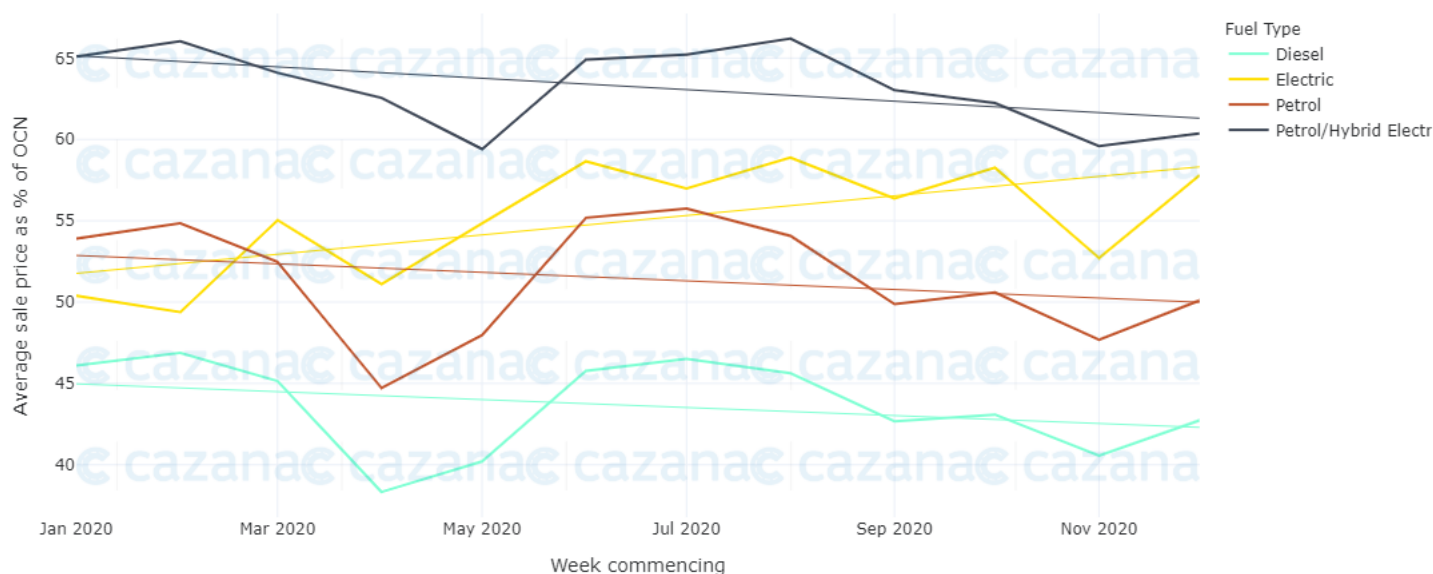


A Story of Residual Value Success

Last week's speculation over whether Mitsubishi would be returning in a sales capacity to the European and UK markets raised some interesting questions. In the first instance, it was fascinating to see the relationship dynamics between Renault, Nissan and Mitsubishi and the strategy in play driven by the lead stakeholder Renault. The question was whether the French government, with their 15% stake in Renault, would find a way to insist on European and UK production of Mitsubishi vehicles in the struggling French Renault factories. Whilst it would now appear the French government and trade union pressure was not enough to make this happen, it was an interesting potential solution to boost production and work opportunity not to mention reactivating a route to market.

It also raised the question of used car residual value strength, and in particular those of OEMs that no longer sell cars in a given market. Under normal trading conditions used car residual values drop over the course of a year as the asset depreciates. The chart below demonstrates this by charting the performance month on month as a % of Original Cost New across the whole UK market: -

