



MANITOBA COLLISION REPAIR STATE OF THE INDUSTRY

Disclosure

BDO Canada LLP was engaged by the Manitoba Motor Dealers Association and the Automotive Trades Association Manitoba to complete this report.

During the development of this analysis, BDO has taken steps to ensure the accuracy of the data included in this document. This includes, but is not limited to:

- Validating all client-provided information with the source of the data;
- Presenting no information that could not be backed-up by clear evidence; and
- Making no judgements beyond what could be reasonably interpreted through the analysis of the various data sources.

TABLE OF CONTENTS

Project Summary	4
Total Labour Rate vs. MB CPI	6
Labour Rate by Type vs. MB CPI	7
MB GDP vs. Total Labour Rate	8
Paint and Body Material Costs vs. Paint and Material Rates	9
Paint Materials Costs vs. Paint and Materials Rate	10
% of Non Profitable Business per Province	11
Operating Profit Margin	12
Sum of Labour Rate (Door Rate), Material Rate, and Paint Rate	13
Sum of Labour, Material, and Paint Rates vs. MGEU Wage Rate and MB CPI	14
Appendix A - Labour Rates and Effective Dates	15
Appendix B - Sample MB Income Statement	16
Appendix C - Definitions	17



PROJECT SUMMARY

Involved Parties

- The Manitoba Motor Dealers Association (MMDA) represents the new vehicle franchised dealerships in Manitoba and deals with provincial issues that affect the well-being of franchised automobile and truck dealers.
- The Automotive Trades Association Manitoba (ATA) is a non-profit organization originally formed and active since 1930 and re-registered in 1986 with the mandate to promote and further the interests of members regularly engaged in the automotive repair industry to the general public, civic, or government bodies.
- Manitoba Public Insurance (MPI) is a Crown corporation that delivers insurance, registration and licensing services to Manitoba drivers.

Project Background

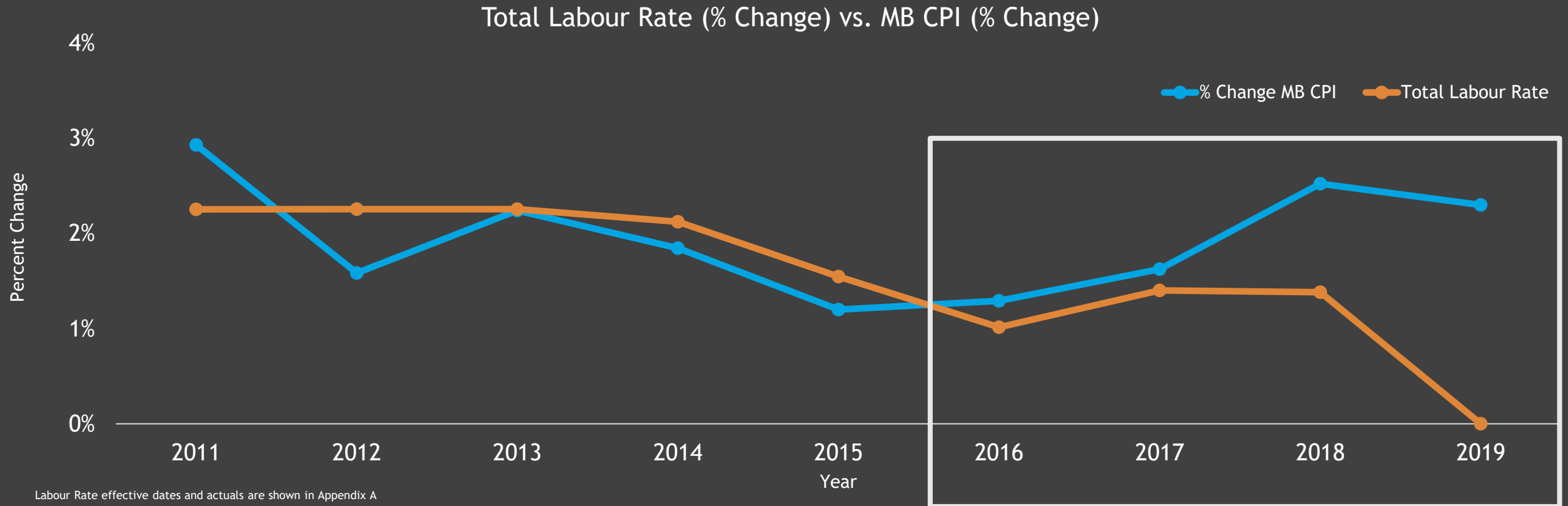
- Commercial contract negotiations between MMDA / ATA and MPI are scheduled for the near future.
- MMDA and ATA were looking for an independent viewpoint on the industry's cost structure, profitability, and sustainability of Manitoba's collision repair centres.
- BDO was engaged to conduct this analysis using a combination of data sourced by MMDA / ATA (which was independently validated) and data gathered from reputable secondary sources.

