vehicles with emissions above a higher threshold incur a fee. Vehicles with an emissions profile between the two thresholds will incur neither a fee nor a rebate. New imports have larger-sized fees (up to NZ\$4,500) and rebates (up to NZ\$7,500) compared with used imports (ranging from a NZ\$2,500 fee to a NZ\$3,000 rebate). In an attempt to avoid fees, a significant number of new and used imports were registered in March 2022, just before the 1 April launch date.

Since this Clean Car Discount scheme was enacted, the NZTA has paid out NZ\$203.3m in rebates plus the NZ\$85.2m paid during the original scheme since July 2021. So far, the NZTA has only collected NZ\$105.1m in fees from the purchase of high-emission vehicles. This equates to a net spend of NZ\$183.4m, leaving only NZ\$118.4m in funding left for the NZTA to administer this scheme.

b) Clean Car Standard – targeting the importer of the vehicle

The Clean Car Standard aims to reduce CO₂ emissions from the transport sector and ensure that the sector plays its part in limiting climate change. The Standard is a NZ Government target that regulates importers to specific CO₂ emission targets, encouraging the supply of low or no-emission vehicles. The legislation was passed in February 2022 and came into effect on 1 January 2023.

The Standard assigns vehicles a CO₂ rating. Those with higher ratings (higher emitters) will incur a charge upon import, while those under the threshold receive a credit that can offset charges from importing higher-emitting vehicles. Each importer will have a CO₂ account and will have to pay either as they import cars or settle the balance annually. Each car is assigned different CO₂ ratings based on weight, vehicle type and real-world fuel economy. This is compared with the NZ annual fleet CO₂ target, scaled by the car's weight to see if it emits more or less for its weight than the NZ target.

c) Credit Contracts and Consumer Finance Act (CCCFA)

In December 2021, the NZ Government brought in various changes to the CCCFA to protect vulnerable borrowers from predatory lending. However, the changes had unintended consequences and attracted considerable criticism. The changes were partially rolled back in July 2022, addressing the most significant issues.

The CCCFA is the primary legislation in NZ around consumer finance and lending. It protects consumers' interests in these contracts, ranging from mortgages to credit cards to personal and automotive loans. In the CCCFA, an 'affordability requirement' is often used to ensure responsible lending. A lender has to "*make reasonable inquiries*" before signing a contract with a customer that the borrower will be able to "*make the payments under the agreement without suffering substantial hardship*" and that a loan is affordable for the borrower. The changes allowed the lender to verify further the information provided by thoroughly reviewing the borrower's bank statement transactions over the last 90 days. This was done to assess whether the loan would be affordable. The expenses considered included all everyday living and personal expenses but expanded to regular outgoings such as entertainment costs, investments or gym memberships, all to understand a potential borrower's spending preferences.

The fallout from these changes was virtually immediate, and by January 2022, the NZ Government had launched investigations into the impacts of its changes. In January 2022, new retail credit account openings fell -44% from the previous month. This flowed across all avenues of consumer loans, including automotive loans. Eventually, in March 2022, the NZ Government reversed some of its changes to address these concerns. These updated changes came into force in July 2022 and alleviated some of the more problematic issues caused by the initial changes.

Appendix 2: 1H23 result highlights

TRA reported a solid 1H23 result on 22 November 2022, with revenue rising +11% on 1H22 (or +4% on 2H22) in a market where used car transactions were down -7.5% over the same period. 1H23 NPAT was a record for TRA at NZ\$23.4m, slightly ahead of 1H22 and +58% up on 1H20, the last non-COVID impacted half-year. Result highlights by division include:

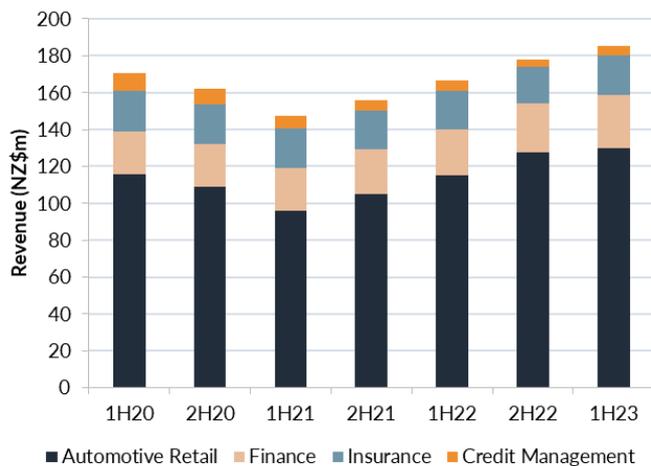
- **Automotive Retail** revenues rose +13% and operating profit +8% compared with 1H23, with faster stock turn and lower inventory held due to efficiency gains, positives for the division. Average days to sell a vehicle fell from 35 days at the end of 1H22 to only 14 at the end of 1H23. TRA grew market share again in 1H23 to 8.1%, up from 6.6% in FY22, with two new sites opening.
- **Finance** revenues grew +16% and operating profits rose +9% in 1H23, compared with 1H22. Rising interest rates have impacted margins for TRA's Finance division. Further, the slowing NZ economy has led TRA's management to proactively halt growth in the receivables book, which has remained flat for the last four months. Current arrears are outperforming the industry.
- **Insurance** continued to see margin improvement and cost inflation passing through via premium rises for customers. Revenue grew +4% for 1H23 versus 1H22, and operating profit grew +8% over the same period, suggesting strong pass-through ability.
- **Credit Management** revenue fell -14% for 1H23 relative to 1H22 due to debt collections falling -8% as cost inflation impacted consumer surplus levels. Debt loading continues to increase while economic and credit metrics deteriorate.

Figure 64. Result summary (NZ\$m)

	1H22	1H23	Change
Operating revenue	164.6	185.0	+12%
Other income	2.2	0.3	(88%)
Total income	166.8	185.3	+11%
Cost of goods sold	(66.6)	(80.5)	+21%
Interest expense	(5.2)	(8.3)	+58%
Impairment provision expense	(0.9)	(1.2)	+32%
Subcontracted service expense	(9.8)	(6.4)	(35%)
Employee benefits	(27.9)	(30.3)	+9%
Commission	(5.4)	(7.0)	+30%
Advertising expense	(2.1)	(2.1)	+1%
Depreciation & amortisation expense	(5.2)	(5.4)	+3%
Systems maintenance	(1.5)	(2.0)	+37%
Claims	(10.1)	(10.7)	+6%
Other expenses	(8.8)	(8.0)	(10%)
Total Expenses	(143.6)	(161.8)	+13%
Profit before taxation (PBT)	23.2	23.4	+1%
Taxation (expense)/benefit	(6.3)	(6.4)	+0%
Profit for the year (NPAT)	16.9	17.1	+1%

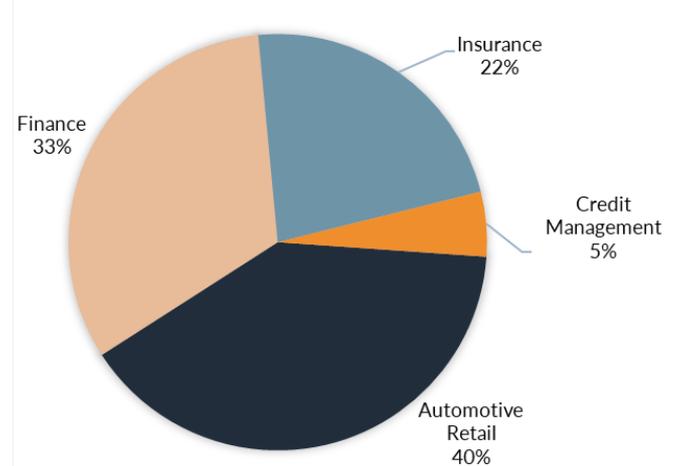
Source: Company, Forsyth Barr analysis

Figure 65. TRA – HY revenue by segment



Source: Company, Forsyth Barr analysis

Figure 66. TRA – 1H23 operating profit breakdown



Source: Company, Forsyth Barr analysis

Appendix 3: NZX peer analysis

NZ Automotive Investments (NZA)

