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2019: WHAT'S DRIVING CHANGE?

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Owen Edwards Grant Thornton

22 November 2018

2018 / 2019

***How will this year close?
Our forecast for Q1 2019.***

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2018/19 – How will this year close? Our forecast for Q1 2019.
Here's what's driving change



**THE NEW AND
USED MARKET**

OWNERSHIP

RETAIL

A photograph of a car dealership showing a line of cars. The cars are in various colors, including silver, white, and blue. The image is partially obscured by a white diagonal graphic element.

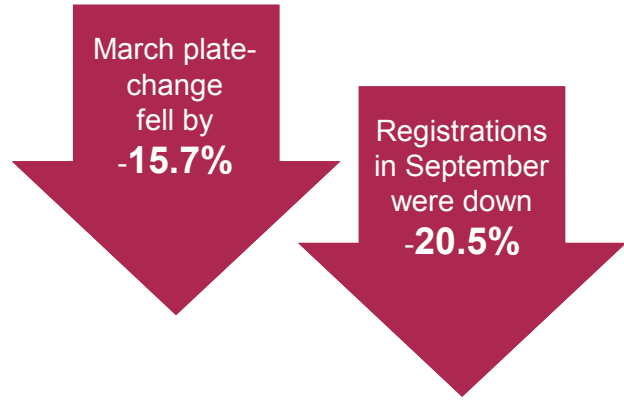
New and used car sales

The logo for Cox Automotive, consisting of several overlapping horizontal bars in blue, orange, and purple.

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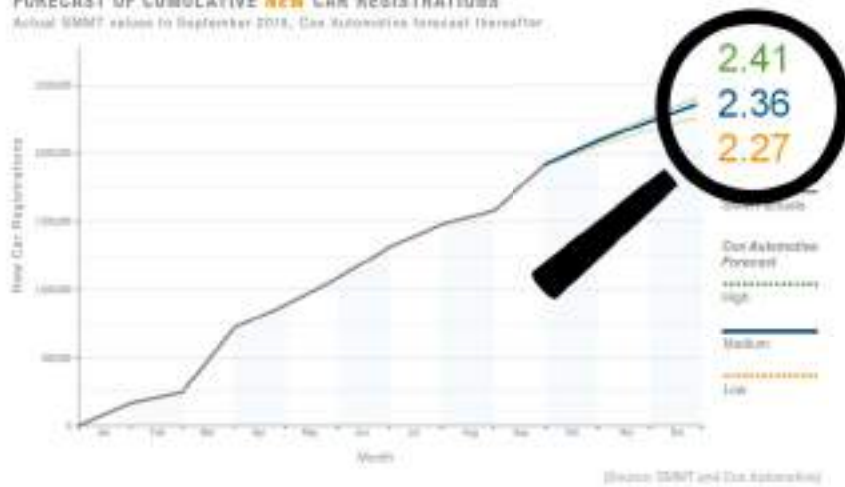
2018
How was it for you?

“Dealers will look back at 2018 as one of the most challenging years for new car sales they have ever faced”



2018 new car registrations
How will the year end?

FORECAST OF CUMULATIVE NEW CAR REGISTRATIONS
Actual SMMT values to September 2018, Cox Automotive forecast thereafter



“Looking ahead to 2019, we are more optimistic as the challenges driven by WLTP are address by the industry, but continued uncertainty remains due to the risks associated with Brexit”



2018/2019 used car transactions
How will the year end?

FORECAST OF CUMULATIVE USED CAR TRANSACTIONS
Actual SMMT values to June 2018, Cox Automotive forecast thereafter

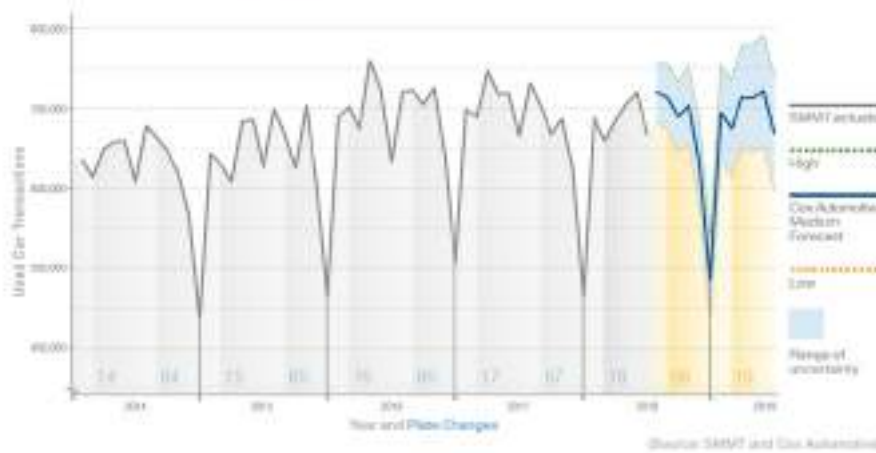


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Q1 2019 used car transactions
Where is the market heading?