PROJECT SUMMARY

Methodology

- Data was gathered from MMDA / ATA which was independently reviewed and validated by the BDO team. These data sources included:
 - CPI data for Manitoba;
 - Labour / wage rates (including benchmarks and comparable data sets);
 - Paint and material rates;
 - Paint and material costs; and
 - Profitability metrics.
- The BDO team gathered some additional data from reputable third-party sources to supplement the data provided by MMDA / ATA.
- The data was structured to enable analysis, synthesis, and the production of meaningful comparisons and outputs.
- The BDO team presented various visuals where there were insights valuable for MMDA / ATA in regards to their upcoming negotiations.
- The ultimate goal of BDO's work was to provide insights that are completely based on validated and reputable data.
- BDO endeavored to compile the key findings into a comprehensive, visually appealing, and easily digestible manner.

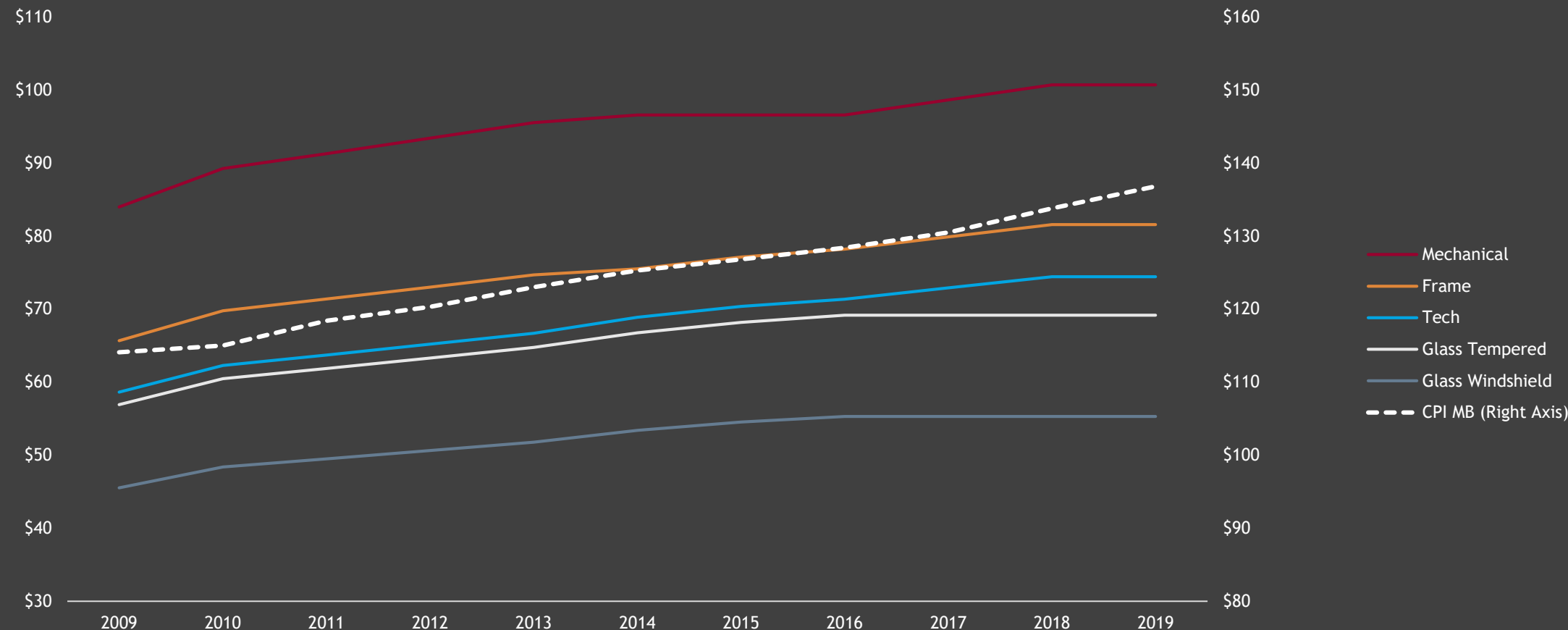
Operators' purchasing power has decreased as CPI outpaces labour rates



- Since 2016, the annual percentage change in labour rate has fallen below the percentage change in CPI.
- In 2019 the labour rate percent change was 0% and the CPI percent change was 2.3%.
- The labour rate is used to cover various costs such as certifications and overhead, not just wages.
- The graph indicates that from 2016 to 2019 prices were increasing at a higher level than the labour rate paid to auto body shops. This indicates the auto body shop's buying power is decreasing.
- Since 2016, the discrepancy between these two metrics has resulted in the labour rate lagging MB CPI by over 4.1%.