NZ Automotive Investments is an integrated automotive company operating in Automotive Retail and Automotive Finance. NZA owns the retail brand '2 Cheap Cars', which primarily sells imported used cars throughout its 13 dealerships in NZ. NZA also owns the NZ Motor Finance brand, originating vehicle loans from its direct customers within NZA's Automotive Retail division and from external partners. NZA's '2 Cheap Cars' retail brand has the second largest market share behind TRA in NZ. Although it operates almost solely in the selling of used imports where it has ~6.5% market share in 1H23. Against TRA's 8.1% retail share, we calculate NZA has ~3% share of the broader retail used car market. NZA's 3Q23 update indicated its market share of the used vehicle import market grew to 7%, with vehicles sold up +6% year-on-year. Given NZA's reliance on car imports, relative to TRA, we expect NZA will likely be more affected by the Government's new Clean Car legislation (see Appendix 1).

NZA announced that its Board was considering the group's strategy concerning the NZ Motor Finance brand. Lending was paused in June 2022, with the loan book decreasing -NZ\$1.2m in 1H23 to NZ\$6.3m. NZA cited the effect of the rising cost of living on borrowers' ability to service debts and the loan book being paid back at a lower level. NZA reported arrears on the loan book were 3.3% on 31 July, compared to only 2.7% for TRA.

NZA was listed on the NZX on 25 February 2021, with a market capitalisation of NZ\$59.3m. Performance has been poor, with the stock price falling -76% since listing. On 19 July 2022, all directors, except for founder David Sena, resigned from the Board. Following this, new directors were announced and some withdrew nominations before settling on three new directors on 12 August 2022.

NZA's recent 1H23 result saw an increase in market share for '2 Cheap Cars' despite used imports falling. NZA sold 4,281 cars in 1H23, up +11% from 1H22 (impacted by COVID-19). This volume increase, combined with higher used car prices, saw revenue rise +30% from 1H22. Sales originating online now account for 23% (up from 9% in 1H22), and EV/hybrid sales are now 40% (21% in 1H22) of total sales. While NZA reported a solid revenue line, the profit line was weaker, with NPAT only NZ\$0.6m for 1H23, a fall from the NZ\$1.4m achieved in 1H22.

Colonial Motor Company (CMO)

Colonial Motor Company operates franchised motor vehicle dealerships throughout NZ. CMO primarily sells the Ford brand in NZ, with additional dealerships carrying Mazda and other international car brands. CMO also sells heavy trucks and tractors and provides vehicle service and maintenance. CMO operates in both the new and used car industries in NZ. CMO differs from TRA in selling new cars and offering service and maintenance, whereas TRA offers in-house financing and insurance products. CMO has ridden the wave of rising car prices and constrained supply of new vehicles successfully, with NPAT increasing from NZ\$22.0m in FY19 to NZ\$33.3m in FY22 (+52%). Revenue was +10% over the same period.

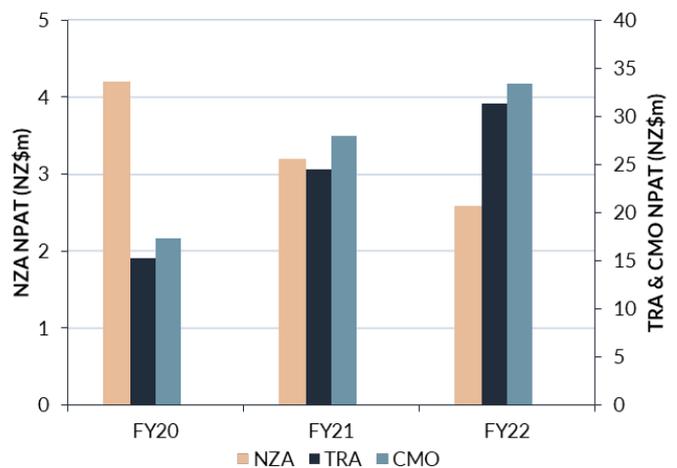
In CMO's FY22 annual report, the CEO stated, "The Government's clean vehicle policies have incentivised local franchises to secure a supply of EVs from their international parent. Unfortunately, these vehicles are in short supply globally and the aggressive nature of the emissions targets appears to be adding to inflationary pressure in the market".

