

COX AUTOMOTIVE™

INSIGHT REPORT

June 2019



Grant Thornton

An instinct for growth™



Welcome to our second annual Insight Report, in which we're proud to share our analysis of the factors we think will have the biggest impact on our industry over the years to come.

Let's take a moment to talk about the importance of insight... We know that things are changing fast in automotive, and in this report, we combine our analysis and data with expert commentary to dig deeper into the trends we see and look for the opportunities that lie beneath.

At Cox Automotive, we have a well-rounded view of our industry both in the UK and Internationally. Our customers include dealers, leasing companies, fleets and manufacturers, and our products and services touch almost every part of the vehicle lifecycle. As the world's leading automotive services company, our insight on key trends reaches across the globe.

In addition, we're delighted to partner with Grant Thornton for the second year running. Their input on the wider economy and global consumer plus automotive trends has been invaluable. In our last Insight Report, published in 2018, we talked about the shift to digital, and the emergence of a blended marketplace that would take advantage of both physical and online channels. In my view that shift is now a reality, with a number of manufacturers offering a full online car-buying experience which Cox Automotive can support via the Modix e-commerce suite and through our valuation solutions easing the process of handling the part exchange.

In wholesale, we've taken our insight, and feedback from our customers and built it into our strategy, launching a new business called Dealer Auction in partnership with Auto Trader. We're creating a digital wholesale marketplace that lists vehicles from physical auction and direct from dealers and fleet owners, simplifying

the process of sourcing stock. That's not to say there's no place for physical auction and the services that go with it. In fact, we see physical services like inspection, logistics and reconditioning as an important growth area, supporting both the e-commerce process and the emerging mobility market. For example, Cox Automotive in the USA has launched a new business called Pivet, specifically designed to offer the flexibility to support mobility fleets.

So, what's in this report? Once again, we share our forecast for new and used car transactions to the end of the year. We're predicting a modest decline in transactions year-on-year, not surprising in an unpredictable economic climate, but this report also looks at longer-term changes in usage, and the opportunities they present. This year, we're also delighted to include our forecast for the LCV market, which continues to show its strength. We discuss the potential impact of WLTP, clean air zones, and our prediction that used van transactions will reach 920,000 by the end of 2019..

Beyond the forecasts, we share our thoughts on the changing retail landscape, the future of fuel, and emerging trends around Cars as a Service (CaaS) and mobility.

This year, we've included even more opinion and insight from across the industry, with contributions from Marshall Motor Group Holding plc, NFDA, ICDP, Leasing.com and many of our customers. We know we're not the only ones analysing our market, and in these unprecedented times, we'd like this report to spark a bigger conversation. With that in mind, I invite you to take a look at the insight we've developed, and give us your own views so that we can work in partnership to take advantage of the opportunities in our changing marketplace.

Martin Forbes, CEO, Cox Automotive UK



For the second year we are proud to partner with Cox Automotive to share our thoughts and outlook in this Insight Report 2019. The automotive industry is in a period of flux against a backdrop of growth in electric cars, autonomous vehicles and mobility as a service (MaaS). The automotive manufacturers are adapting to this rapid change with significant investment in these new technologies. Even though these are challenging times, the industry has seen challenges before and has successfully survived. We believe the automotive industry will continue to evolve with new technology, improved manufacturing, vehicle distribution and sales processes to position itself in a stronger position.

2018 was a challenging year for the global automotive industry with falling sales, plant closures, challenges around diesel and regulatory pressures. However, the current challenges are part of a cycle that has been ongoing over the last 50 years. To put this into context, what we are seeing now is not unusual: past disruption has come in a number of guises and the automotive industry has successfully adapted and navigated the headwinds. We believe that this will be the case again.

Electric vehicles have become part of the manufacturers' future strategy. There are still concerns over range anxiety, but these concerns have been alleviated to some extent by improvements in technology. Growth in electric vehicles remains strong in countries such as Norway, where tax incentives have made a significant difference to the demand for electric vehicles, and Tesla is the best-selling automotive brand. Further investment in electric vehicles will continue, particularly in the development of batteries where costs remain high, and improvements in technology are making EV more viable than ever.

Autonomous vehicles are continuing to develop, but the development of self-driving vehicles is still some way off. Technology is improving – for example, Light Detection and Ranging (LIDAR) and Autopilot is heading in the right direction – but further investment and trust from consumers is still required to have fully autonomous vehicles. Sizeable amounts of investment in this technology will continue as the OEMs and companies such as Waymo and Uber strive to be the first to have a truly autonomous vehicle on the public roads.

Although automotive technology is changing, there is evidence that consumers behaviours are evolving to ownership and also how they move in their own rural or urban eco-system. Consumers' are demanding greater levels of mobility which has to fit to their perception of convenience. Improvements in technology are increasing consumers' mobility and this technological development is set to continue. However, at the heart of this change is partnering, sharing of data and changes in legislation and there is a risk that these could slow the growth of MaaS. Nevertheless, MaaS is here to stay and will become a more important part of our lives.

Current times are exciting, and change is coming from several different areas of the market. This disruption is positive as it provides a catalyst for the industry to evolve. It is not clear what the future will bring, but we remain confident that the industry will remain resilient: adapting, evolving and continuing to innovate.

I hope that you find this second edition of the Cox Automotive and Grant Thornton Insight Report 2019 a helpful guide that continues to inspire and inform as we look forward to the second half of 2019 and into 2020.

David Dunckley, CEO, Grant Thornton UK LLP

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Where is the market heading?

2019 NEW CAR MARKET

There have been some sensational headlines around the decline of the new car market, with blame attributed to Brexit, WLTP testing, London's Ultra Low Emission Zone (ULEZ), the demonisation of diesel, and low consumer confidence; to name a few. So, behind the headlines, what is happening in the UK's new car market? And how will the market perform during the remainder of 2019?

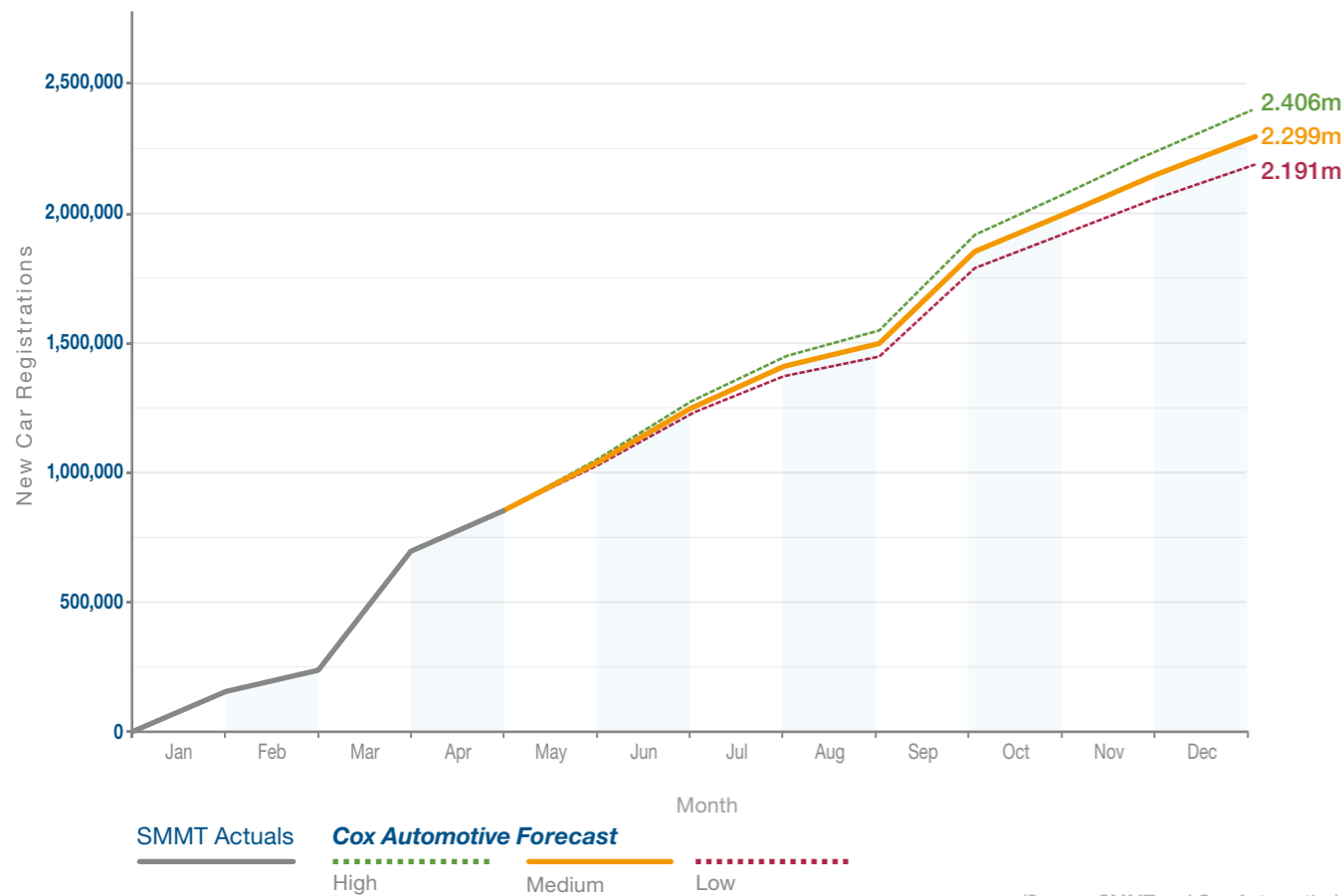
Based on new car registration data from January 2000 to the end of April 2019, our forecast model predicts 2.299m new car registrations in 2019 as the most likely scenario, a fall of 2.9% year on year. This is slightly lower than the

SMMT April re-forecast of 2.330m. This trend is supported by our analysis below of the unique set of diverse pressures on the new car market, beyond the "big hits" of WLTP and previous taxation changes.

Those headline changes - and the attention paid to them - have most likely masked some deeper and more lasting changes to how the new car market operates. In our view, forecasting a return to prior levels of registration activity would not be prudent. The UK's new car market has changed fundamentally.

FORECAST OF CUMULATIVE NEW CAR REGISTRATIONS

Actual SMMT values to April 2019, Cox Automotive forecast thereafter



(Source: SMMT and Cox Automotive)



WLTP EXPLAINED

On 1 September 2018, new Worldwide Harmonised Light Vehicle Test Procedure (WLTP) regulations were introduced, changing the way vehicle emissions are tested. All new model vehicles had to be tested before they could be sold, but many manufacturers struggled to get all their models through the WLTP test in the finite number of testing facilities available, disrupting the supply of new vehicles into the UK.

The next stage of these emissions testing changes, Real Driving Emissions (RDE), will be introduced on 1 September 2019. An RDE test measures how closely a vehicle's emissions in a real-world driving scenario match the results generated in the WLTP laboratory. There is some risk that these new regulations will disrupt new vehicle supply in 2019. However, this is currently expected to have less of an impact than WLTP. It is more likely that we will see a reduction in the number of model variants and available accessory options, particularly those which impact driving efficiency.



What has changed?

Following the introduction of WLTP in September 2018, limited testing capacity, and a lack of preparation by some OEMs led to issues with the supply of new cars. OEMs like Volvo, who acted swiftly in preparing for WLTP and experienced little or no delay in supply have benefited, and this is evident from the registration results.

Since the introduction of WLTP, there has also been a lack of clarity on company car taxation, and the combination of these factors has led to delays in ordering new vehicles within the fleet and business sectors.

Existing contracts are being extended, although there is some evidence from leasing companies that larger volumes of cars will be defleeted at the end of Q2 2019. This shortage of three to five-year-old fleet vehicles has led to higher prices for retailers sourcing stock through the wholesale market despite the large “book” drops reported by the trade guides in May and June.

The continued penalties on diesel vehicles in the new car market have also led to purchase deferrals (27% of sales vs. 47% between 2007–2015) as consumers wait for a greater choice of hybrid and electric vehicles from 2020 onwards. In the wholesale market, diesel demand and prices remain strong and the lack of new registrations is now starting to impact supply.

It is highly likely that OEMs will continue to offer substantial discounts or subsidised finance in a bid to drive new car sales. In reality though, consumer demand was poor in the first quarter of 2019 and at a level that was not anticipated by many in the industry. The tough new car market has resulted in sales substitution towards used cars in some cases and there have been problems of supply reported by many dealers – which may well keep prices strong for the short to medium term.

The wholesale and retail markets in Q2 of 2019 appear to be stable but far from robust. Supply of vehicles into wholesale has improved slightly and levels of demand appear little changed year-on-year. While the SMMT is currently forecasting a -1.6% decline for new car registrations to 2.330m in 2019, research from Cox Automotive suggests that dealers are signalling a more pessimistic view.

We asked dealers to predict how the 2019 car market will perform compared to that of 2018 (2.367m). 60% of dealers thought that today’s market would reduce by 3% or more compared to last year. Our own forecast suggests a more modest decline than our survey respondents predict, and it’s likely that this negative outlook is, in part, a reaction to the changing retail landscape.