The decline in purchasing power is relatively uniform across labour rates

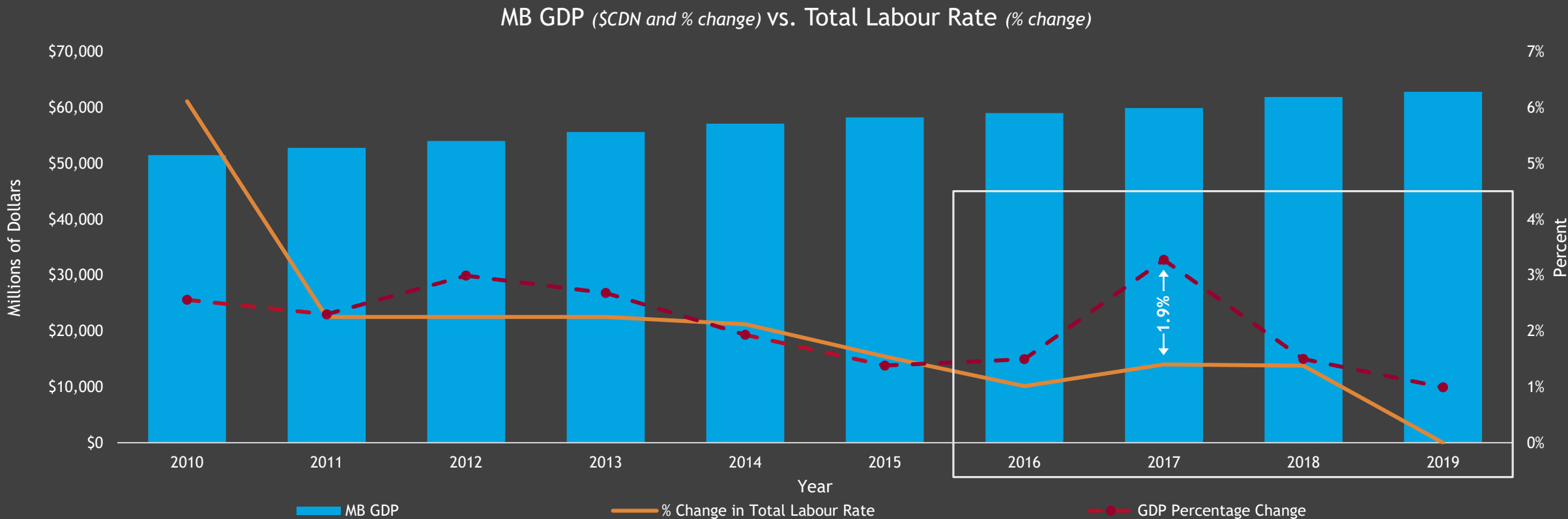
Labour Rates by Type vs. MB CPI



Labour Rate effective dates shown in Appendix A

- Every type of labour rate (tech, mechanical, glass tempered, frame, and glass windshield) are all following similar growth trends.
- Considering this with the previous table and the MB CPI, it is clear that every type of labour is lagging inflation in previous years.
- These lagging labour rates are impacting business economics and may also result in impacts to the workers themselves.

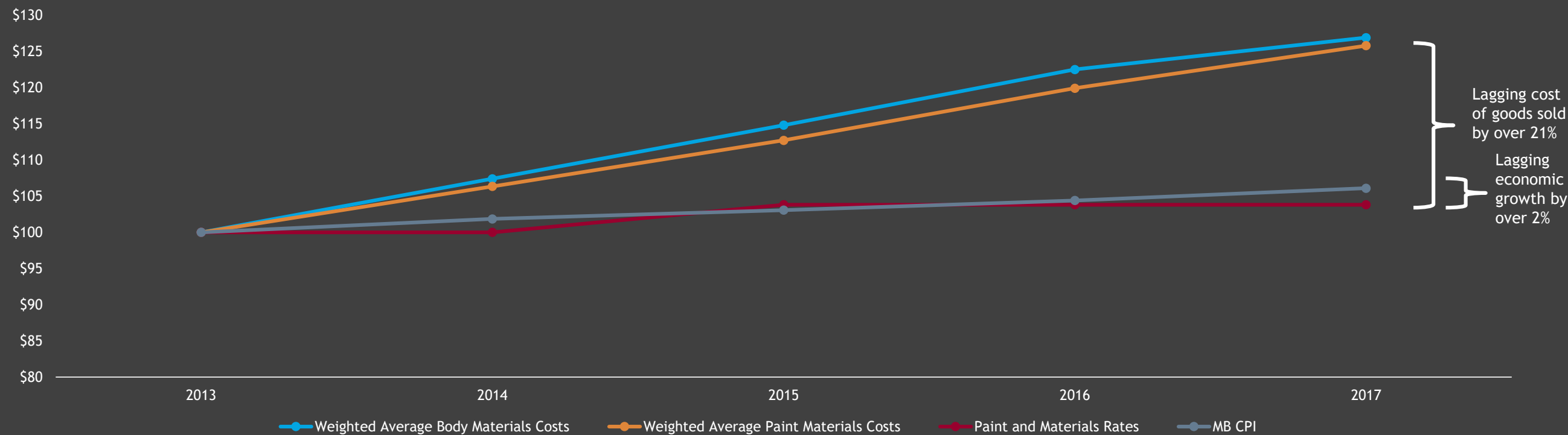
Labour rate growth has also trailed MB's economic output and productivity growth



- In the last ten years, Manitoba's GDP has increased by over 23%. The compound annual growth rate of Manitoba's GDP has been 1.9%.
- The percent change of the total labour rate has diminished significantly between 2010 and 2019. Starting as high as just over 6% in 2010 and falling down to 0% in 2019.
- The percentage change in total labour rate has lagged GDP growth since 2016 (hitting a maximum disparity of 1.9% in 2017).
- Since 2009 the unemployment rate in MB has stayed consistently between 5.2% and 6.1% (amongst the lowest in Canada). This relatively low unemployment rate shows a strong economy which should have a positive impact on wages.