Figure 67. NZ automotive retail sector – price performance



Source: Forsyth Barr analysis, Refinitiv

Figure 68. NZ automotive retail sector – NPAT (FY22)



Source: Company, Forsyth Barr analysis

Figure 69. Income statement comparison FY22 – NZ\$m and percentage of total revenue

	TRA	NZA	CMO	TRA	NZA	CMO
Operating Revenue	342.0	64.2	999.0	99.3%	97.4%	99.6%
Other Income	2.5	1.7	3.8	0.7%	2.6%	0.4%
Total Income	344.5	66.0	1002.8	100.0%	100.0%	100.0%
Cost of goods sold	(153.2)	(51.7)	(815.4)	(44.5%)	(78.4%)	(81.3%)
Interest expense	(10.9)	(0.7)	(4.4)	(3.2%)	(1.0%)	(0.4%)
Impairment provision expense	(3.0)			(0.9%)		
Subcontracted service expense	(10.9)			(3.2%)		
Employee benefits	(56.0)	(3.8)	(90.6)	(16.3%)	(5.8%)	(9.0%)
Commission	(12.9)			(3.8%)		
Advertising expense	(4.1)	(1.2)	(6.1)	(1.2%)	(1.8%)	(0.6%)
Depreciation & amortisation expense	(10.7)	(1.8)	(8.1)	(3.1%)	(2.7%)	(0.8%)
Systems maintenance	(3.4)			(1.0%)		
Claims	(21.0)			(6.1%)		
Other expenses	(15.1)	(3.6)	(28.9)	(4.4%)	(5.4%)	(2.9%)
Total Expenses	(301.4)	(62.8)	(953.5)	(87.5%)	(95.2%)	(95.1%)
Profit before taxation (PBT)	43.1	3.2	49.4	12.5%	4.8%	4.9%
Taxation (expense)/benefit	(11.8)	(0.6)	(14.0)	(3.4%)	(0.9%)	(1.4%)
Non controlling interest			(2.0)			(0.2%)
Profit for the year year (NPAT)	31.3	2.6	33.3	9.1%	3.9%	3.3%
Revenue growth (from FY21)	15.4%	(0.3%)	11.3%			
NPAT growth (from FY21)	27.5%	(18.9%)	19.4%			

Source: Company, Forsyth Barr analysis

Appendix 4: Company history

Figure 70. TRA – Key event history

Date	Event
1967	First automotive retail opens in downtown Auckland (subsidiary of Turners & Growers)
1980	Expansion with Christchurch branch
2001	Launched online sales channel Autoturn
2002	Split from Turners & Growers and Turners Auctions lists on the NZX New branches opened with expansion all over New Zealand
2004	Turners Finance is launched
2014	Turners Automotive Group formed through merger of Turners Auctions and Dorchester Pacific
2016	Buy Right Cars acquisition announced (NZ\$15.3m plus stock) Autosure acquisition announced (NZ\$34m)
2019	Rebranding of the Buy Right Cars network to Turners Cars
2022	Opening of new Nelson and Rotorua branches