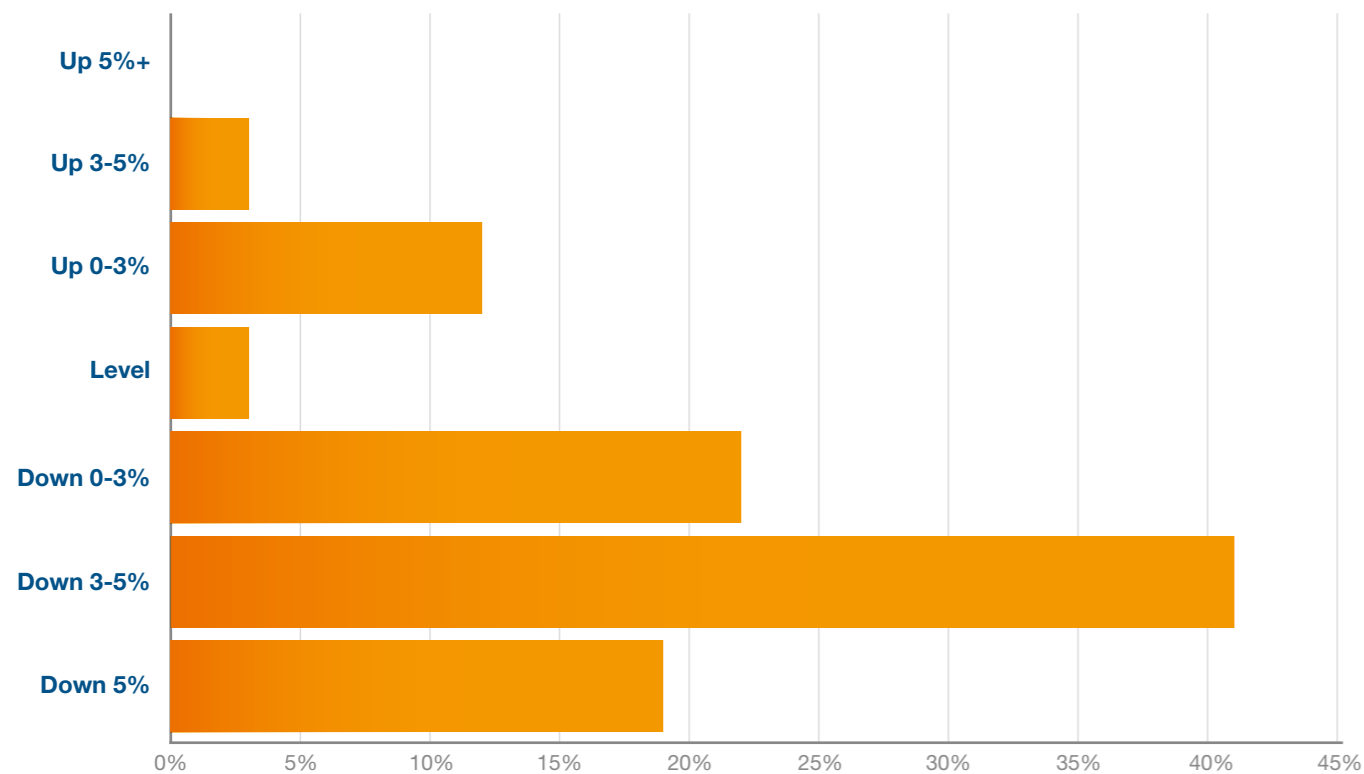
OEM strategies and sales channels are evolving in an attempt to maximise market strengths and reduce potential weaknesses. Other factors such as reducing franchised dealer numbers, a tightening of the regulatory climate for dealers and the growth of PCP on used cars indicate further changes ahead. In the short term, the impact of the much anticipated Real Driving Emissions (RDE)/Euro 6 Level tests could affect stock availability in Q3 and Q4 due to pressures to register non-compliant models before the September 2019 deadline.

After a quiet period for Brexit, the recent European elections have illustrated again how divided the country is on the desired outcome. Despite the objections of Parliament, there appears to be growing momentum in favour of a “no deal” Brexit rather than risk further delay to departing the EU. Undoubtedly this could have a damaging impact on consumer confidence and both new and used car sales.



NEW CAR MARKET SIZE EXPECTATIONS

Will the new car market increase or decrease on the 2018 result of 2,367,000 registrations by..?



(Source: Cox Automotive State of the Market Dealer Survey)

LOOKING AHEAD

UK dealers are facing an unprecedented set of external variables, all of which are having an unsettling effect on the new car market. We are already seeing several major players focusing their strategies on other profit centres, such as used cars, aftersales and new services relating to the emerging

Cars as a Service trend. Given the challenges ahead, dealers need a clear strategy in place to mitigate against the ongoing pressures in the new car market.

2019 NEW VAN MARKET

The growth in new van registrations over recent years has been driven by the rise of the UK's service sector. Vans are the lifeblood of the UK economy. With this September's ultimate WLTP deadline, the follow-on real-world driving standards, the roll out of Clean Air Charging Zones (CAZ) and new CO₂ Vehicle Excise Duty (VED) proposals, there have never been so many factors impacting the Light Commercial Vehicle (LCV) sector. Diesels have dominated the new van market for decades despite the Government's most recent aspirations for more zero emission workhorses to hit air quality targets.

Electrification

Over 99% of vans on UK roads today are diesel, and it's likely to continue to be the dominant fuel for vans for the foreseeable future. As at the end of 2017, the Department for Transport (DfT) stated there were just 6,437 low emission vans licenced in the UK in a parc of just under 4.3 million. The Government's recently published *Road to Zero* report states its desire to see 40% of new vans registered by 2030 being zero emission. That's over 9,000% increase in 11 years based on an average of recent annual registration volumes.

The majority of new vans are procured by large corporate fleets. These become the used vans for SMEs and sole traders. It has always been this way. However, unlike a passenger car, a van is not used in the same way by subsequent operators. If large corporates are not buying new electric vans in quantity today, there will be no used supply to feed SMEs and sole traders.

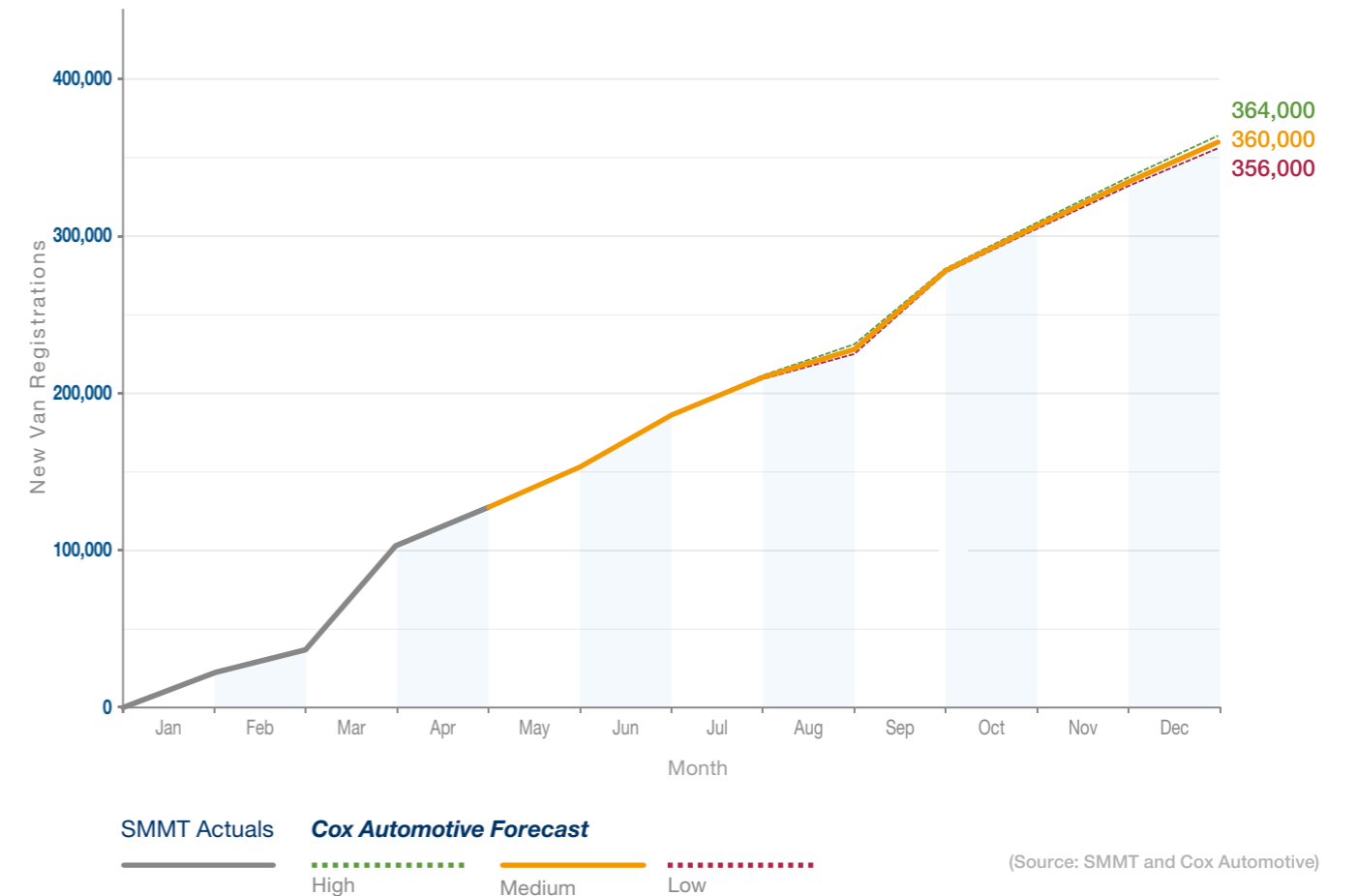
Over the last year, the average age of vans sold at Manheim has remained stable at 60 months. When factoring in the first life van operators' change cycles, the business case detailing the financial justifications and practical suitability of electric vans versus diesel should be clear. But it's not. When diesel is placed next to electric in the van world, the current metrics don't make it commercially viable for anyone outside of an urban zone with an emission-related charging scheme, or a 'return to depot' operation.

We believe first life operators would logically run electric vans longer to release whole life cost benefits when compared to a more mechanically complex diesel derivative. Ironically it is many of the lower usage, lower mileage sole traders and SMEs whose operation suits a used Electric Vehicle (EV), at least on paper.

Many OEMs have focused development activity on larger volume, cross-market, zero emission passenger cars, with vans getting relatively little attention. We currently see very few genuinely available electric-van models - considerations of payload, range, charging practicalities and list prices all conspire to put operators of new vans off making the transition. The new models are coming in the next 12 to 24 months and beyond, but in the short term more profitable left-hand drive EU markets may see OEMs divert early production volumes away from the UK.

FORECAST OF CUMULATIVE NEW VAN REGISTRATIONS

Actual SMMT values to April 2019, Cox Automotive forecast thereafter



LCV WLTP

With the imminent WLTP LCV deadline in September and then the move to a real-world testing element, the payload and the optional and contract specific equipment fitted such as racking systems, ply lining, telematics kit and lighting beacons are technically one and the same thing; they both increase CO₂.

With Whole Vehicle Type Approval and multi-staged Type Approval regimes for body builders, these suppliers will need to work closely with OEMs for outsourced body configurations such as tipper and Luton bodies. All OEM factory derivatives will need to have a CO₂ figure, significant when different body lengths and ancillary equipment are fitted to the same chassis and wheelbase.

New CO₂ banded VED and first year registration fees for LCV

CO₂ will be most relevant to first life owners when the Government applies its CO₂ banded VED scheme in 2021. While many first life owners will view the licensing cost as they do fuel, we certainly don't believe it will lead to a change in buying patterns to avoid tax.

This is because a van is a work tool and large fleets are specifically focused on their duty of care. There's no option or incentive to downsize into a super mini from an SUV, or move from diesel to petrol, as is the case with cars. Instead, OEMs may pare back modular and bolt on options; seeing large corporate fleets take the base spec new van and arrange for dealers or aftermarket converters to add this equipment in after registration.

Our long-term view is that authorities are likely to move from a daily charge and use the ANPR camera network for a 'pay for use' road charging model, with operators paying by the mile in the most congested and polluted areas.

Our 2019 medium forecast predicts 360,000 new van registrations in 2019, up 0.8% on the 2018 total. This is a strong result that reflects the stability of the market, and continued demand from UK businesses.



“We see significant opportunities in the UK CV sector. Our strategy is to grow footprint through organic growth and any aligned acquisition opportunities; in my opinion the consolidation we have seen so far really is just the tip of the iceberg. As well as underpinning our growth and bringing economies of scale, acquisitions have brought and will bring experienced CV people, established sites and the opportunity to share best practices.

We see the new market remaining flat in the short term, which considering the economic and political issues facing the UK underpins just how strong the new and used CV markets are.”

Gareth Kaye Group Franchise Director, Imperial Commercials/Motus Holdings Ltd.



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In the last 17 years, DfT figures show a 56% growth in van road miles. Vans drive 50.5 billion miles in the UK annually and make-up 15.4% of all road traffic, up 1.8% in five years. The recently-published SMMT LCV report “Delivering For The Economy” has revealed the economic value of these vans to the UK economy; 3.4m people use or depend on vans for their work, that's 10% of the UK's workforce, underpinning the economy with a combined wage bill of £56 billion.

There have never been so many factors impacting the new van market with the current uncertainty in political and economic terms, the impact of exchange rates on list prices and legislative regimes such as WLTP, VED and the introduction of ULEZ and CAZ air quality charging zones.

Despite all these factors, new van sales have remained remarkably resilient in the first few months of 2019. With many OEMs landing stock prior to the March Brexit deadline, the subsequent seasonal slowdown with Easter and Bank Holidays in close proximity has softened new market activity somewhat. Time will tell if the revised October Brexit deadline causes repeat behaviours. Unlike passenger cars, we believe the factory-build shift from New European Driving Cycle (NEDC) to WLTP will continue largely uninterrupted, so we do not foresee supply and lead time issues impacting the new van market as it has with some passenger car OEMs.

The most recent SMMT LCV registrations forecast for 2019 and 2020, whilst softening, show a stable new LCV market against the backdrop of a record UK registration year in 2016.

LOOKING AHEAD

There is currently a significant disconnect between policy makers and the reality of how first life and subsequent owners operate their vans very differently.

Scrapage schemes, like the novel but narrow scheme launched by Transport for London, will not drive the SME or sole trader operator of a £1,500 van to buy a new version costing upwards of £20,000. But it may lead them to trade-up into a used Euro 6 or to rent a van instead. Not all charging zones will

include vans and some cities have already discounted charging altogether, favouring other measures to improve air quality.