FORECAST OF MONTHLY USED CAR TRANSACTIONS
Actual SMMT values to June 2018, Cox Automotive forecast thereafter



“Our forecast for Q1 2019 shows our current trend medium scenario would deliver 2.08 million used car transactions, 2.55% above Q1 2018”

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Fuel trends & premium brands



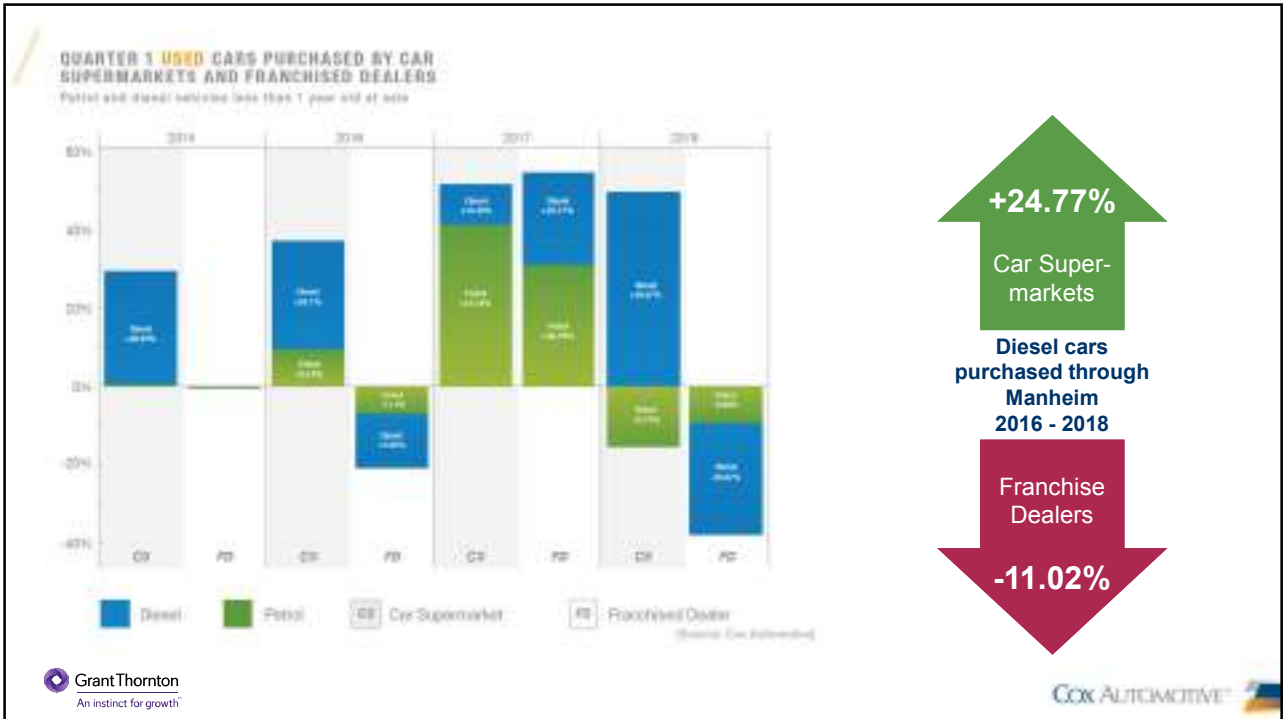
New and used market
The future of fuel

“#Dieselgate and the subsequent demonization of the fuel by policymakers has dominated headlines for three years”



New diesel car registrations in the first ten months of 2018 fell **-30.7%**





New and used market

Looking ahead – premium brands

“Premium brand cars now account for more than a quarter of all new vehicle registrations in the UK”