Source: Company, Forsyth Barr analysis

Appendix 5: Board and management profiles

Figure 71. TRA – Board profiles

Board Member	Position	Description
Grant Baker	Non-executive Chairman	Grant Baker has experience at a senior level in both public and private New Zealand companies. He has been involved in a number of ventures, including 42 Below Vodka and Trilogy International. He is chairman on NZX listed Me Today Limited (MEE.NZ) and was chairman of 42 Below Vodka and Trilogy International. With a substantial shareholding, Grant is a long term investor in TRA and has been Chairman since September 2009.
Matthew Harrison	Non-executive Director	Matthew Harrison has extensive management experience and a background in finance and business administration. He is the former Managing Director of EC Credit Control, and has experience dealing with credit cycles and credit management. He joined EC Credit Control in 1998, following senior management roles in the courier industry. Matthew joined the TRA Board in 2012 and represents his family interests.
Alistair Petrie	Non-executive Director	Alistair Petrie has over 15 years of senior management experience in private and listed companies in the agribusiness sector. He has extensive knowledge in sales and marketing in international and domestic environments. He has a number of directorships with companies that have a focus on growth and innovation, and he represents the interests of Bartel Holdings, which has a substantial shareholding in TRA. Alistair worked for many years at Turners & Growers, the original parent company of Turners Auctions, which provides a connection at Board level back to those foundational brand values of 'trust and integrity'. Alistair has a BSc (hons) from Newcastle Upon Tyne University and an EMBA from Melbourne University.
John Roberts	Independent Director	John Roberts has experience in the financial services industry, having held the role of Managing Director of credit bureau Veda International for 10 years, during which time the Veda Advantage business was listed on the ASX. John previously had over 15 years in advertising, with CEO roles with Saatchi & Saatchi in New Zealand and Asia Pacific, before MasterCard in New Zealand for three years. John is currently a director of Centrix, a leading credit rating agency in NZ, and this keeps him connected with the financial sector and the NZ credit cycle.
Antony Vriens	Independent Director	Antony Vriens has been chairman of TRA's insurance subsidiary, DPL Insurance (now Autosure), since 2012. He is an experienced financial services industry professional as a senior executive and consultant in insurance and wealth management businesses across Asia, Australia and New Zealand. Antony currently holds the position of VP of Technical Insurance Services for Manulife Asia responsible for digital transformation.
Martin Berry	Independent Director	Martin Berry is a global financial services executive having run international businesses for ANZ, Citibank, Barclays and Standard Chartered. He later focussed on entrepreneurial ventures where he has built, acquired and exited several companies with values in excess of US\$600m. Martin later founded and now runs venture capital firm Launcho Ventures out of Singapore investing in early stage technology companies.
Lauren Quaintance	Emerging Director	Lauren Quaintance is an award-winning journalist and media executive turned entrepreneur and marketer. She has had a career in media at a senior level in both the United Kingdom and Australasia and is the co-founder and Managing Director of Storyation, a digital content marketing agency, which was sold to ASX-listed NewsCorp Australia in late 2019. Lauren was named Entrepreneur of the Year at the B&T Women in Media Awards in Australia. Her journalistic pedigree combined with digital marketing experience and entrepreneurial skills fit well with the TRA direction and culture.

Source: Company, Forsyth Barr analysis

Figure 72. TRA – Board remuneration

Name	Category	Total (NZ\$)	Number of shares	Shareholding %
Grant Baker	Chairperson and non-executive Director	150,000	6,450,000	7.4%
Matthew Harrison	Non-executive Director	90,000	5,179,294	6.0%
Alistair Petrie	Non-executive Director	75,000	*10,142,642	*11.7%
Martin Berry	Independent Director	75,000	500,000	0.6%
John Roberts	Independent Director	90,000	99,900	0.1%
Antony Vriens	Independent Director	110,000	7,800	0.0%
Paul Byrnes (resigned)	Independent Director	68,750	n/a	n/a
Lauren Quaintance	Emerging Director	-	n/a	n/a
	Total	658,750	22,379,636	25.8%

Source: Company, Forsyth Barr analysis, *Trustee capacity, not beneficial ownership