The new CV market in recent years is a great success story for the UK, but Government must focus on the fundamental differences between commercial and passenger-carrying vehicles to ensure their long-term strategies are fit for purpose to help protect businesses and underpin their growth.

2019 USED CAR MARKET

Used car sales are playing an increasingly important role in dealer profitability. However, given the uncertainties caused by Brexit, changes in fuel taxation and shortages of quality stock, understanding the drivers of the used market is more important than ever.

As indicated in the earlier New Car Market Section, in an industry facing continuous headwinds, retailers remain remarkably resilient and continue to invest in used car growth. Issues within the new car market, resulting in extended fleet cycles, are causing a reduction in supply, a challenge exacerbated by the fall-off in used diesel vehicles entering the market.

Latest figures from the Office for National Statistics paint a mixed picture for general (non automotive) retail. Over the past 12 months (March 18 – March 19), overall retail sales were up 6.7%, but department store sales were down 0.3%. This echoes dealers' experience, which indicates that attracting buyers into traditional retail sites continues to be challenging.

Furthermore, the impact of Dieselpgate – and its knock-on effect on the used market – has created a new set of challenges for dealers, who need to get to grips with the new era of petrol/diesel values. Our analysis (see Future of Fuel section for more details) suggests that contrary

to popular belief, we may see a short-term spike in used diesel values as a result of supply issues. In fact, our market survey indicated that acquiring the right stock is the prime commercial challenge for dealers in 2019; this is ahead of Brexit and profit margins.

The fall in new vehicle registrations in the UK has led to a reduction in the number of used vehicles for sale. At the same time, escalating new car prices have seen some customers switch from new to used due to affordability. Lower levels of supply, coupled with increased demand, have led to rising used vehicle values. A slowdown in the change cycle of vehicles has also increased demand for aftersales services and parts.

A dealers' perspective

Dealers have shown their resilience to market headwinds, and continued to invest in the growth of their used car operations. However, our research suggests that car retailers are all too aware of the shifting sands of the used market but are not certain how to manage through this period.

Our dealer survey revealed that one in ten dealers are buying lower grade stock than they normally would, while 15% have been fast-tracking vehicle preparation to facilitate quicker stock turnover.



Forecasting growth?

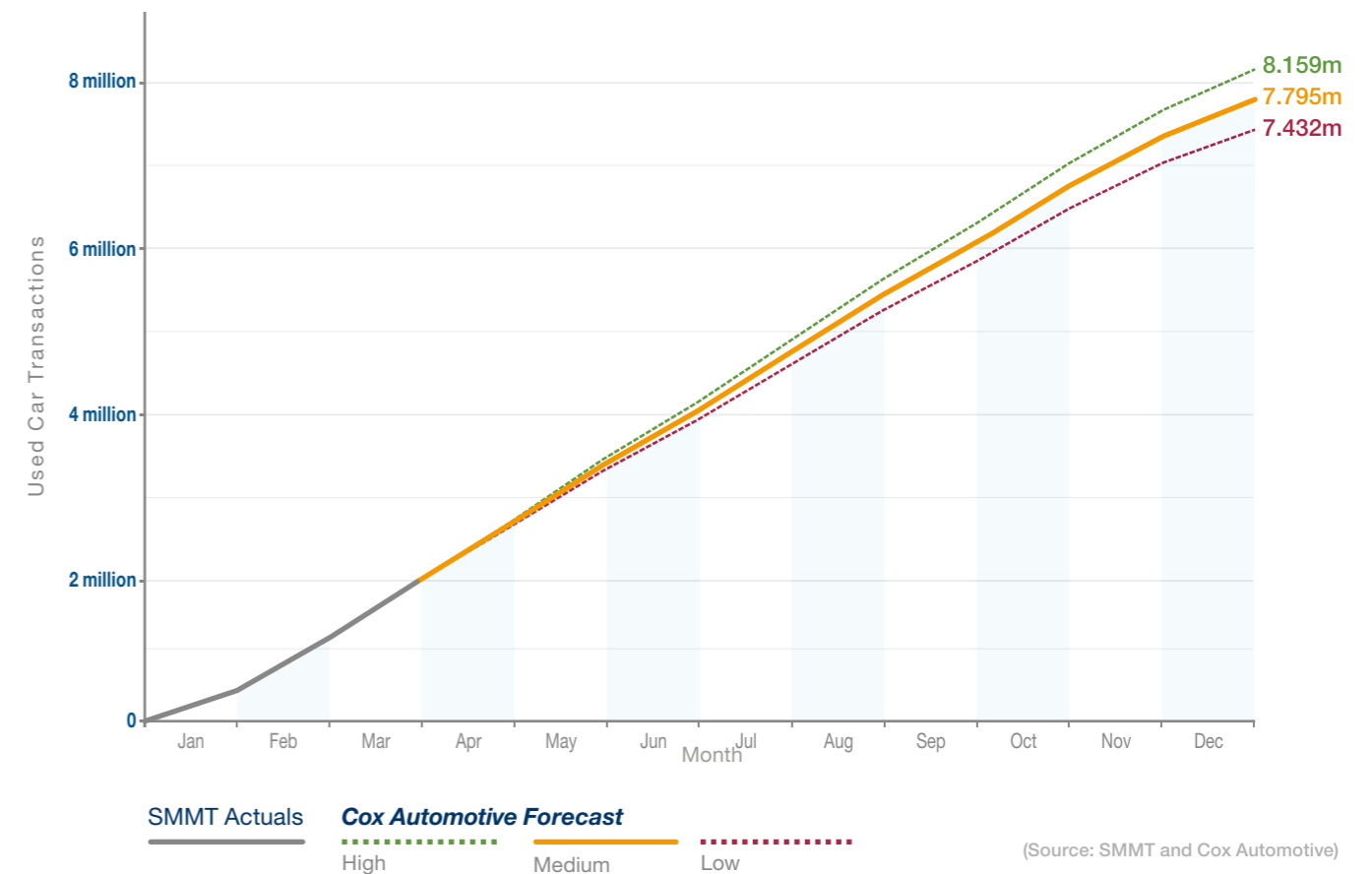
As in the 2018 Insight Report, we use SMMT published data on changes of vehicle keepers to forecast total used car transactions. Our model predicts the most likely number of transactions is 7.795m, which is about 2% down on 2018.

This number reflects a trend supported by other evidence, specifically that the used car market is shrinking, albeit very slowly. It is likely that the ongoing consumer uncertainty of recent years, which has put downward pressure on new car registrations, has also made consumers less willing to upgrade one used car for another.

Our forecast still shows considerable uncertainty about the year's final total of used car transactions. Should political and economic circumstances cause an even greater depression in consumer confidence, then we must entertain the possibility of a 3-5% decline year-on-year.

FORECAST OF CUMULATIVE USED CAR TRANSACTIONS

Actual SMMT values to March 2019, Cox Automotive forecast thereafter



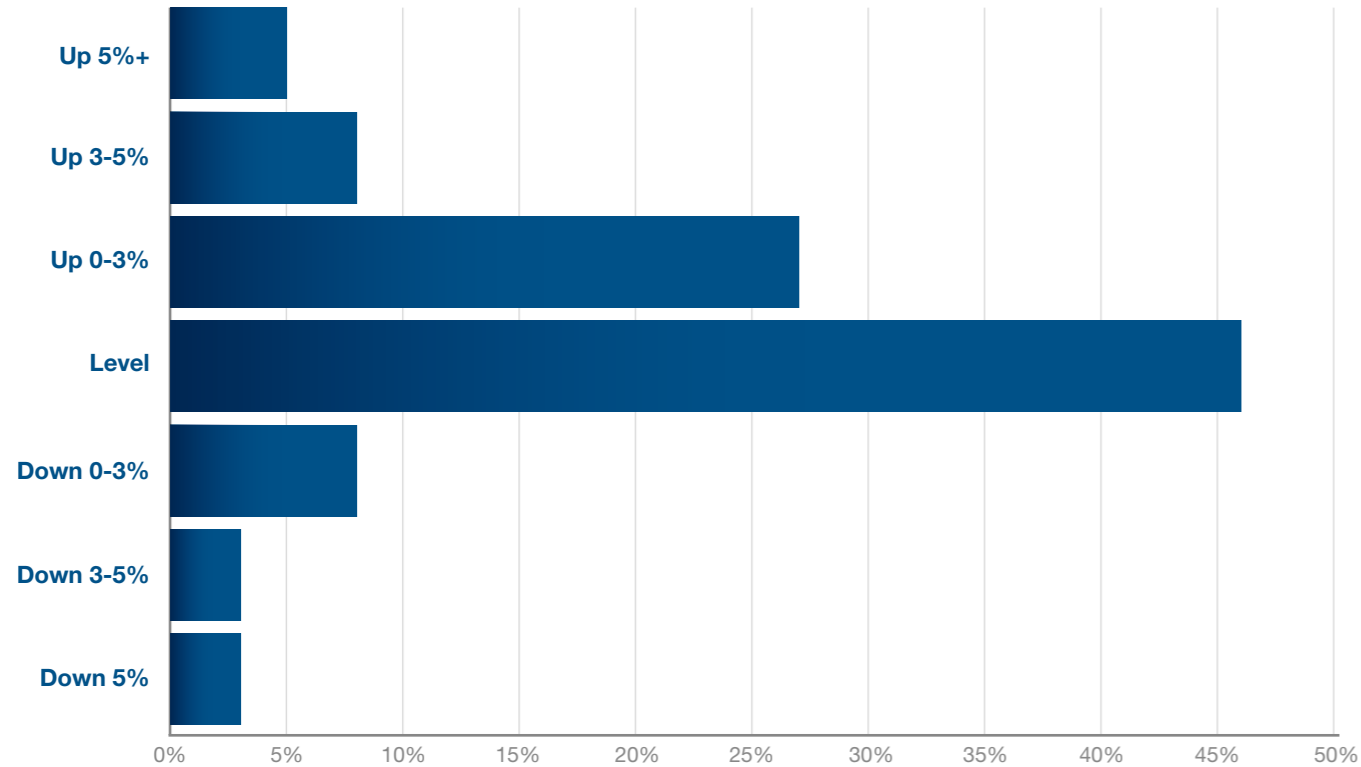
(Source: SMMT and Cox Automotive)

“While we’re seeing dealers continue to focus on cashflow, as a means to buy stock, we’re also seeing a rise in the use of digital platforms to make the purchasing process more efficient. Dealers now want it easy, reliable and hassle free when it comes to buying stock.”

Liam Quegan Managing Director, NextGear Capital

USED CAR MARKET SIZE EXPECTATIONS

Will the used car market increase or decrease on the 2018 result of 7,945,000 transactions by..?



(Source: Cox Automotive State of the Market Dealer Survey)



Conversely, but much less likely, if consumer confidence is restored early enough in the year, the used car market might almost reach the same size as in 2018.

There were grounds for optimism in Q1 2019 after the fall in volume and reduction in conversion rates in Q4 2018. Although there are other factors influencing the third party wholesale market (e.g. customers using their own disposal platforms and greater retention of retail suitable stock), the underlying shift which began in September 2018, has continued into 2019, suggesting a more damaged new and used car market than initially suspected.

Despite a gradual reduction in the number of used car transactions, more industry players are moving into the used car market in response to pressures in the new car market.

When we asked dealers about their predictions about used car sales during 2019, the results were generally positive. 86% of respondents said that they expected sales to remain the same or better compared to the 2018 figure of 7.945m.

“We think demand for retail-ready stock will continue to drive efficiencies in vehicle services, assisted by enhanced imagery. An increasingly agnostic approach to physical and digital sales channels will emerge to complement changing buyer behaviours. Car buyers will expect increased transparency to drive confidence, leading to more detailed vehicle descriptions and assurance checks.”

Peter Bell Managing Director, Manheim

LOOKING AHEAD

The used car sector will remain the focus for many dealers as the new car market continues to face external pressures over which many retailers and operators have little influence.

However, given the inextricable links between the two markets, the need for a deeper analytical understanding of the trends affecting the industry will be key to maximising investment and profitability. The used market has a direct correlation to what happens in new, as explored in the Future of Fuel

section where we identify the impact on the changing fuel landscape in wholesale.

Clearly, demand for ever-increasing efficiencies around vehicle preparation, logistics and the use of other tools to maximise profitability and optimise working capital in a competitive market remains key. Dealers need to continue to embrace inventory and data analysis alongside their own market understanding to ensure they optimise working capital and achieve the best stock profile for used cars.