Audi, BMW & Mercedes Benz share +7.3% since 2008

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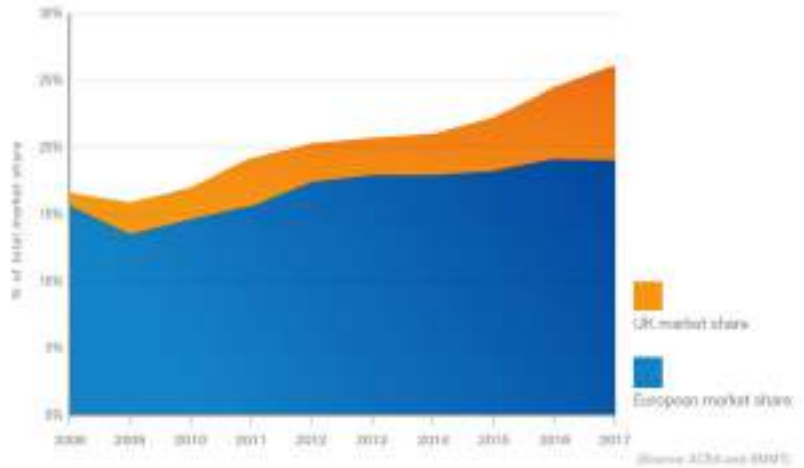
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New and used market

Premium brands market share

- UK has significantly outperformed the rest of Europe; premium market share grew from 15.6% in 2008 to 19% in 2017, an average compound growth rate of just 0.6%
- The growing volume of new premium cars is having a positive impact in the used sector: demand for three to four-year-old ex-fleet and ex-PCP/PCH cars remains high

MARKET SHARE OF PREMIUM BRANDS FOR EUROPE AND UK VERSUS TOTAL MARKET 2008 TO 2017



Finance & ownership



Ownership
Looking ahead - financing

“British car buyers are no longer driven by the need to own their vehicles”

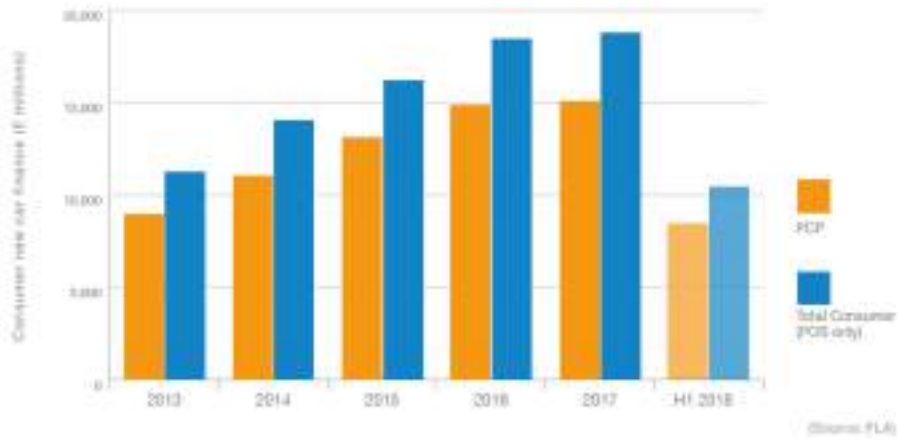


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Ownership
Finance and ownership

VALUE OF NEW CAR PCP
Total consumer POS finance



“PCP penetration for new vehicle financing is between 80 & 90%”

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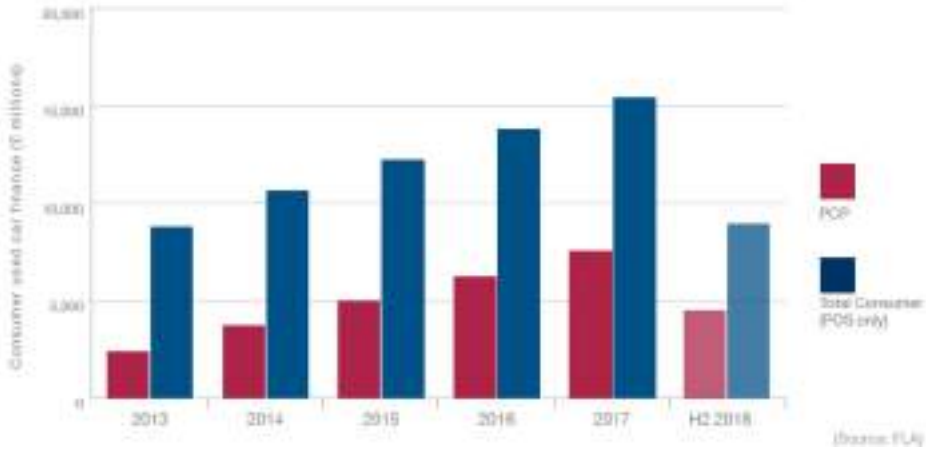
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Ownership