Paint and material costs have been consistently increasing with a minimal increase in rates

Paint and Body Materials Costs vs. Paint and Materials Rate (relative change since 2013 with \$100 as a base)



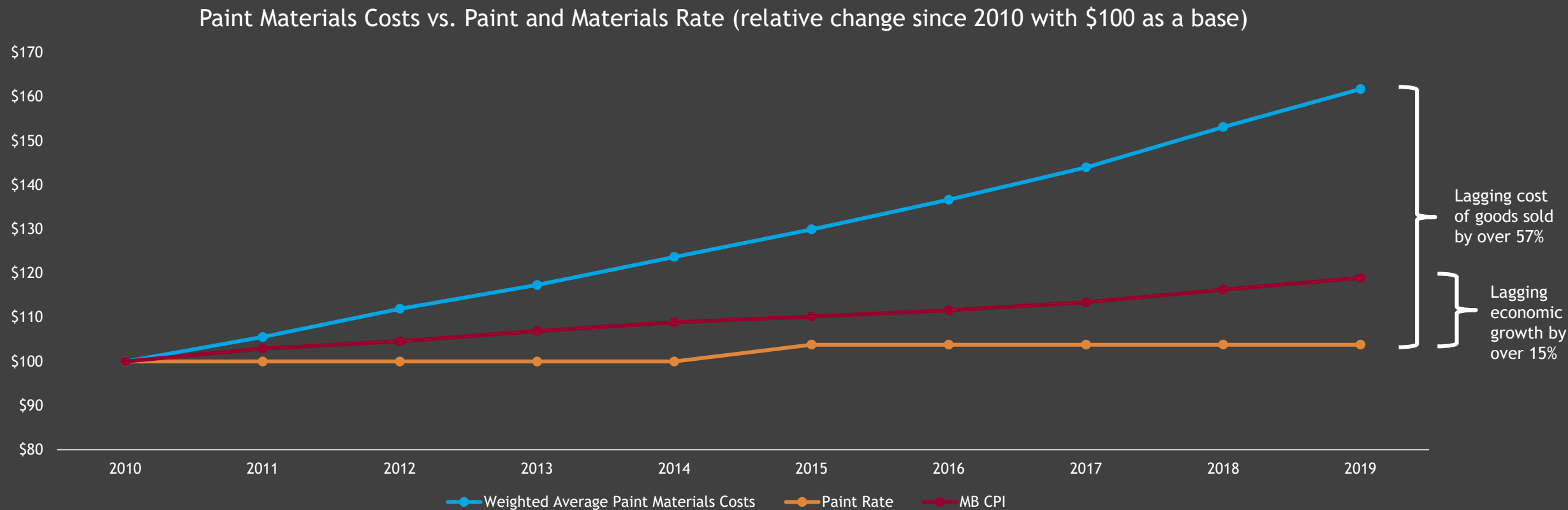
Note: 2014 data unavailable, so assumed as a linear estimate between 2013 and 2015

- Between 2013 and 2017 there was just one increase in paint material rates (in 2015 from \$36.80 to \$38.20).
- Paint and body material costs have been increasing significantly faster than paint and material rates.
- Over the 2013 - 2017 period, paint and body material costs increased over 25% each while paint and material rates saw 3.8% growth.
- Based on analysis of an available industry benchmark income statement, an increase in Body and Paint costs of 25% can decrease net profit by 4.0%.*

*This analysis is based on a representative income statement. It is assumed that the proportions of various expenses (e.g. paint and materials) are relatively consistent across the industry.

Sources: Statista, Consumer Price Index in Manitoba from 2000 to 2019; MNP LLP, Key Industry Statistics - November 2017 - BC Collision Repair Industry; Historic MPI Contract Ratification Figures; Assured Performance Network, Pro Forma Report, 2018

Over the past 10-years, paint costs have increased significantly with a minimal increase in rates