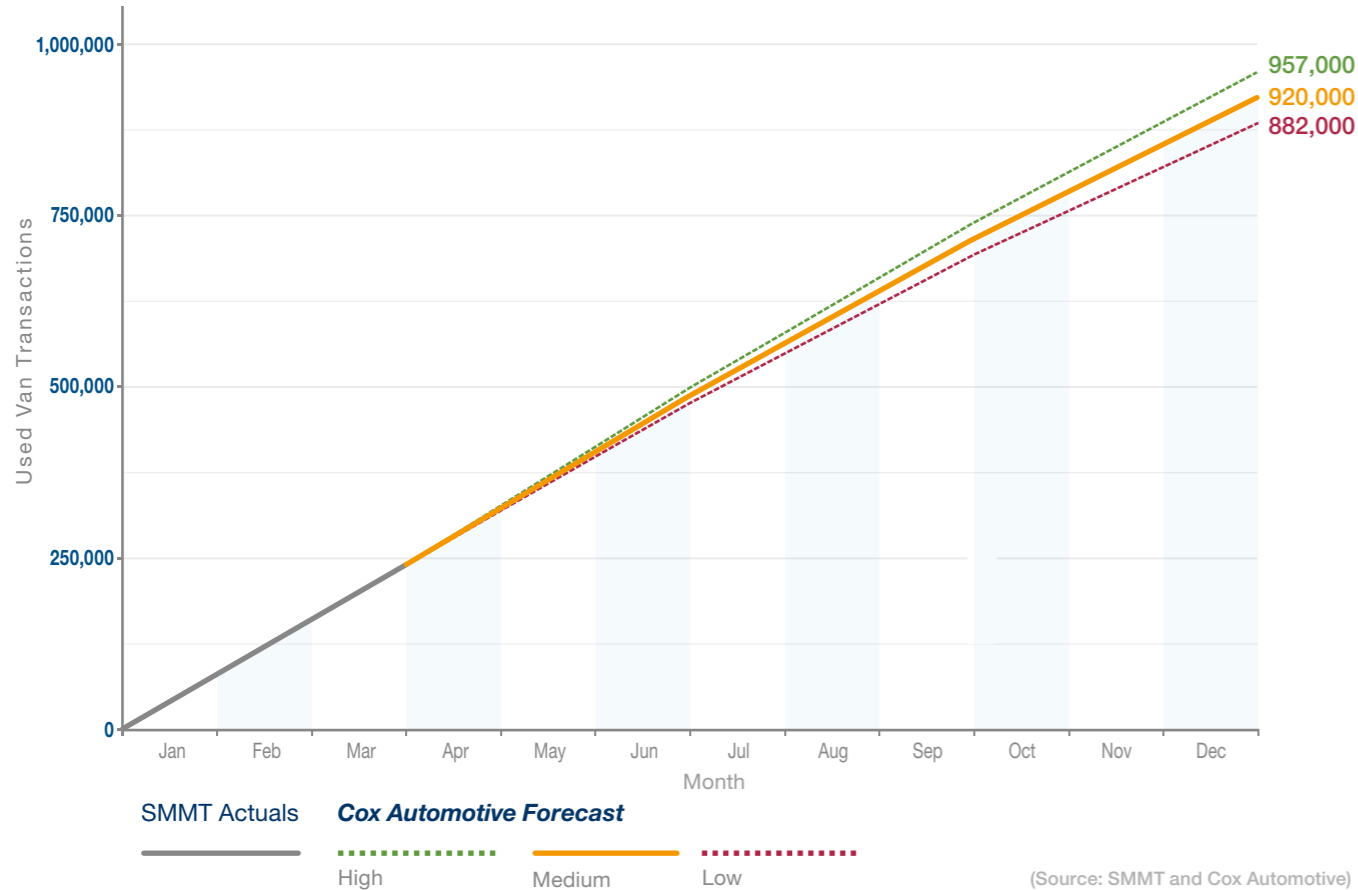
2019 USED VAN MARKET



WHERE IS THE MARKET HEADING?
The used market

FORECAST OF CUMULATIVE USED VAN TRANSACTIONS

Actual SMMT values to March 2019, Cox Automotive forecast thereafter



As noted in the New Van Market section, there are a significant number of factors impacting the sector, and creating a complex landscape within the used van market.

Clean air

According to the SMMT, around 30% of vans on UK roads are over ten years of age. Our data suggests that 80% of all vans are pre-Euro 6, so the implementation of Clean Air charging for pre-Euro 6 vans has the potential to significantly affect the SME and sole trader van operator in years to come. The implementation of Clean Air charging on pre-Euro 6 diesels should clearly be at the forefront of every used van owners' thoughts. Unfortunately, as the introduction of Euro 6 was only mandated in September

2016, very low numbers of these vans are hitting the wholesale market. Just 14% of vans sold by Manheim from Jan-May 2019 were Euro 6.

2021 is the year that London expands its Ultra Low Emission Zone to sit within the North and South Circular. It's the year that air quality improvements have to be delivered by upwards of 60 local authorities in towns and cities across the UK. Not all will choose to charge vans. By 2021, we estimate up to 40% of vans on UK roads will be Euro 6.

The irony is that, despite policy makers setting Euro 6 diesel as the standard for trucks, buses and vans (noting some cities and towns are choosing to exclude vans from charging schemes), the current focus for London is moving to ultra-low and zero emissions.

So as more London Boroughs, along with the City of London, introduce zero emission streets and areas in the next five years, the Euro 6 diesel van, truck and bus will be penalised financially. While this is currently a London specific issue, Birmingham, Leeds, Nottingham, Derby and Southampton will all introduce Government mandated plans to tackle air pollution over the next year.

It is the older vans that are the most polluting, and considering over 30% are over ten years of age, we would suggest these owners are highly unlikely to trade up into a used Euro 6 van; let alone stretch to a brand new one. Most operators of low usage vans will simply pay the daily charge and pass the cost onto their retail customer.

In this, the UK's first ever forecast of cumulative used LCV transactions, the historic resilience of the UK van sector is clear to see – we predict that used van transactions will reach 920,000 by the end of 2019.

SMMT data shows an 18.1% increase in total used van transactions comparing 2014 to 2018. Since 2000, the UK van market has grown by a remarkable 59%. The market also recorded a record number of new LCV registrations

in 2016, suggesting a larger flow of vans entering the used market in the years ahead; historically over this time, supply and demand has matched and average selling prices in wholesale have continued to rise.

Taking the average age of first-life wholesale vans into account, we believe this used transaction growth trajectory will peak in 2021, with over 1 million used van transactions in the UK for the first time.

The increased focus on clean air zone rollouts, the cost of components and complexity of repairing older vehicles, and the associated brand image and reputation of operators will, we believe, continue to drive new and used replacement activity; even against the current backdrop of business uncertainty. The availability of finance and funding to new and used van operators will underpin this activity. As referenced earlier, the buyer of a new van is the supplier of the used vans to SMEs and sole traders. A used van offers fantastic value and is often used more sparingly by subsequent users, with lower average annual mileage.

LOOKING AHEAD

There is a perfect storm in the used van market. Euro 6 is in short supply. Extending van replacement cycles due to economic and political uncertainty will impact businesses operating a significant number of vans in clean air charging zones. We do not, however, see a sharp decline in demand for, or values of, Euro 5 van values. These vans are not being included in every clean air charging scheme, so there will be a place for them to replace significantly older vans across the UK according to 'natural wastage'.

SMEs and sole traders using their smaller fleets of vans more sparingly than first life operators will logically see fewer daily trips made into Clean Air Zones than large first life fleets. We would suggest

the daily ULEZ or CAZ charge, currently £12.50 in Central London, will be treated like a toll, it won't be absorbed, it will be built into the margin for the ultimate customer. Moving older vans into non-charging areas will only move the air quality issue and ultimately lead to further clean air charging activity.

For over a decade we have seen average wholesale van values increase year on year; demand and supply are perfectly matched in most months of every year allowing for seasonality and fleet duplicate volumes. A van is a tool to do a job, to deliver a product or a service, to generate cashflow.

THE FUTURE OF FUEL

The sharp fall in new diesel sales could see an unexpected spike in used car and van values later this year. However, in the longer term, the used vehicle market will become far more complex and dealers will need to develop sophisticated tools to get their stocking profiles right.

Since 2015, when the Dieselgate scandal first hit the headlines, diesel vehicles have been increasingly taxed and demonised in equal measure. Many industry commentators and engineers agree that this vilification has been both unfounded and unfair on a technology that, in its latest iteration, does not deserve the bad press it has received.

Nonetheless, recent developments such as the introduction of the Ultra-Low Emission Zone in London; company car tax increases on diesels; the shift in energy strategies by OEMs and the impact of WLTP test regimes have all hit diesel sales.

According to the SMMT, January 2019 saw registrations of new diesel cars fall by 20.3% compared to the same month a year before. And that came after January 2018, in which diesel sales were down by a quarter. This is no short-term blip.

Putting it another way, the 46,823 diesels sold in January of this year was 32,000 fewer than in January 2017 – that’s a 40% drop in just 24 months.

Our analysis of the SMMT data suggests that when we compare the 2015/16 market with that of 2017/18, we see that three quarters of a million fewer diesel cars entered the used market.

But what does this shift in the new car market mean to used values of diesel cars, which were once the backbone of the company car market?

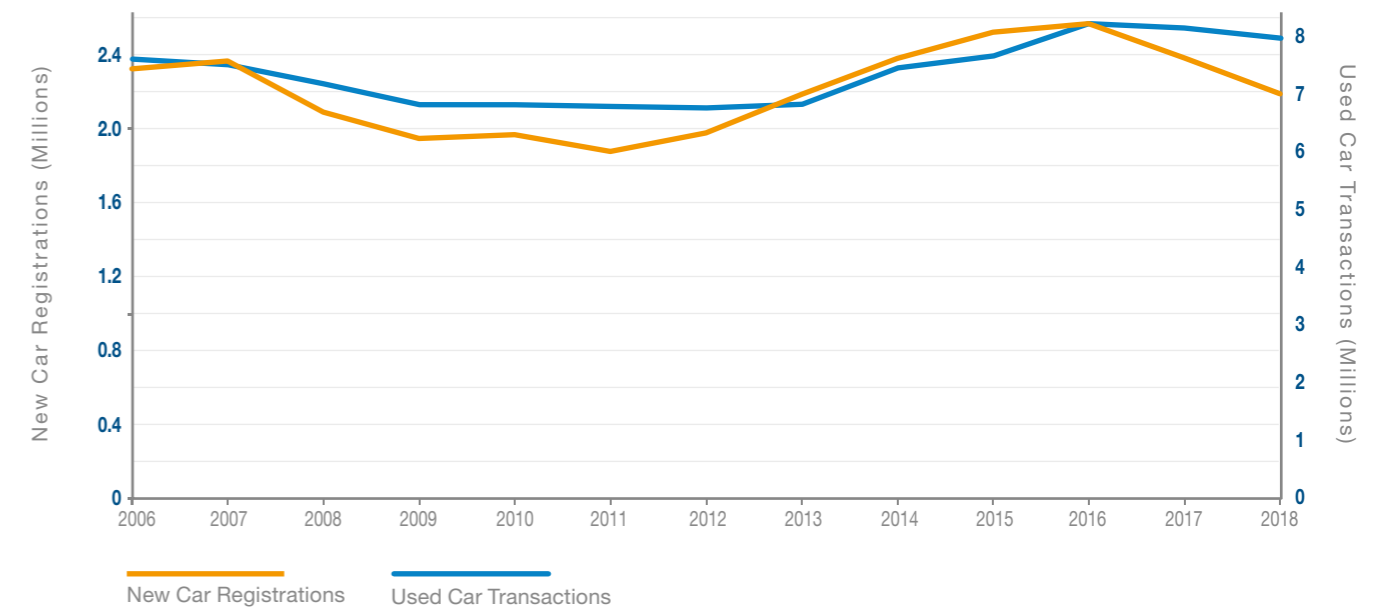
Deep dive analysis

To gain a better understanding of how this reduction in new diesel registrations might affect the used market, we took the new registration and used transactional data from the SMMT to see if and when fluctuations would become evident.

In the graph below, we can see that while the volumes are different, the used data mirrors new registrations closely over time. In fact, when we compared this to our remarketing data, this correlation was also replicated. Whenever a new car is bought, a used car is generally traded in, which is probably why the two lines follow a similar path. Hence, it would seem fair to assume that any changes occurring within the new car market will be reflected in the used market.

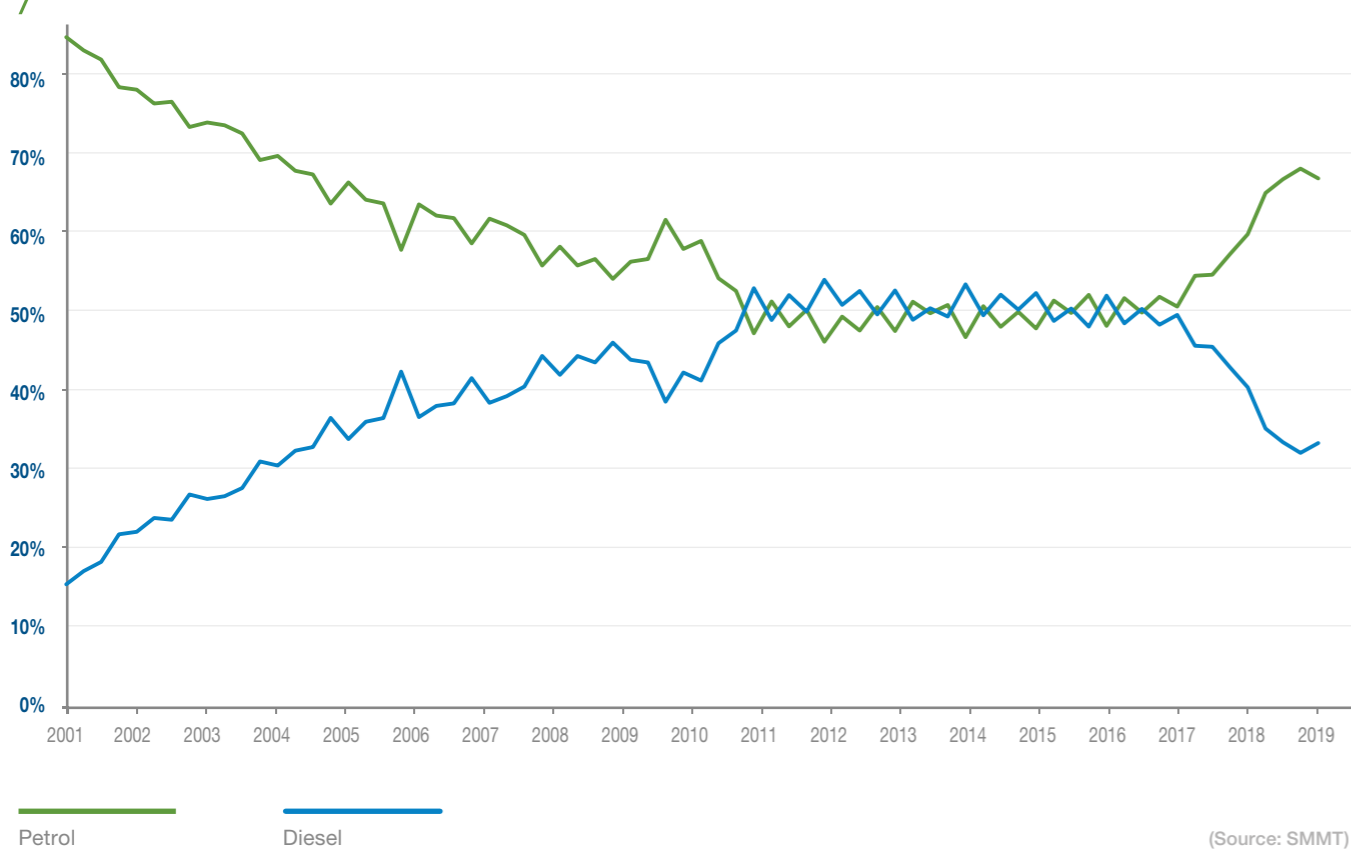


NEW CAR REGISTRATIONS CORRELATION WITH USED CAR TRANSACTIONS



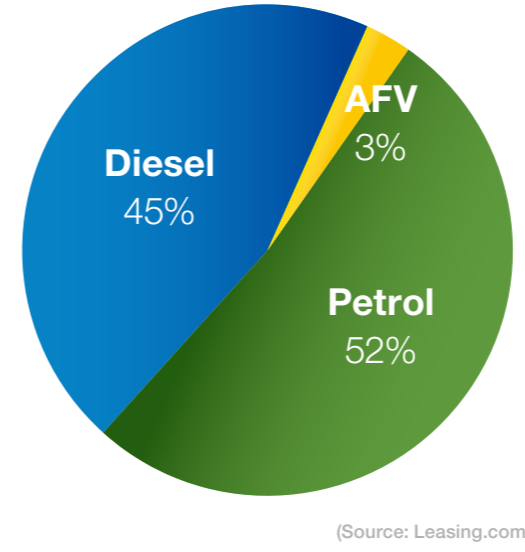
(Source: SMMT)