Finance and ownership

VALUE OF USED CAR PCP

Total consumer POS finance



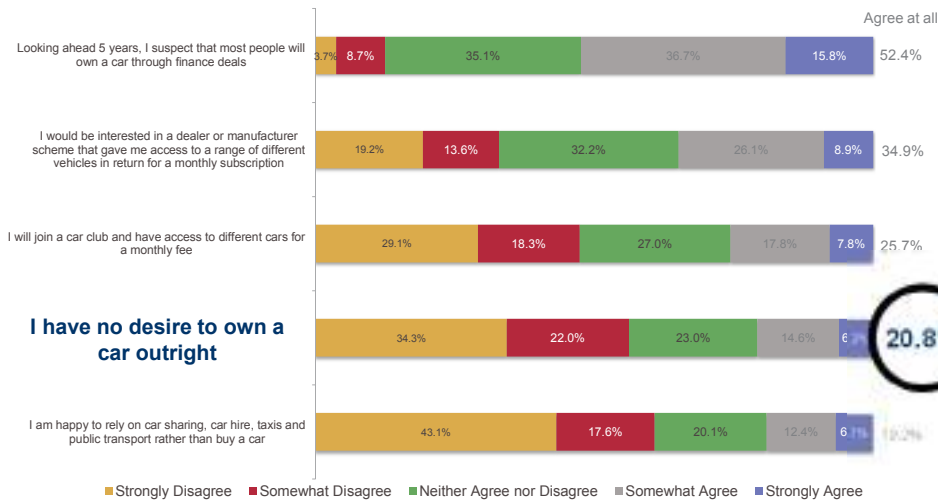
“Used PCP penetration is at a low 50%. Further growth is expected”



In the main, car buyers appear to be focused on car ownership for the next few years

Motors.co.uk panel: August 2018

Q: Thinking about how you would like to own / pay for your next car, to what extent do you agree or disagree with each of the following statements?

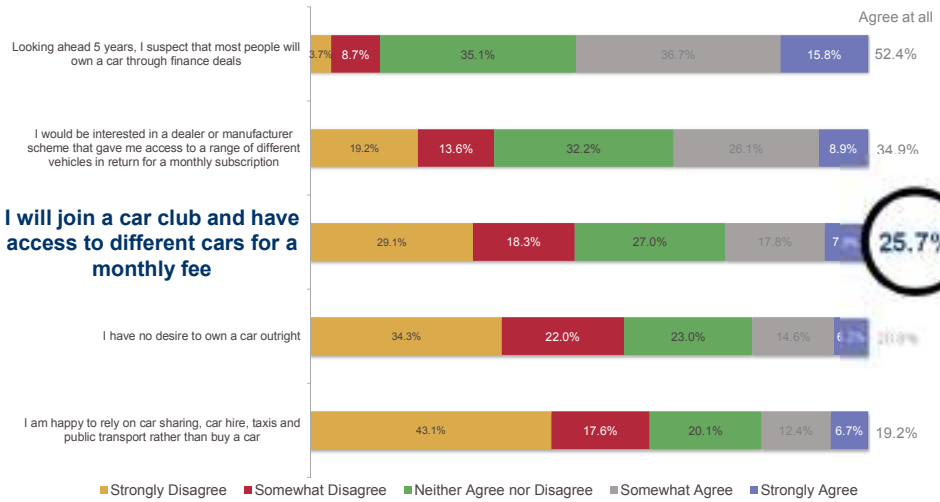


One in five car buyers have no desire to own a car outright



In the main, car buyers appear to be focused on car ownership for the next few years
 Motors.co.uk panel: August 2018