Figure 73. TRA – Management profiles

Management	Position	Description
Todd Hunter	Group Chief Executive Officer	Todd is an experienced senior executive, with a background in marketing, sales and accounting in both large global and domestic businesses. Before joining Turners Auctions in 2006, Todd worked for Microsoft NZ and Ernst and Young. He was appointed CEO of NZX listed Turners Auctions in 2013, and took on the CEO role for the wider TRA Group in 2016. Todd is a chartered accountant and holds a Bachelor and Diploma of Commerce from Auckland University.
Aaron Saunders	Group Chief Financial Officer	Aaron joined Turners Group in 2006. He has a background in financial and management accounting, at both a strategic and operating level in local and international markets. Aaron has worked across a broad range of company sizes and industries including vehicle importation and distribution, broadcasting and the finance sector. Aaron is a full member of the New Zealand Institute of Chartered Accountants and holds a Bachelor of Commerce from Auckland University.
Greg Hedgpepeth	CEO Turners Automotive Retail	Greg joined TRA in 2017 as CEO of the Automotive Retail division, with responsibility for Turners Cars, Trucks & Machinery and the Damaged and End of Life business. He has previously held a number of senior roles with BMW Group NZ and Armstrong Motor Group. With a Bachelor of Commerce majoring in marketing from Auckland University he has completed numerous marketing roles, followed by a number of years working for Saatchi & Saatchi in NZ and other advertising agencies overseas.
Guy Bryden	COO Oxford Finance	Guy joined TRA in 2018, and is responsible for Finance and Operations at Oxford Finance. Before joining TRA, Guy held a number of roles in the banking industry, including three years working in London for Mizuho Bank in corporate finance. Guy is a chartered accountant and holds a Bachelor of Commerce from Otago University.
James Searle	Group General Manager Insurance	James is responsible for the sustainable and profitable growth of DPL Insurance and leads the company's focus on delivering outcomes for TRA's customers. James has over 30 years' experience in the New Zealand insurance industry with his previous roles encompassing all aspects of insurance; sales and marketing, intermediated distribution management and underwriting including portfolio acquisitions. James joined TRA in 2011 and holds a Diploma of Business (Marketing) from Auckland University.
Matthew Gannaway	CEO EC Credit Control	Matt joined EC Credit Control in 2003 and has worked in different areas of the business prior to becoming CEO in 2021. He holds a business degree from Massey University and has a strong technology focus to drive better outcomes.
Jeremy Rooke	Group Chief Digital Officer	Jeremy joined Turners Group in 2009. His current role involves leading the operation of the group IT services and product functions, as well as leading the adoption of new technologies, business models, and channels to transform TRA's digital capabilities. Jeremy has over 20 years of IT experience having worked on several large transformational IT programmes in NZ and Australia, most notably in the insurance sector. Jeremy holds degrees in Law and Arts from Auckland University.
Maryanne Burns	Group General Manager People & Culture	Maryanne joined TRA in 2019. She has 20 years of experience as a Human Resources professional in a broad range of industries in New Zealand. These include automotive, financial services, insurance, environmental solutions, importation and distribution.

Source: Company, Forsyth Barr analysis

Figure 74. CEO remuneration FY22

Name	Role	Salary (NZ\$)	Benefits (NZ\$)	STI (NZ\$)	LTI (options NZ\$)	Total (NZ\$)
Todd Hunter	Group CEO	659,000	50,325	375,000	535,000	1,619,325

Source: Company, Forsyth Barr analysis

Figure 75. TRA – Management shareholding

Name	Position	Number of shares	Shareholding %
Todd Hunter	Group CEO	791,819	0.9%
Aaron Saunders	Group CFO	305,554	0.4%

Source: Company, Forsyth Barr analysis

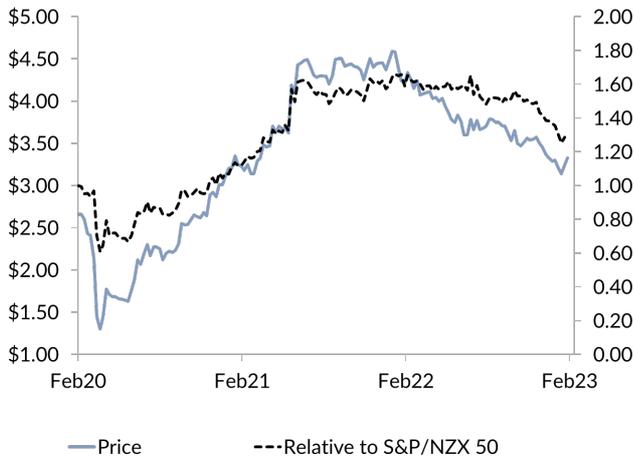
Appendix 6: Terms and definitions

Figure 76. Key definitions

Term	Definition
CAGR	Compound annual growth rate
CCC	NZ Climate Change Commission
CCCFA	Credit Contracts and Consumer Finance Act
Centrix	Credit Bureau of New Zealand
CMO	Colonial Motor Company (CMO.NZ)
Consignment	Selling vehicles on behalf of clients for a fee
COP26	Conference of the parties, Climate change conference
CPI	Consumer price index
DPL	Dorchester Pacific Limited (now part of TRA)
ECCC	EC Credit Control (now part of TRA)
EPS	Earnings per share
EV	Electric vehicles
GFC	Global financial crisis of 2007-2008
GWP	Gross written premium
ICE	Internal combustion engines
MBI	Mechanical Breakdown Insurance
MIA	Motor industry association
MoT	Ministry of Transport
NIM	Net interest margin
NPAT	Net profit after tax
NZ	New Zealand
NZA	New Zealand Automotive Investments (NZA.NZ)
NZTA	New Zealand Transport Agency (Waka Kotahi)
PBT	Profit before tax
PE	Price to earnings ratio
RBNZ	Reserve Bank of New Zealand
StatsNZ	Statistics New Zealand
TRA, Turners or Group	Turners Automotive Group (TRA.NZ)