PETROL AND DIESEL NEW REGISTRATIONS 2007 – 2017



CONSUMER LEASING CRITERIA SEARCHED BY FUEL TYPE IN 2018

Recent research by Leasing.com indicates diesel still represents 45% of search criteria by consumers in 2018.



Fuel type differences

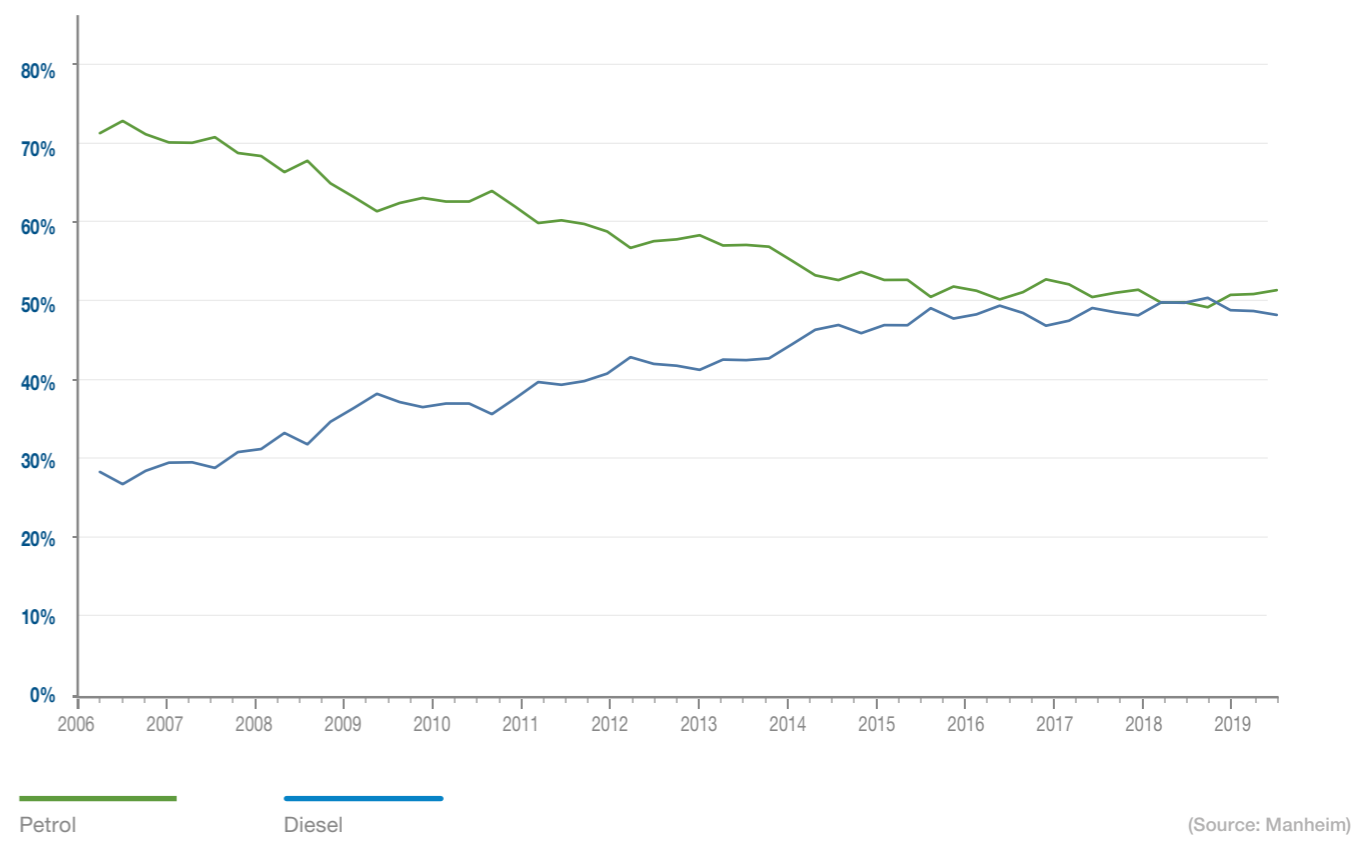
We then took SMMT data on new registrations by fuel type to understand how petrol and diesel sales had fared over a ten-year period, including the Dieseldate period.

We can see that by the start of 2010, new sales of petrol and diesel cars had become closely entwined. Looking at Manheim data, we can see that the popularity of used diesels increased year-on-year until 2014, when it levelled out, remaining a popular alternative to petrol for the next few years.

We see a similar pattern in new sales, but there appears to be a lag of around two years before changes in the new car market impact the used market. Significantly, the line splits during 2018, showing that petrol and diesel cars deviate at this point. More diesels are being traded in as part exchanges due to the aging vehicle parc of 37 million, which still includes older vehicles bought when diesel penetration was higher.

Our data shows that diesel's popularity continued to decline through 2018, until the end of our data set. If we assume that new diesel registrations will continue to fall at their current rate, we would expect to see that divergence increase.

PERCENTAGE OF MANHEIM SALES BY FUEL TYPE





Fuel futures

Data clearly shows that there has been a sharp decline in the number of new diesel car registrations since 2016. Our experience within the used car market suggests that up to three quarters of a million new diesel cars are 'missing' from the market, which has not yet adopted EVs or other alternative fuelled vehicles to a point that soaks up this demand. The impact could cause short to medium term changes in valuations in the wholesale market for all fuel types and both buyers and vendors should be considering their stocking profiles to adapt to the changing fuel landscape.

Wholesale buyers need to be especially vigilant with regards to the ebb and flow of diesel and petrol used car values in the used market. Historic data from Manheim illustrates how the proportion of petrol and diesel vehicles purchased in the wholesale market has changed over the last 10 years but has now reached an inflection point. This suggests that retailers are beginning to reflect the declining buyer appetite for diesel.

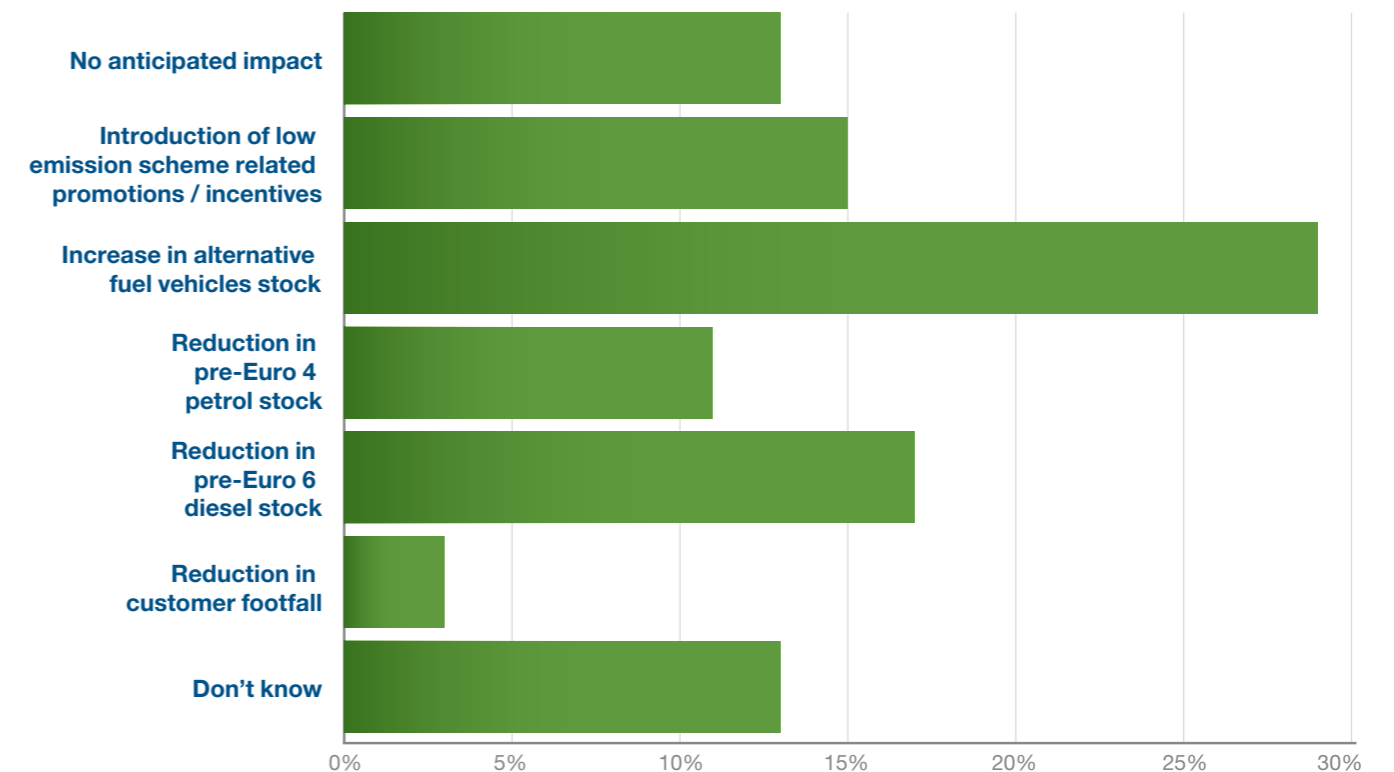
A survey of dealers conducted by NextGear Capital reported that almost one in three dealers are planning to increase their Alternative Fuel Vehicle (AFV) stock as a result of the newly-introduced Ultra Low Emission Zone (ULEZ) and anticipated rollout of Clear Air Zones.

Our analysis suggests that while used diesel values might see a short-term rise, in the longer term this is simply not sustainable. As diesel's decline is accelerated by advances in technology, the roll-out of fast charging infrastructures, more affordable EVs and the adoption of low emission zones in other cities, so their value will follow suit.

We are already seeing the emergence of a regional trend for used diesels – as dealers move products away from ULEZ-affected areas in favour of towns and cities with less strict environmental policies. Clearly, geography has always been a factor in dealers' portfolio strategies, but given the influence of emerging low emission zones, location will play an even more important role within the used sale process.

EXPECTATIONS OF LOW EMISSION ZONES ON USED CAR TRADE

The new Ultra Low Emission Zone (ULEZ) began in London on April 8. Similar schemes in major cities around the UK will follow within the next 12 months. What impact, if any, do you think these schemes will have on your used car business?



(Source: NextGear Capital and Cox Automotive State of the Market Dealer Survey)

LOOKING AHEAD

Dealers will need to gain an even more sophisticated appreciation of the supply and demand trends within the new and used car markets – and manage their stock profile accordingly, as more EV and hybrid models flow into the new car market. While sales of EVs still only account for approximately 1% of the total new car market, latest figures from the SMMT show that by April 2019, sales of plug-ins reached 6,000 units, a rise of more than 50% compared to the previous year. This represents a genuine direction of travel, that can only be strengthened by

announcements from this year's Geneva Motor Show which confirmed that no fewer than 80 new EV and PHEV models would enter the European market within the next two years.

Our advice is don't be phased by the sensational headlines surrounding diesel when making vital stocking decisions. By the end of 2019, the two-year-old diesel vehicles favoured by many retailers could become hot commodities.

CHANGING DEALER STRATEGIES

Are we ready for the retail (r)evolution?
Recent media headlines have highlighted the scale and pace of consolidation within the UK automotive industry. Our analysis points to a far more complex and dynamic picture, where external factors – such as Brexit, WLTP and the associated impact on new car registrations – are encouraging mergers in the sector, along with a more customer-focused, omni-channel approach to business.

Like so many other businesses, motor dealers are facing a period of unprecedented market volatility. Brexit and its effect on consumer confidence, the demise of diesels, the rise of EVs, access to consumer credit or the general slowdown in the US, Chinese and European economies, have all had an impact on the automotive industry.

There has been an increase in the level of consolidation in the automotive retail market since the global recession, particularly among franchised dealers. This has led to an increase in the size of larger franchised dealer groups at the expense of smaller operators. It has also enabled larger dealer groups to benefit from economies of scale and develop their own market territories. Some of the OEMs have continued to form closer partnerships with brokers, prompting several dealers to follow suit.