Whole Market Data - Retail Price as a % of OCN by Fuel Type



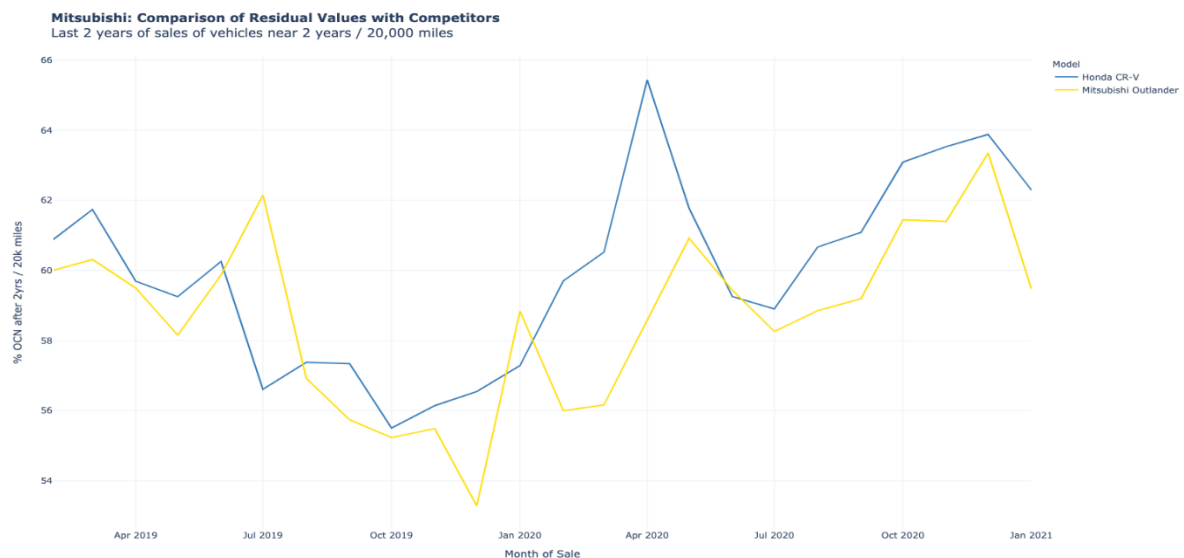
Data Powered by Cazana

It is clear from this chart that during 2020 the residual value performance of most cars saw an overall decline, and this is normal. This is not to say that retail pricing dropped, but it highlights that the relationship between price and cost new deteriorated, and this is an important industry standard performance measure of success. There are two other interesting points to highlight, the first being the obvious drop in residual value performance across the board in April as a result of the first Lockdown period, and the second is the growth in residual value terms of Electric vehicles and this will as we know continue to be the case in the short term as demand for key models outstrips supply.

Historically speaking in situations where an OEM fails or decides to leave a market, the residual value performance of their used car products takes a marked downturn. Memories of the departure of Rover from the market in 2005 and Saab in 2010 after a troubled ten-year ownership by GM resonate across the industry, and although some of these products now claim modern classic car status the journey to that point has been difficult, to say the least.

The question is, has Mitsubishi product suffered in the same way. There is no doubt that for some years there will be a nearly new product available in the used car market and whilst nobody would claim that Mitsubishi were market leaders in the industry, their product had a cachet and committed customer following. It will be interesting to see if that demand has supported residual values.

The chart below looks at residual value performance of the Mitsubishi Outlander at 2 years old and 20k miles over the last 2 years in comparison to the Honda CRV: -



This chart is of significant importance as it shows that the Mitsubishi Outlander has not seen a significant drop off in residual value performance. At this high level of analysis, these two petrol competitors have remained very close in pricing terms, before, during and after the July 2020 announcement of Mitsubishi with drawing from the UK market.

In addition, on further investigation, other Mitsubishi models have performed in a similar way which supports the view that Mitsubishi has not followed the usual downward market withdrawal trend. There is a view that this position has been a result of the unique market conditions experienced following the emergence of COVID 19, although from a data perspective that is just not evident and whilst it surely had an impact on the desirability of the product, the ongoing support of the Mitsubishi dealers, parts suppliers and specialists appears to have kept residual values in line with market competitors.

With this data in mind, it would have been interesting to know whether restarting production in a more cost-effective production facility might have meant that Mitsubishi sales in the UK and Europe would have been worthwhile and perhaps more profitable. Either way, the brand has achieved something in the UK post availability that no mainstream manufacturer has done for some time.

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