Source: Forsyth Barr analysis

Figure 77. Price performance



Source: Refinitiv, Forsyth Barr analysis

Figure 78. Substantial shareholders

Shareholder	Latest Holding
Bartel Holdings	11.7%
Baker Investment Trust No 2	7.5%
Harrigens Trustee Limited	6.1%

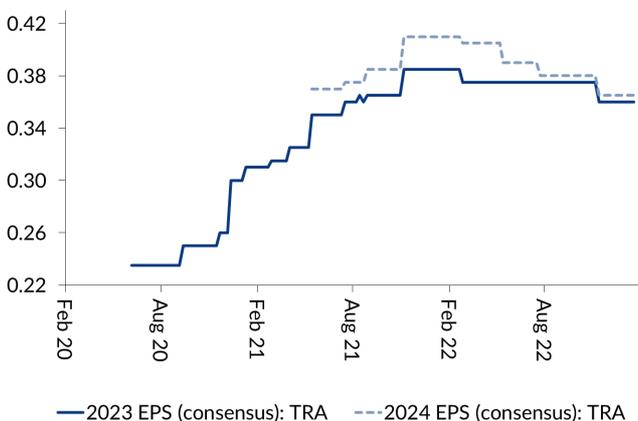
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 79. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE 2023E	PE 2024E	EV/EBITDA 2023E	EV/EBITDA 2024E	EV/EBIT 2023E	EV/EBIT 2024E	Cash Yld 2024E	
(metrics re-weighted to reflect TRA's balance date - March)											
Turners Automotive	TRA NZ	NZ\$3.27	NZ\$284	9.2x	9.7x	33.5x	34.3x	>75x	>75x	7.0%	
KMD Brands *	KMD NZ	NZ\$1.06	NZ\$754	14.6x	10.8x	4.8x	4.2x	11.0x	8.5x	6.5%	
The Warehouse Group *	WHS NZ	NZ\$2.59	NZ\$898	11.7x	11.3x	5.8x	5.6x	11.7x	11.3x	6.7%	
Briscoe Group	BGP NZ	NZ\$4.75	NZ\$1,058	12.3x	14.4x	7.5x	8.3x	9.4x	10.8x	5.3%	
Michael Hill International L	MHJ NZ	A\$1.15	A\$437	n/a	9.7x	3.9x	4.1x	6.4x	7.0x	7.0%	
Eagers Automotive	APE AT	A\$11.22	A\$2,866	10.7x	11.3x	8.7x	9.1x	10.3x	10.8x	5.2%	
Autosports Group	ASG AT	A\$2.15	A\$432	6.8x	7.5x	5.8x	6.3x	8.1x	9.4x	7.2%	
Motorcycle Holdings	MTO AT	A\$2.22	A\$163	6.1x	6.5x	5.0x	5.2x	6.8x	6.8x	8.8%	
Peter Warren Automotive Hold	PWR AT	A\$2.73	A\$469	8.2x	9.1x	7.1x	7.7x	9.3x	10.0x	7.3%	
Kamux Corp	KAMUX	€4.84	€194	14.7x	11.8x	8.8x	7.3x	14.0x	11.3x	3.9%	
	FH										
America'S Car-Mart Inc	CRMT US	US\$95.65	US\$609	20.6x	15.3x	2.5x	12.0x	15.6x	19.2x	n/a	
Idom Inc	7599 JP	¥850.00	¥90,855	6.4x	6.9x	5.9x	5.6x	6.8x	6.5x	4.6%	
Compcpo Average:				11.2x	10.4x	6.0x	6.9x	9.9x	10.2x	6.3%	
EV = Mkt cap+net debt+lease liabilities+min interests-investments				TRA Relative:		-18%	-7%	460%	400%	n/a	12%

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compcpo metrics re-weighted to reflect headline (TRA) companies fiscal year end

Figure 80. Consensus EPS momentum (NZ\$)



Source: Refinitiv, Forsyth Barr analysis

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