Among independent dealers, we have seen a number of highly successful ‘car supermarkets’ build their position in the market. Characterised by a strong brand and a focus on customer service, these businesses are able to compete with franchised dealers and smaller independent retailers simultaneously. All these developments pose both threats and opportunities for dealers.



Structural changes

Dealer consolidation has been occurring for some time, albeit slowing in the most recent global recession. Data from Grant Thornton suggests that the UK is the most mature motor retail market in Europe, with the top 10 groups accounting for 44.88% of sales volume by revenue.¹

As the second biggest new car market in Europe, behind Germany and ahead of France, the UK offers a model of evolving consolidation and a high average new vehicle throughput per outlet. In 2017, the UK dealers stood at 4,622 franchises trading an average of 549 new units per site; a higher throughput from fewer sites than Germany (306 average new units per outlet) and France (346 average new units per outlet)².

“Future dealership models will allow for increased flexibility to suit different needs depending on the area where the site is based. Some dealer groups may combine local authorised repair centres and shopping mall outlets in their portfolio mix. Going forward, a strong, combined physical and digital strategy will be essential to allow retailers to meet the fast-changing consumer demand.”

Sue Robinson Director of the National Franchised Dealers Association (NFDA), which represents franchised car and commercial vehicle retailers in the UK

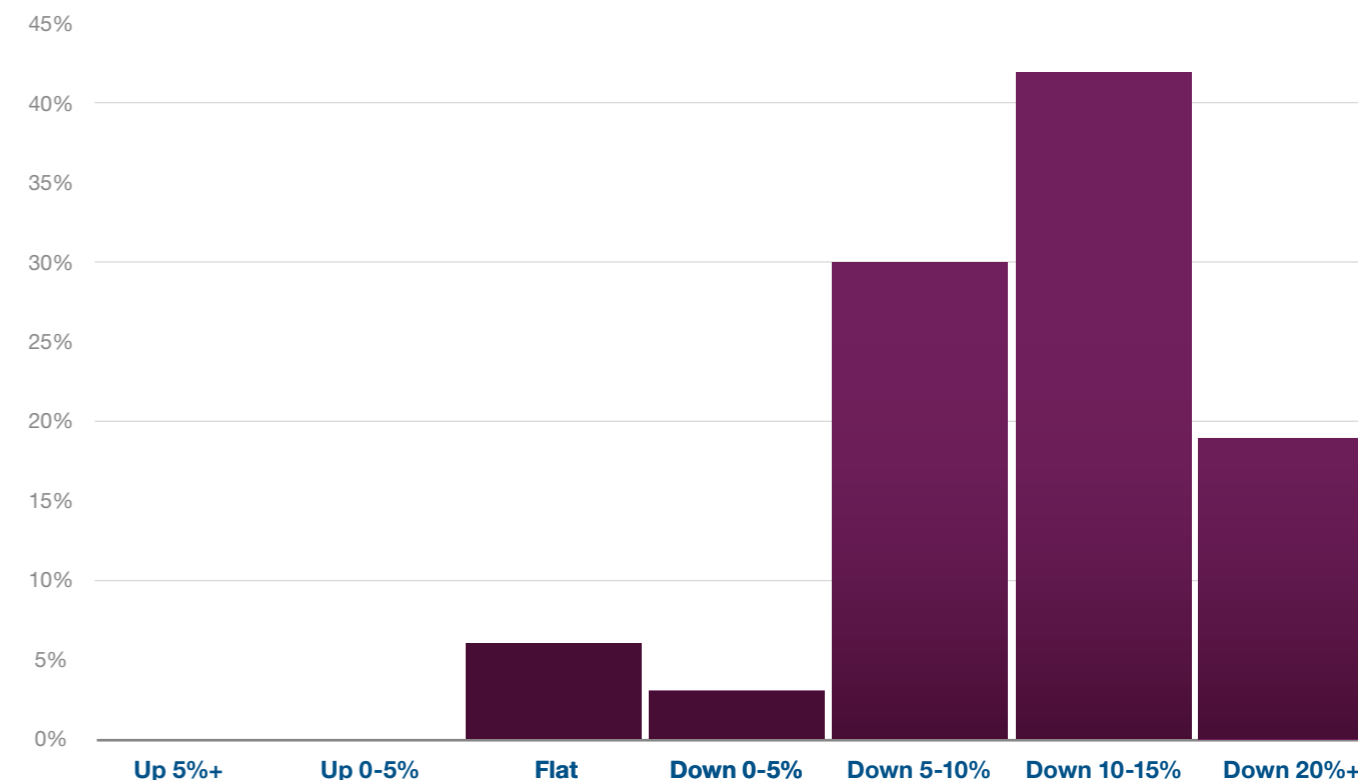
However, that’s not the whole story. Taking account of recent comments from leading motor trade figures, it is clear that their vision is on future growth and expansion, and finding innovative ways to connect with consumers.

“We will always have retailers, but the physical size and shape over the next decade will change.”
Alison Jones, PSA Group Managing Director.³

Certainly, the major plc players within the market are universally following a strategy based on consolidation, efficiency and cost savings, with gains through economies of scale. Diversification, is another driver of consolidation, as demonstrated by the likes of Vertu Motors Holding plc

DEALERSHIP ROOFTOP EXPECTATION

Where do you see the number of UK dealer outlets by 2023?



(Source: Cox Automotive State of the Market Dealer Survey)

with the acquisition of online businesses Ace Parts and Vans Direct. Additional drivers include other factors such as succession planning as seen by Hendy’s acquisition of Westover.

The larger groups are managing their way through the current uncertainties, looking to the future with capital available for the right acquisitions at the right price. Some smaller groups are looking to exit. However, price expectations are in many cases too high, particularly where dealers have made investments and are still hoping to recover that sunk cost.

We also still see evidence of relatively new brand entrants in the marketplace generating growth opportunities. At the smaller end of the market, there remain attractive opportunities for fast growing dealer groups to expand their range of marques.



“The retail sector is challenging, no matter where you are on the High Street, the good news is once the macro economic factors have eased, the industry will be in better shape to benefit from the return of customer confidence.”

Stephen Brighton Managing Director, Hepworth Motor Group

New challenger brands such as South Korean SsangYong and Chinese backed MG are two of the fastest growing dealer networks in the UK, both actively looking for quality representation at their open points.

When we asked dealers about their predictions on the growth in outlets in 2023, the response was consistent with the consolidation trend.

While none of the respondents anticipated a rise in the number of dealer locations in the UK over the next few years, the vast majority (94%) expected some contraction in rooftops. However, it should be noted that most dealers (43%) saw a reduction of between 10-15%, far more conservative than many recent headlines of major structural shifts within the industry.



“The changing landscape with OEMs is likely to result in fewer networks and fewer dealers. This should, over time, drive a higher throughput per site as we have seen in recent years – and ultimately improve profitability.”

Daksh Gupta Group Chief Executive Officer, Marshall Motor Holdings plc

“We therefore see more separation of sales and service networks with each being planned according to the quite different needs of the customers for each. It may well be the same customers, but they’re exhibiting different behaviours.”

Steve Young Managing Director, ICDP

Sales and service separation? The bigger picture

Recent consumer research from ICDP has shown a trend towards people driving further to make a car purchase – now close to an hour – but no change in the maximum drive time for aftersales, where the primary concern is convenience.

This will provide more opportunities around choice of service location, construction standards, multi-branding, and operating hours. Customers can be retained, without the need for an under-utilised workshop, therefore, the business case can be very positive.

Another major influence on the retail network is the potential change in the OEMs’ retail network strategies. As we look towards the end of 2019, it is clear that cost cutting, and efficiencies are high on OEMs’ agendas.

OEMs are coming under significant pressures due to the increase in investment in research and development demanded by EVs, hybrids, autonomous vehicles and mobility as a service. Additionally, the slowdown in the Chinese market is affecting global car production (year-on-year 8.8% decrease in the US), and a weaker demand from Europe and the UK has meant that production has declined. This has affected the share price of many quoted OEMs.

“When it comes to full online retailing, the truth is that no one knows how much demand there will be from the customer. Driven largely by the OEMs, we’re predicting that by 2025, we will see more new cars retailed in this way. That’s why we already have a full online capability.”

Robert Forrester Chief Executive Officer, Vertu Motors plc

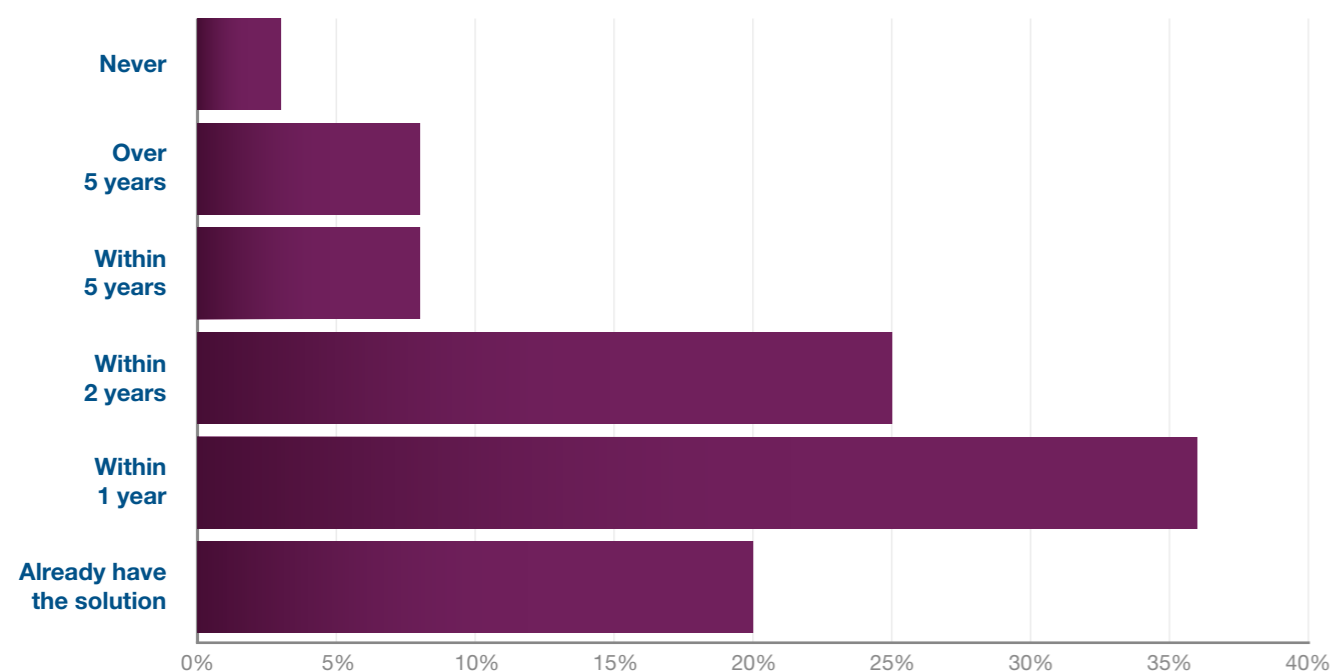
On the back of these macro-economic factors, OEMs have had to adopt efficiency and cost-cutting programmes. Ford has been open about its \$14bn global cost-cutting programme designed to transform the business, according to its European president Steven Armstrong.

The big question is, where will OEMs gain these efficiencies and cost savings? The tier 1-3 parts suppliers and the distribution and retail networks are obvious contenders. At a recent

automotive conference, VW confirmed that dealers remain key to the brand’s success, adding that both wholesalers and retailers will need to evolve and become more efficient to meet the new demands of the market and sustained productivity of 10% across Europe.

ONLINE TRANSACTION CAPABILITY OF DEALERS

When do you believe you will have a full online transaction option, in addition to physical new or used purchase?



(Source: Cox Automotive State of the Market Dealer Survey)



Over a third of buyers intend to buy their next car online

Motors.co.uk 2018

Retail (r)evolution

We see consolidation as one area of change within the automotive retail industry, although this may not be the key driver – and other changes in the landscape may change the retail network over the coming years.

We believe there will be further changes in the market as multi-franchising becomes more prevalent, increasing the number of vehicles sold per site. UK dealer groups are aligning partnership strategies, which is seeing increased collaboration between OEMs. Developments such as the PSA purchase of Vauxhall are beginning to reshape the market profile.

Location and OEM representation are no longer enough in today's digital world. Retailers need to think about making the consumer buying journey a seamless one – whether physically or online - for both new and used vehicle sales. Developing an omni-channel (engage everywhere, any way strategy) approach is one of the key definitions of success in motor retailing.

Investment is being made by both retailers and OEMs in the e-commerce space as demand continues to grow, driven by consumers. Therefore, tools to support the consumer digital journey, such as online vehicle valuations; advanced vehicle imagery; video solutions and the availability of click-to-buy are vital building blocks for future growth.

True omni-channel is still in its infancy in many cases, with dealers and OEMs allowing customers to process part of an order online and in the main, complete the transaction at the dealership. Although this is starting to change, with a number of manufacturers offering click-to-buy, including part exchange valuation/handling as well as physical purchase.

Our own research indicates that currently just one in five dealers have a full online sales transaction option, whilst 61% say they will have one within the next two years.

According to recent analysis from Auto Trader, 89% of all research into buying a new car is conducted online, with car buyers subsequently visiting an average of two dealerships.

“The adoption of e-commerce among dynamic dealer groups is now a major trend. We’re also seeing the greater use of high-quality imagery and video to drive online buyer confidence.”

Darren Sinclair Chief Customer Officer, Modix

Omni-friend or Omni-foe?

The apparent appetite for ‘click and drive’ purchases presents an interesting conundrum for OEMs. Does this move to online provide them with an opportunity to go it alone and deal directly with the customer? Or should they build on the established dealer partnership model?

The smart money is currently behind the second scenario, with dealerships here to stay for the long-term due to the strong desire to test drive and get the car serviced and repaired.

Indeed, all available research points to the fact that today's consumers are channel-agnostic in so much as they expect a seamless, consistent level of service whether they engage with the OEM or the dealer physically or remotely.