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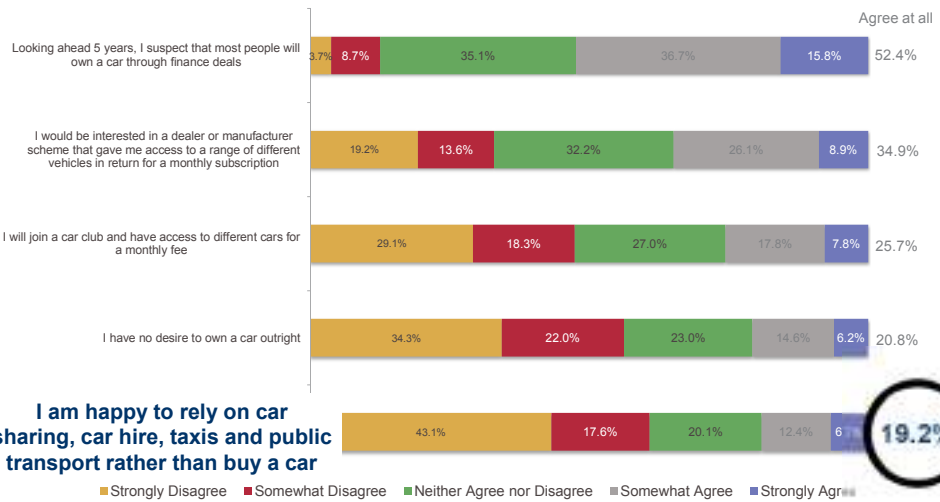
One in four they will join a car club

I will join a car club and have access to different cars for a monthly fee



In the main, car buyers appear to be focused on car ownership for the next few years
 Motors.co.uk panel: August 2018

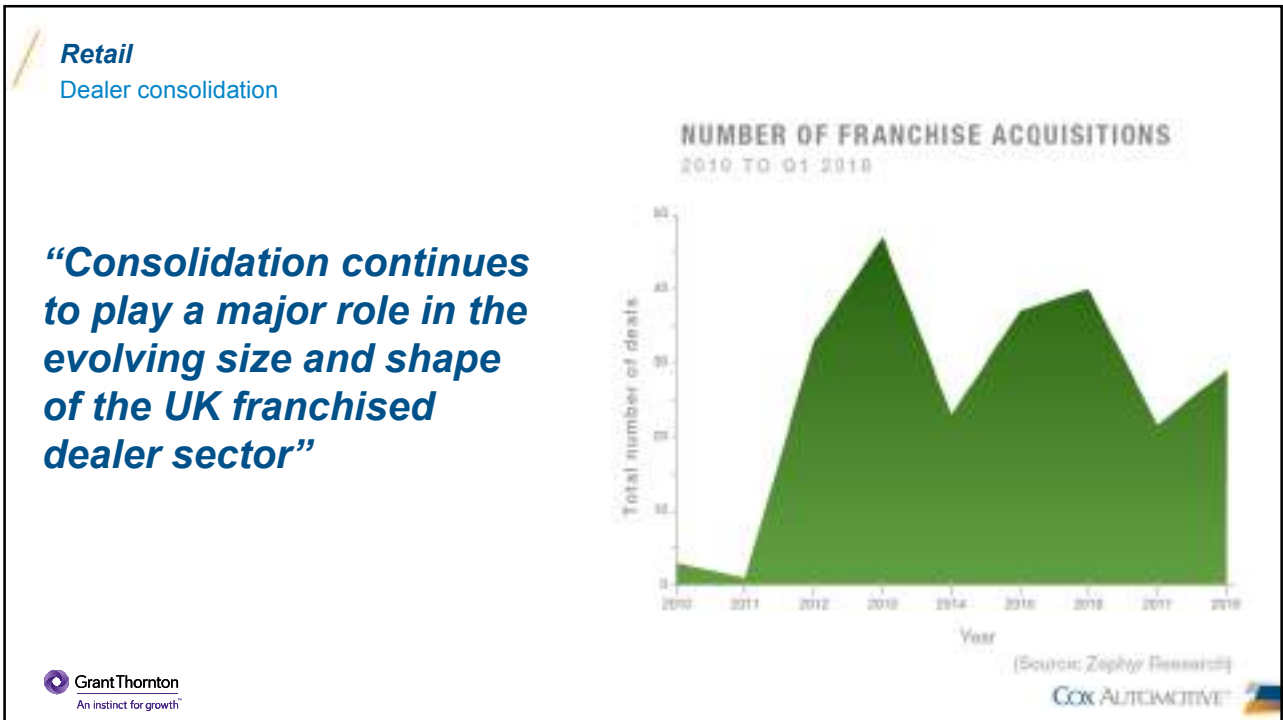
Q: Thinking about how you would like to own / pay for your next car, to what extent do you agree or disagree with each of the following statements?



One in five say they'll rely on car sharing, car hire, taxis and public transport rather than car ownership

I am happy to rely on car sharing, car hire, taxis and public transport rather than buy a car







55%
decrease in franchise sites from 1976 to 2016
(Source: ICDP, SMMT, Grant Thornton)

Why is consolidation taking place?