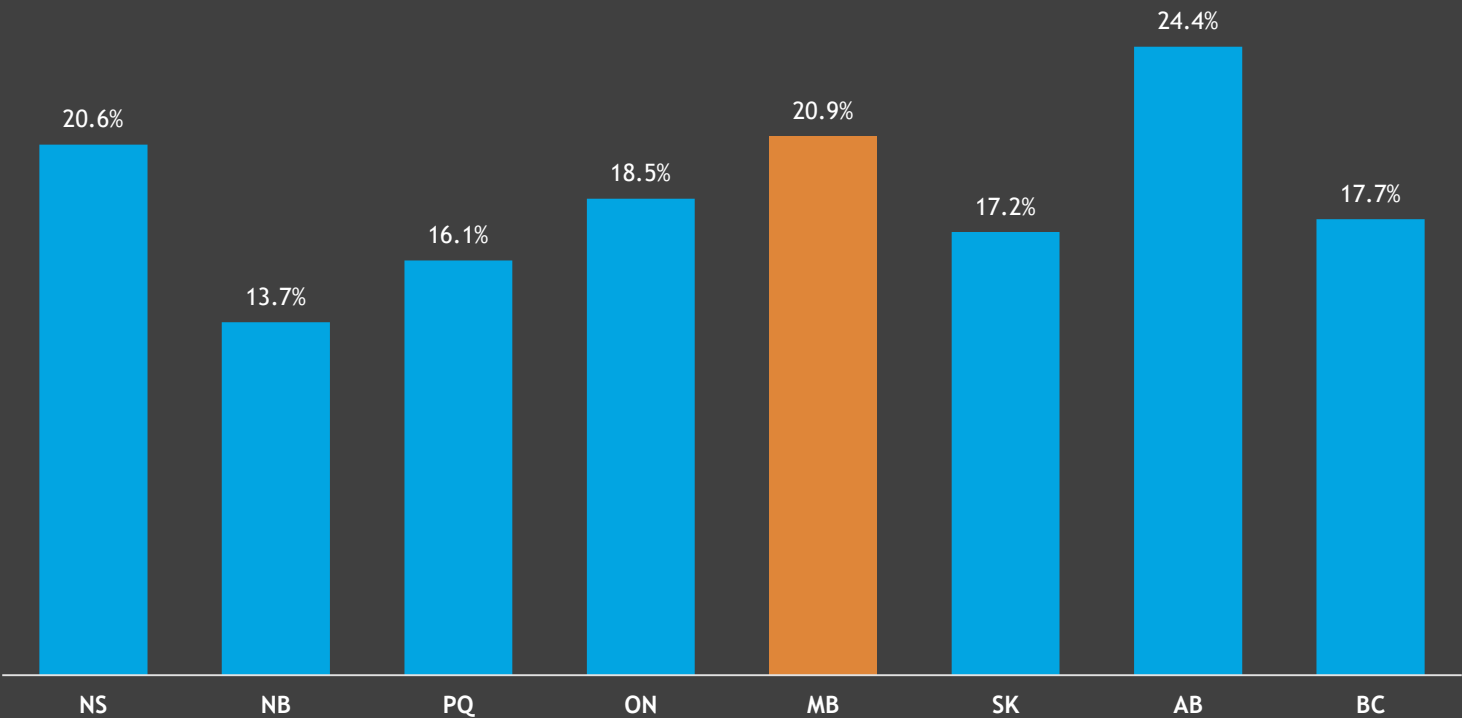


- Since 2009 there has been just one increase in paint material rates (in 2015 from \$36.80 to \$38.20).
- Paint and body material costs have been increasing significantly faster than paint and material rates.
- Over the 2010 - 2019 period, paint material costs increased over 62% each while paint material rates saw 3.8% growth.

Sources: Statista, Consumer Price Index in Manitoba from 2000 to 2019; Historic MPI Contract Ratification Figures; Various Supplier Pricing Data

As of 2018, Manitoba's autobody shops lagged other provinces in profitability

% of Non Profitable Business per Province - NAICS 811121 (2018)



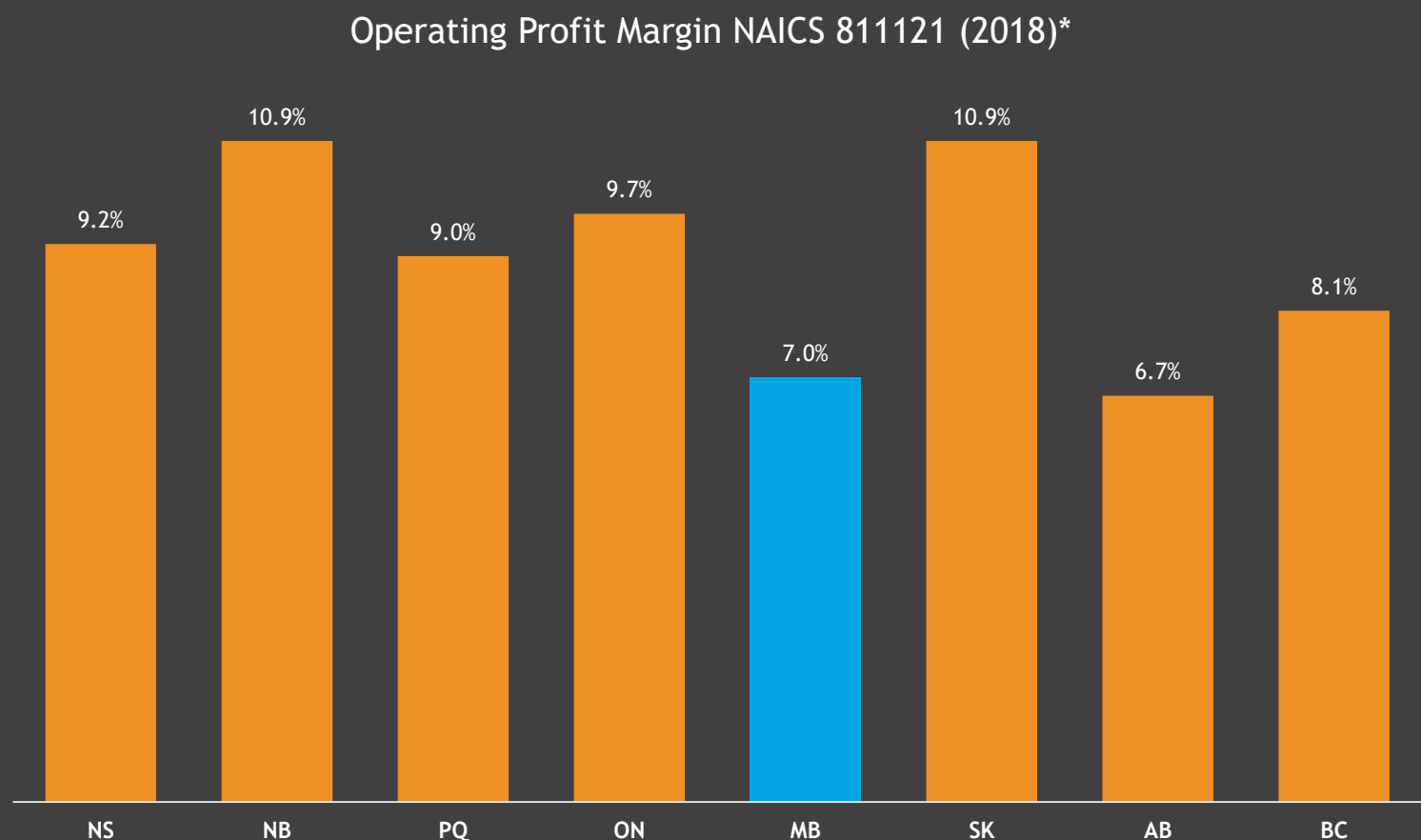
Industry and NAICS Code	% of Non Profitable Business in MB
Automotive body, paint and interior repair and maintenance - NAICS 811121	20.9%
Car wash - NAICS 811192	20.8%
Automotive parts, accessories and tire stores - NAICS 4413	18.5%
Commercial and industrial machinery and equipment repair and maintenance - NAICS 8113	20.2%
Finish carpentry contractors - NAICS 23835	11.3%
Specialty trade contractors - NAICS 238	14.4%
Plumbing, heating, air conditioning contractors - NAICS 23822	18.0%