In another move that demonstrates real innovation within the retail environment, Ford has partnered with Rockar to offer an omni-channel retail platform, and collaborate with high street brand Next to drive sales via locations such as the Arndale Centre in Manchester.

Echoing this willingness to test out new, technology-enabled routes to market, Jaguar Land Rover is offering customers virtual tours of upcoming models.

All this investment by OEMs in the omni-channel route charts a clear direction of travel for the car retail industry. The future success of dealers will be closely aligned to their understanding of, and investment in, exploiting these new channels to market.

Sources: (1) Motor Trader Top 200 Franchise Dealers 2018 (2) ICDP 2017 (3) AM Online Images on page 28, 29-30 and 31-32 copyright Marshall Motor Holdings plc

LOOKING AHEAD

Consumer behaviours are changing more rapidly than ever before. Technology is transforming the retail landscape – and dealers of every shape and size (be they franchised, independent or supermarkets) need to evolve to meet this new retail reality.

Clearly, the role of the physical dealer remains crucial. However, consumers want to interact with the automotive retail sector in a variety of ways – notably

via a wide range of digital platforms. Our analysis clearly shows it's not simply a case of replicating the retail experience via the internet; those dealers that are leading the retail evolution are embracing technology to improve the customer experience and bring more flexibility into the car buying process. The number of dealerships might reduce but what will emerge are more efficient businesses which are better-suited to the market.

Ownership



FUNDING

The way we finance vehicles is changing. The concept of outright purchase is long gone, with most people financing their vehicles through a variety of different schemes. However, there are developments on the horizon with PCH (Personal Contract Hire) gaining more market share over PCP (Personal Contract Purchase) and longer-term vehicle usership. The shift in funding models presents opportunities and challenges to motor dealers and vehicle financing companies. How they react to this evolution will make a difference to their future.

Over the past decade, we have seen a seismic shift in the way that people fund their new cars. Drivers are no longer interested in purchasing their vehicles, increasingly preferring to pay a monthly fee via schemes such as PCP. Once viewed with suspicion by the motorist, these schemes - which comprise low monthly fee fees with a balloon payment after 3-4 years to buy the car - are now commonplace.

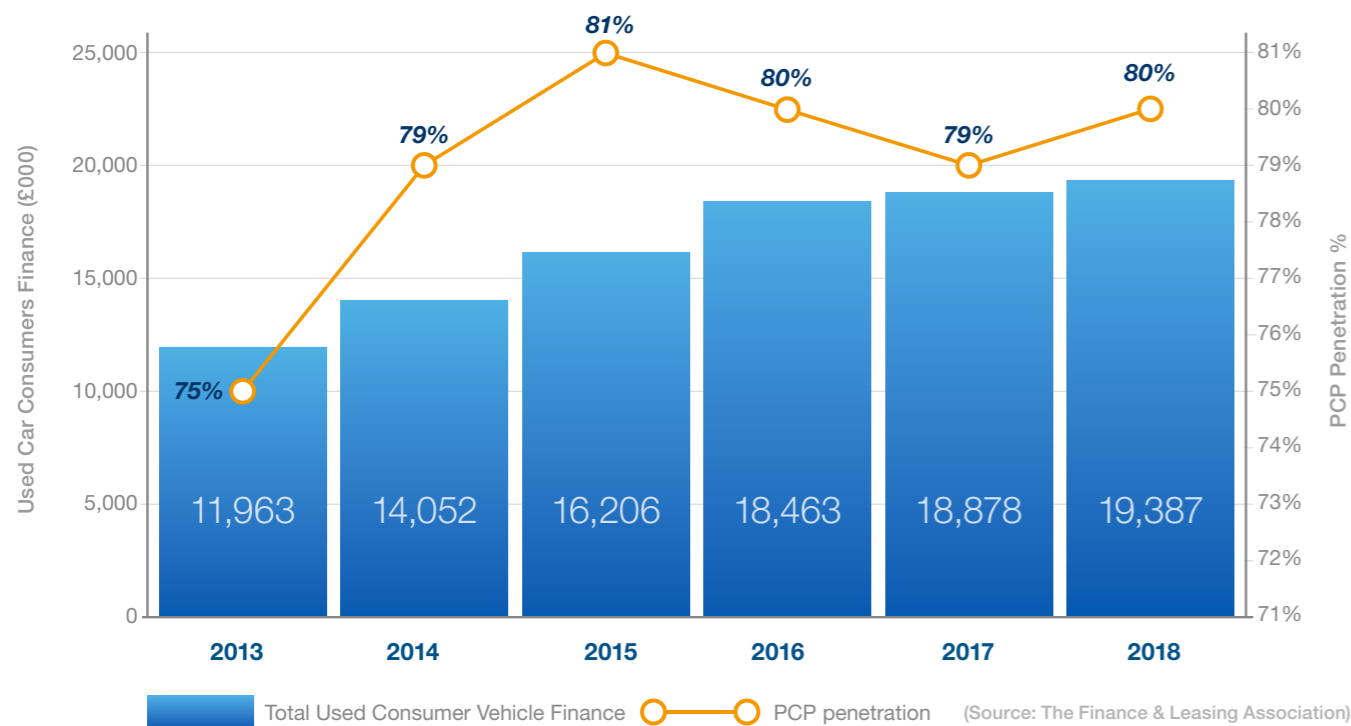
Latest figures from the Finance & Leasing Association confirm that in 2018, sales of new cars using PCP reached 80% penetration of the market - its highest figure to date. Even more remarkable was the fact that PCP has grown in importance for used vehicles, accounting for 50.5% of all used car purchases in 2018.

However, as every market in the world is buffeted by the ebbs and flows of legislation, cost of finance, and new competition, so recent statistics have suggested that PCP growth in the UK has slowed and could be on the decline. Indeed, we're now seeing more people opting for fixed-term contracts with no balloon payments at the end - evidenced by the growth in the PCH market. This change will be significant to the used car market within a couple of years as unlike PCP contracts there is no opportunity for the lessee to purchase the vehicle at the end of the contract.

However, the rise in PCH products for both new and used cars provides dealers with both opportunities and threats, given the fundamental difference in the way they operate when compared to PCPs.

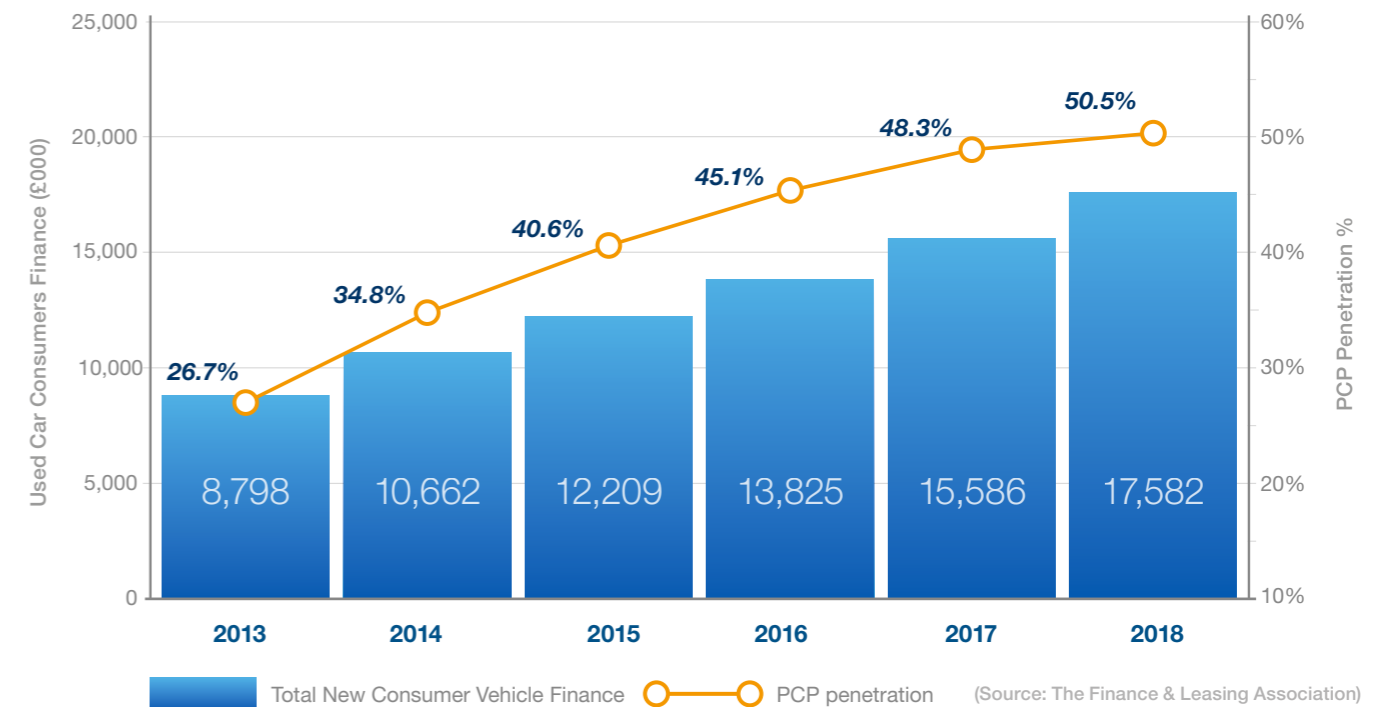
NEW CONSUMER VEHICLE AND PCP PENETRATION

New consumer vehicle finance markets (Value £000) with PCP penetration (%)



USED CONSUMER VEHICLE AND PCP PENETRATION

Used consumer vehicle finance markets (Value £000) with PCP penetration (%)



While the recent VAT ruling from HMRC is likely to increase the attractiveness of PCH to many car buyers, this more rigid model presents several important challenges for dealers.

While some customers may be put off PCPs by the balloon payment at the end of the contract, others may equally balk at the lack of flexibility of PCH contracts. Dealers will need to consider the impact this has on new car sales and how they sell vehicle finance.

With PCPs, dealers can encourage customers to enter into a new contract, terminating their existing deal before the initial contract has gone full term. This switching process is more difficult with a PCH, where the full term is generally run. Although dealers may have to provide PCH as a vehicle financing option, such stringent and long-term contracts lock in the customer for a full term.

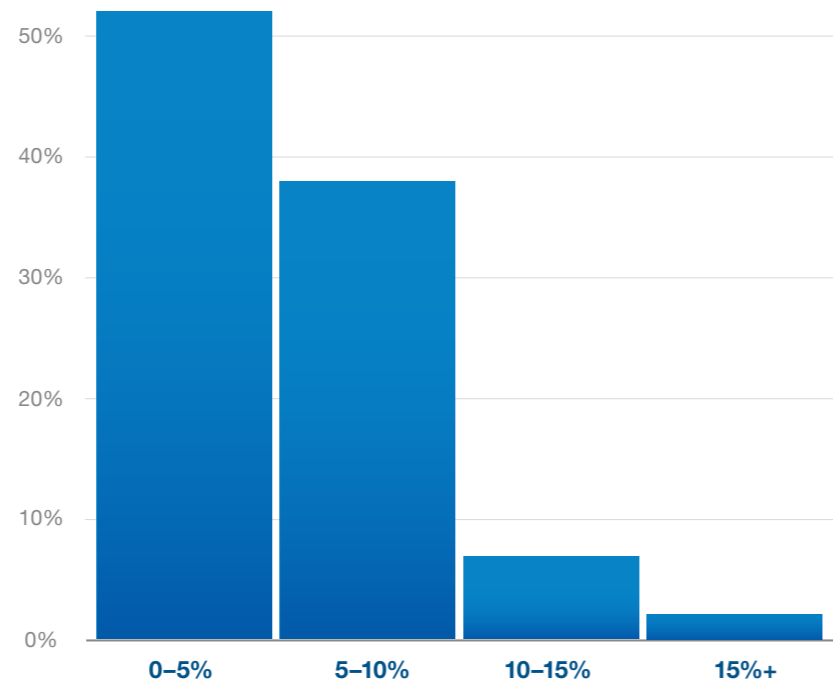
As with all products, much of the success of PCH will be down to how it is sold to the customer. Clear, open explanation of the pros and cons are crucial to create trust between dealer and customer and meet Financial Conduct Authority (FCA) requirements. However, comparing like-for-like can be made more difficult if the PCH is sold with options such as insurance and maintenance packages, allowing the customer to 'fuel and go'.





PCH GROWTH EXPECTATIONS

Do you believe that the PCH (Personal Contract Hire) NEW car market share, currently reported at 11.4% in 2018 will grow over the next twelve months by..?



(Source: Cox Automotive State of the Market Dealer Survey)

Ready for PCH?

Research we have conducted among dealers clearly backs up the views of the finance industry at large. 90% of dealers we questioned think that PCH penetration will grow by up to 10% within the next year, seeing it account for a fifth of all funding methods.

And this high level of anticipated growth in PCH deals is not confined to the new car market. When asked about the potential growth for PCH within the used sector, 69% of dealers responded positively.

Funding considerations

The financing of vehicles is coming under more scrutiny from the FCA and it is becoming more important that customer affordability is considered when dealers sell a car. Recent statistics from Leasing.com provide some interesting insights into what drivers see as an affordable monthly rental. Based on price point enquiries to their website, it appears that monthly payments up to £300 generated most enquiries, with preferred brands being Audi, BMW, Mercedes and Volkswagen. This clearly validates the high market share and interest in premium brands in the UK.

Change of usage

Another potential risk to dealers is the way we are all using cars. Figures from the Department for Transport (DfT) show that since 2002, our average annual mileage has fallen by around 1,400 miles every year.

Although attempts are being made to improve the public transport infrastructure with big projects like HS2 and Crossrail, these will not transform the lives of most commuters. That said, congestion charging, and the high cost of parking will make sharing, and subscription models attractive from an economic and practical perspective. Increasingly there are other, shorter term options for the user, such as subscribe and drive, rental and car share. In the longer term, this has implications for the way we use and pay for cars.