- Strategic – JLR and Vauxhall
- Location
- Brand
- Economies of scale
- Earning enhancement
- Succession planning

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Retail
Looking ahead – dealer consolidation

“Purchasing activity can be categorized between three main groups: international, Plc and trade”

International
“Weak sterling, high premium brand penetration and the second largest market in Europe has made it a prime target. International investors still continue to acquire even ahead of Brexit”

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Retail

Looking ahead – dealer consolidation

“Purchasing activity can be categorized between three main groups: international, Plc and trade”



Plc
“Acquisition from Plc companies has slowed as share prices have been low, but there is still selective investment from these companies: e.g. Vertu Motors PLC of Hughes Holdings Group”



Retail

Looking ahead – dealer consolidation

“Purchasing activity can be categorized between three main groups: international, Plc and trade”



Trade
“Local dealers acquiring to build contiguous market areas. Purchasing small numbers of dealers to add to their current market territories”





2019 and beyond: The trends defining our future

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Key Trends: Global Forces Shaping Automotive

Cox Automotive Inc perspective

TRENDS	Mobility Services Digital Natives (Millennials and Gen Y) are the catalyst for a dramatic change in how we can own and use vehicles	Race for Big Data New data sources throughout the ecosystem are disrupting business models whilst creating fresh monetisation opportunities	Globalisation The march towards globalisation is now being impacted by changing political paradigms across the globe
	Connected Life Increasingly connected devices, cars and infrastructure are generating new ecosystems enabling a more connected lifestyle	Omni-channel Commerce Rising expectations of wholesale and retail customers for a seamless, personalised and consistent experience	Urbanisation As cities continue to outgrow transportation infrastructure, new mobility solutions need to be found
	Vehicle Revolution Technological advancements are redefining the traditional vehicle with electric and autonomous driving leading the metamorphosis	Power of Platforms Traditional business networks are being disrupted by large scale platform providers with a high volume of captive users	Auto Industry Economics Traditional car ownership economics are changing fast for the consumer, OEMs, Fleets and Dealers
MEGA TRENDS	Transportation Transformation "When Henry Ford made cheap reliable cars, people asked what's wrong with a horse" Elon Musk, CEO, Tesla	Digitisation of the Ecosystem "Our industry is poised for more change in the next 5 to 10 years than it has seen in the last 50" Mary Barra, CEO, GM	Socio-economic Shifts "Our goal is to drive the cost of taking an Uber below the cost of owning a car" Travis Kalanick, ex CEO, Uber

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Key Trends: UK Near Term

Our perspective on the dealer landscape



Key trends shaping our UK future

Changing consumer car shopping behavior



Hat tip: Google, The Drive To Decide, 2018



Key trends shaping our UK future
Evolving car ownership models

The number of UK licence holders between the ages of 17 and 20 has fallen by

35%

(Source: Department for Transport)

An owned vehicle is parked of the time

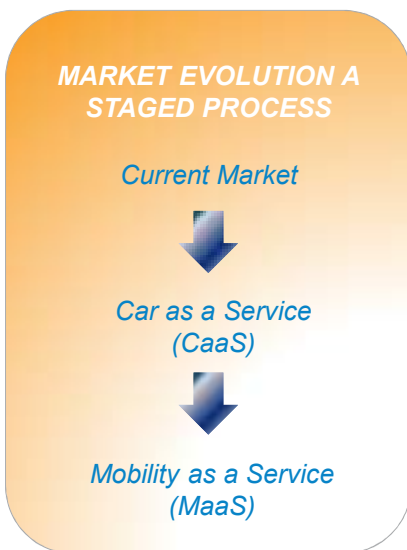
95%

(Source: Fortune)



Ownership

Mobility and usership





A vision for the future of remarketing?

1111101010010101101010101

<i>A 'virtual' physical retail experience will emerge</i>	<i>80% of vehicles will be sold online</i>
<i>Vehicle movements will reduce by 50%</i>	<i>Days to sell will fall by 60%</i>
<i>Technology will be agnostic, data will be transparent</i>	<i>Sales channel decisions will be automated and instant</i>

A hand is shown holding a white document or brochure. The document has the title 'A vision for the future of remarketing' and a graphic of the 'FUTURE START' button seen in the top image. The background of the entire slide is a futuristic, blue-toned digital landscape with binary code and abstract light trails.



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