- Manitoba has one of the highest percentage rates of non-profitable auto repair businesses, again only outperforming Alberta. The statistics show that over 1 in 5 businesses in Manitoba.
- This rate is quite high when compared to various other industries non-profitability rate in Manitoba.

*Analysis only includes those provinces with over 150 autobody repair shops in the sample size for data integrity purposes

Sources: Stats Canada, NAICS 811121 Automotive body, paint and interior repair and maintenance - Financial Performance Data; Statistics Canada, Various Industry Profiles

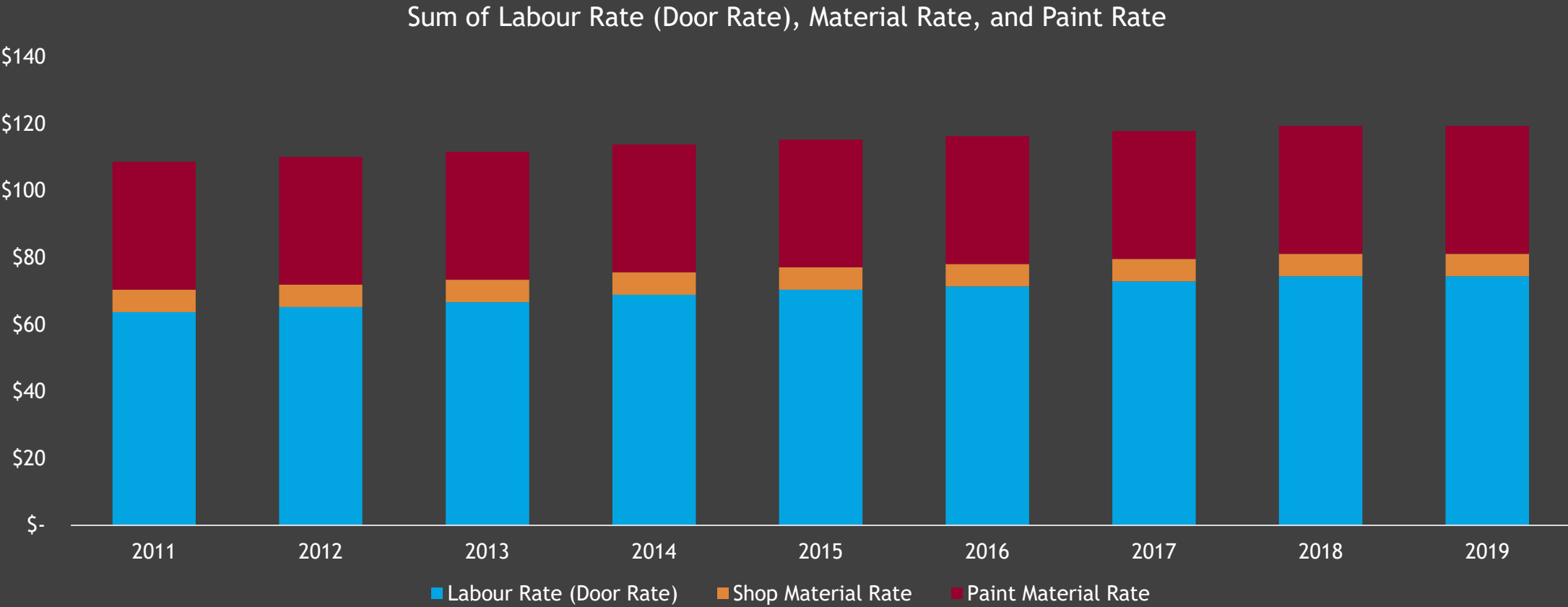
As of 2018, Manitoba's autobody shops lagged other provinces in profitability



- Manitoba has one of the lowest operating profit margins in the country for auto repair businesses, exceeding the profitability of only Alberta.
- In 2007 Manitoba had the second lowest Operation Profit Margin in Canada. In 2018 the Manitoba is the third lowest in Canada.

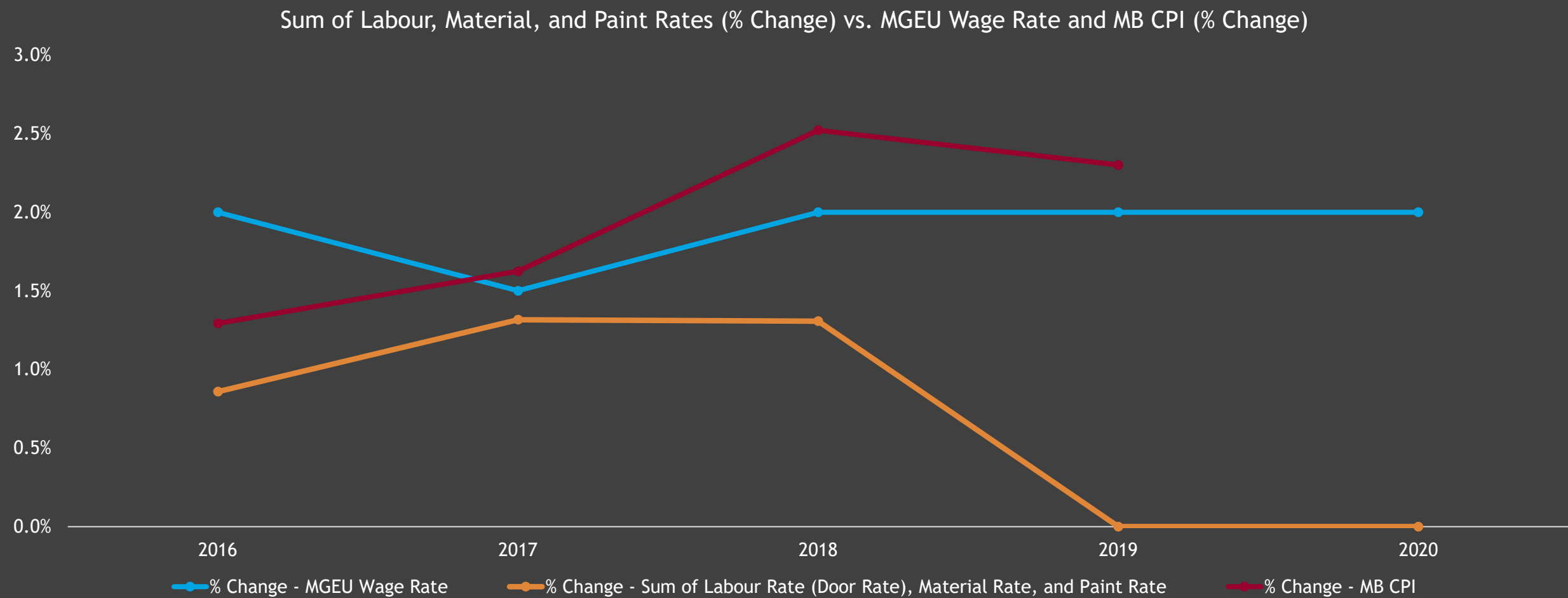
*Analysis only includes those provinces with over 150 autobody repair shops in the sample size for data integrity purposes
Sources: Stats Canada, NAICS 811121 Automotive body, paint and interior repair and maintenance - Financial Performance Data

The sum of key rates has seen only minimal growth



- When totaled into one indicator, the sum of labour, shop material, and paint rates have only increased by \$10.71 since 2011.

The rates for autobody shops are increasing at a rate much slower than either MGEU wage rates or CPI



- The growth in the aggregate of labour, material, and paint rates has trailed both the MGEU wage rates and MB CPI since 2016.
- In 2019 and 2020, the aggregate of rates saw 0% growth as compared to the 2% annual growth in MGEU wage rates.

Sources: Statista, Consumer Price Index in Manitoba from 2000 to 2019; Historic MPI Contract Ratification Figures; Collective Agreement Between Manitoba Public Insurance and Manitoba Government and General Employees' Union (September 18, 2016 to September 26, 2020)

Appendix A - Labour Rates and Effective Dates

Year	Labour Rate Effective Date	Rates
2009	September 1 st	58.63
2010	N/A - Based on MNP report Appendix 8	62.29
2011	January 1 st	63.72
2012	January 1 st	65.19
2013	January 1 st	66.68
2014	August 13 th , 2013	68.89
2015	January 1 st	70.37
2016	January 1 st	71.36
2017	March 1 st	72.89
2018	March 1 st	74.43
2019	April 15 th	74.43

Appendix B - Sample MB Income Statement (Based on BC Benchmark)

Revenue

Auto body	\$1,717,368
Total Revenue	\$1,794,650

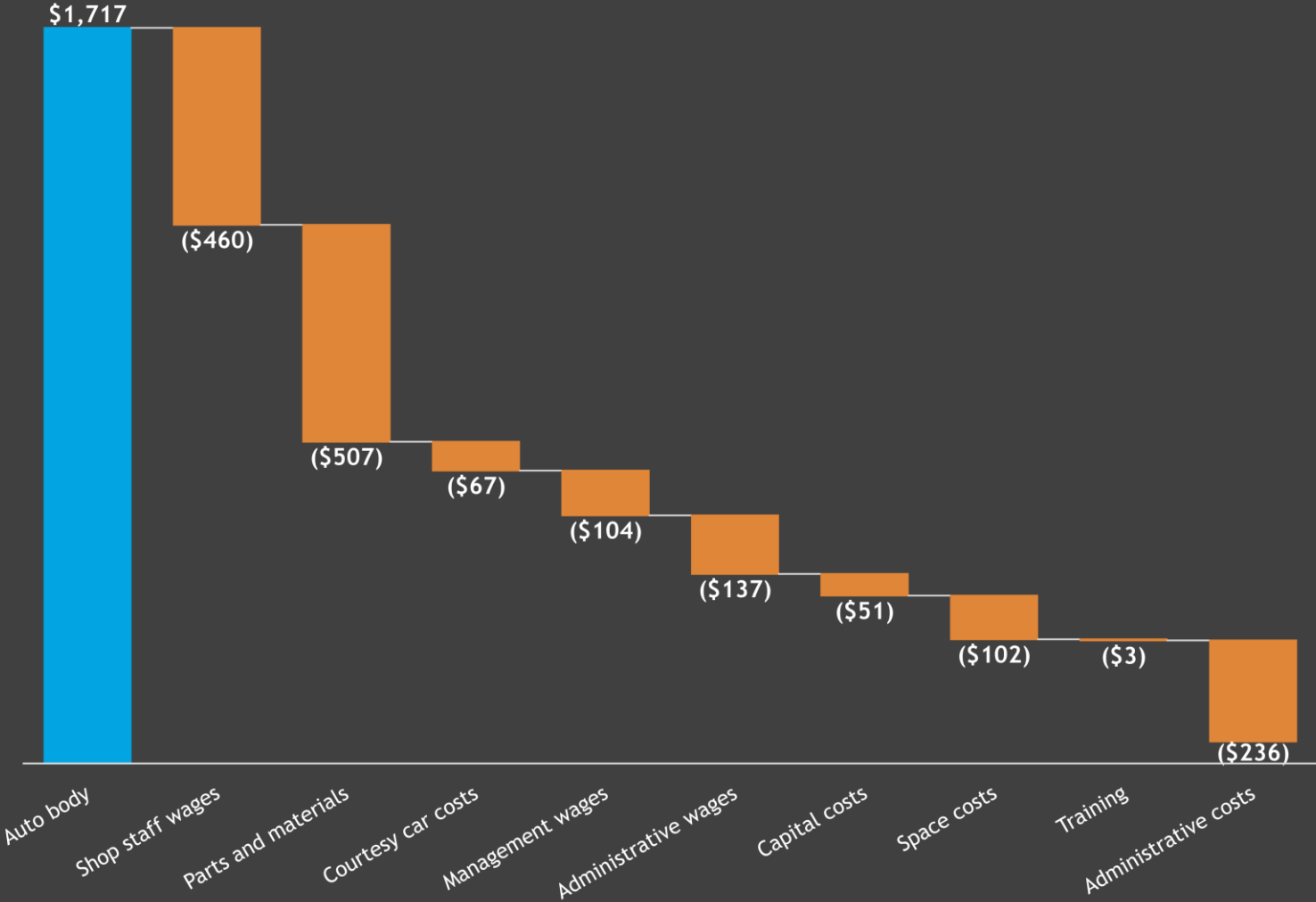
Direct Costs

Shop staff wages	\$459,642
Parts and materials	\$506,574

Operating Costs

Courtesy car costs	\$67,320
Management wages	\$104,474
Administrative wages	\$137,066
Capital costs	\$50,632
Space costs	\$101,999
Training	\$2,627
Administrative costs	\$235,821

Total Shop Costs	\$1,666,156
Before Tax Margin	3.07%



* Assumes that MB collision repair shops receive no revenue from courtesy car fees, however must incur similar courtesy car expenses to those in BC
Sources: MNP, Joint Industry Review of the Automotive Services Industry in British Columbia: Collision Repair Model Shop

Appendix C - Definitions

Term	Slides	Definition
Labour Rates	2, 3, 4	The Labour rates in for the corresponding year (i.e. Tech, Frame, Mechanical, Glass)
Labour Rate (Door Rate)	10, 11	The per hour door rate that autobody shops have been able to charge historically
Shop Material Rate	5, 6, 10, 11	The Rate paid to auto body shops to cover the costs of materials
Paint Material Rate	5, 6, 10, 11	The Rate paid to auto body shops to cover the costs of paint
GDP	4	The value of all finished goods and services produced in a specific time period
Total Labour Rate	2, 3, 4	The sum off all Labour rates in Southern MB for the corresponding year (i.e. Tech, Frame, Mechanical, Glass)

Term	Slides	Definition
Paint Material Costs	5, 6	Weighted Average of select categories of percent changes in costs of paint materials
Body Material Costs	5, 6	Weighted Average of select categories of percent changes in costs of body materials
Paint and Materials Rate	5, 6, 10, 11	The Labour Rate paid to auto body shops to cover the costs of paint and materials
MGEU Wage Rate	11	The increases outlined for MPI employees in the 2016 - 2020 collective agreement
Sum of Labour Rate (Door Rate), Material Rate, and Paint Rate	11	The total of the door rate, paint rate and shop materials rate as outlined in the historic schedule of rates
MB CPI	2, 3, 5, 6, 11	The consumer price index measures changes in the price level of a weighted average market basket of consumer goods and services purchased by households.