Consumers are increasingly aware of, and more comfortable with, the 'pay-as-you-use' or subscription concept as can be seen with smart phones. With this change in consumer behaviour, dealers and finance providers will need to evolve. Dealers like North Way, with its subscribe and drive product, are already testing new methods to fulfil the change in customer behaviour and we expect more dealers to look for new ways to meet customer needs.

69%

of dealers surveyed believe PCH will see growth in the next 12 months in the Used Car sector.

“Given the increased focus on leasing by many OEMs and retailers, and the appeal of leasing rather than owning cars in uncertain times, I predict the PCH market will continue to grow in 2019.”

Paul Harrison Head of Strategic Partnerships, Leasing.com

LOOKING AHEAD

The sale of consumer vehicle finance is going to be one of many dealer challenges in the coming years. At present, the dealer is the main provider of finance. In the recent *Car Finance UK* Mintel report 82% of prospective buyers suggested that they would source their next vehicle finance from dealers.

However, with the change in the sales channel from 'traditional' to 'omni', the question is whether this will affect the way vehicle finance is procured.

Already specialist car brokers such as Confused.com and CarFinance247 are becoming more active in this market and spending sizable sums of money on advertising in order to attract potential purchasers of vehicle finance. Could consumer vehicle financing be sold at a much earlier stage in the sales process via different channels such as MotoNovo's FindAndFundMyCar.com? At present the jury is out.

Traditional concepts of ownership and finance are changing, and this may take time, but it does provide opportunities for dealers and OEMs to realign their sales strategies. The future will no longer be about offering the right car with great aftersales and service provision. More creative financing options and other mobility services will play a much more important role in motoring.

It is not clear exactly how the vehicle financing market will develop in the next few years, but one thing is obvious; dealers need to be aware of potential change on the horizon.

MOBILITY

Mobility as a Service (MaaS) is a hot topic in the media with significant growth projected for the UK in the coming years. MaaS is a term that is increasingly heard in conversations with leasing companies, OEMs and rental businesses. The UK Government define it as the following: “MaaS is a term used to describe digital transport service platforms that enable users to access, pay for, and get real-time information on, a range of public and private transport options. These platforms may also be linked to the provision of new transport services.”

Despite the significant investments being made by governments, OEMs and lease companies, true MaaS is not something we will see in the immediate future. We believe MaaS is a two-stage process – beginning with Car as a Service (CaaS) followed by the evolution of true MaaS.

“[MaaS] is a really broad mobility experience that doesn’t just look at the car. It’s looking at the other ways, the other things we need to be thinking about at the moment, with regards to transport.”

Matt Dale Consultancy services manager, ALD
(source: Fleet World)

Major investments

The size of the market is expected to be significant, driven by the growing appetite for on-demand transportation services, government support for MaaS and rapid technology integration. The value estimated for the global MaaS market is expected to be \$1.75 trillion by 2028, growing at a rate of 49.55% during 2018-2028, according to BIS Research.

To put that into context, the MaaS sector is expected to account for around quarter of all journeys and to account for more than 40% of urban mobility requirements by 2028.

While the UK government is planning to invest £80m into MaaS, perhaps more significant is the OEMs’ investment. Volkswagen Group announced it will invest almost €44 billion in e-mobility, autonomous driving, new mobility services and digitisation in its vehicles and at its plants.

BMW and Daimler AG announced their intention to spend over \$1 billion on a joint mobility venture which includes ride-hailing, car-sharing, and electric car charging. In addition the recent announcement of a proposed merger between FCA and Renault, supporting electrification, highlights the importance of manufacturers combining capabilities in order to compete in an era which is demanding transformative levels of investment, at a time of reducing global new car sales.



OWNERSHIP
Mobility

Two stage MaaS

While long-term predictions for the emergence of MaaS over a ten-year period look promising, our view is that rather than seeing a ‘tipping point’, we will see two stages of MaaS within the automotive market, and that currently we are in the early stage of disruption.

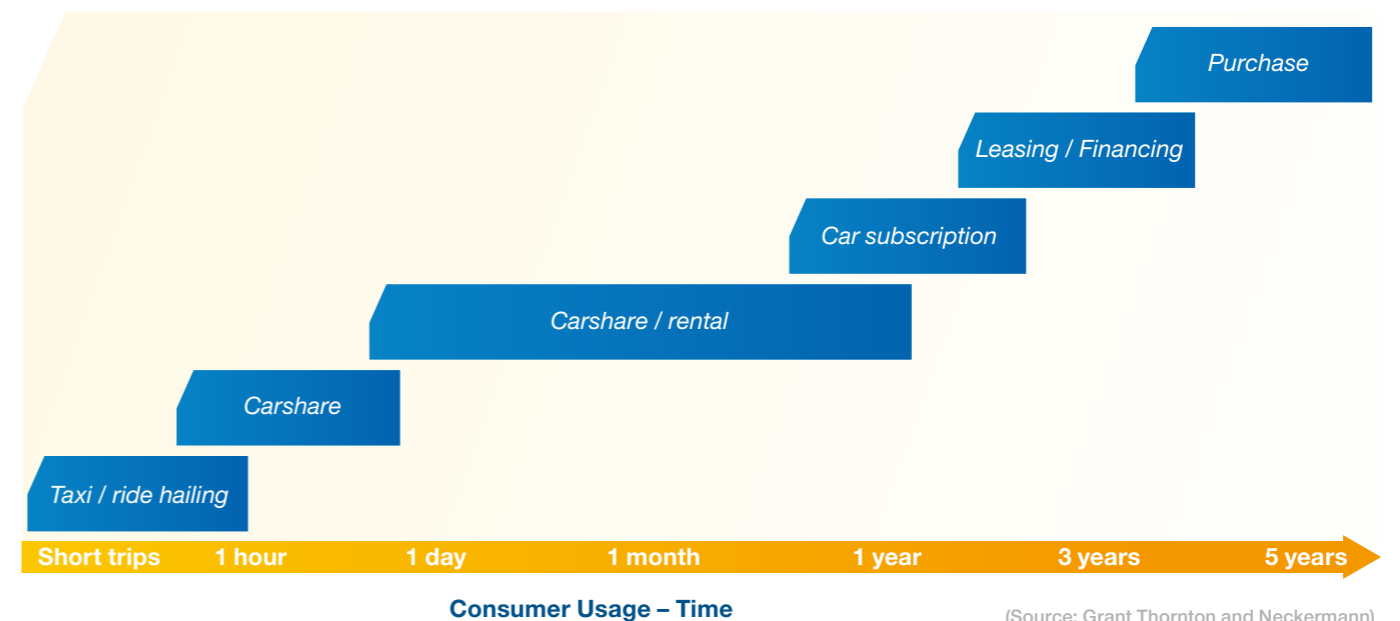
Although MaaS is the ultimate goal, in its current form, the market is in its infancy. We believe the first stage of MaaS is Car as a Service (CaaS). In simple terms, this describes a more sophisticated, technology enabled use of different cars to fulfil the needs of the motorist.

The chart below shows how consumers purchase their mobility needs over time, and how different modes of car transport fulfil the consumers usage requirement.

Historically, there has been a clear delineation between the companies operating in each of these industry segments. However, we are now seeing a change in the dynamics of the market, with rental companies acquiring businesses in the ride hailing and car sharing niches. Examples include Avis’ acquisition of Zipcar and Europcar’s majority stake in start-up, Ubeevo. However, the rental companies are not the sole players in this area of the market, a number of large car OEMs have also been investing.

THE CAR AS A SERVICE CONTINUUM

Journey from taxi to purchase



(Source: Grant Thornton and Neckermann)





© Cox Automotive Inc.

The leasing companies are also starting to enter the CaaS market with Leaseplan launching a new Subscribe and Drive service. However, this approach is relatively new in the leasing and fleet management market, which is still developing various competitive mobility strategies.

Nevertheless, we believe that CaaS is only one step to MaaS and there is increasing pressure on all companies in the CaaS sector to become MaaS providers. As an example of this trend, rental business Sixt has recently launched a MaaS app. This mobility solution gives employees a travel budget to use in any way they choose as an alternative to providing a company car.

While OEMs are embracing new technologies and acquiring CaaS businesses, fleet management as we know it is also changing as a result of MaaS. It will eventually look beyond the fleet of vehicles to provide a more holistic view of transport.

In a recent Fleet World article, Vicky Outram, product manager at Arval, said: "We'd stress that right now, for the vast majority of employers, adoption of mobility solutions is still relatively low. The company car has retained its

popularity over decades because of its relatively low cost, enormous journey flexibility and popularity with employees. However, demand for more flexible options is growing and so it's essential that companies like ourselves can provide a range of options to customers."

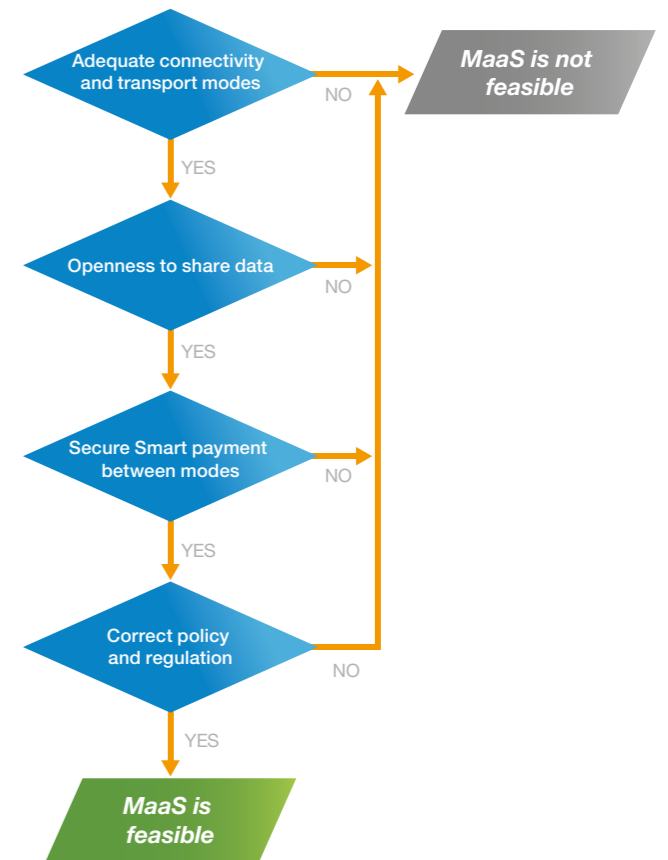
Echoing this sentiment, findings from a recent corporate mobility survey suggested that businesses will eventually move to shared modes of mobility such as carpooling or corporate car sharing.

Investment alone into developing standalone products and services within the sector isn't enough. Partnerships are being formed between competitors and also between automotive and non-automotive businesses beyond technology, in areas such as energy and communications.

A good example of this is ALD Automotive, which in addition to joining the public-private partnership, MaaS Alliance, has established a strategic partnership with energy firm E.ON. This will enable the development of a full-service e-mobility offering in the UK and Europe, supporting the move to electric vehicles with mobility, energy and finance.

MaaS FEASIBILITY

Starting from a low base the MaaS market is expected to be very large and grow strongly. This may not be as smooth as expected as there are a number of requirements for MaaS feasibility.



(Source: Grant Thornton)

“To remain competitive as mobility alternatives become more popular, dealers and OEMs can diversify their operations to create new profit centres with alternative transportation services. Acquiring new capabilities through partnerships to help successfully manage the integration of these models into the business will be critical to reducing the technological and logistical hurdles that cut into profits.”

Joe George President, Mobility Solutions, Cox Automotive Inc.



The case for MaaS

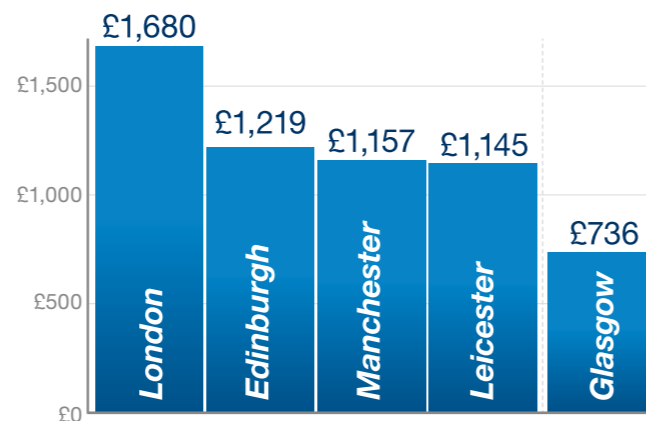
Indications from Cox Automotive in the USA suggest the emergence of some interesting trends. Vehicle ownership still offers a number of benefits over alternative models (namely service, convenience, safety, freedom and cost), but there is a slow change in peoples' perceptions. While 35% of respondents back in 2015 agreed with the statement that: "Having transportation is necessary, but owning a vehicle is not." This figure rose to 39% by 2018.

In a similar vein, when asked the same question in 2018, the response from various age groups was remarkable

in its variation. While just 28% of 'baby boomers' (born between 1944 and 1964) agreed with the statement, agreement levels rose to 55% with Gen Z respondents (born from 1995 onwards).

"The vehicle rental and leasing industry continues to see opportunities everywhere... members are increasingly willing to explore new business models, technology platforms and partnerships."

Gerry Keaney Chief Executive, BVRLA



London drivers lost up to £1,680 per year due to congestion while Glasgow had the lowest cost of congestion among the cities studied.

(source: Inrix)

The UK impact

It is often easy to dismiss potential 'game-changers' as merely fads that will disappear once the media hype has dissipated. However, once governments, OEMs, financiers and service providers start investing, it's hard to deny the potential for an emerging trend. And this is certainly the case where MaaS is concerned.

Clearly, the Government's commitment to new technologies such as autonomous vehicles and MaaS, as a way of easing road congestion and reducing pollution which is having a negative impact on human health and the decrease in economic viability of the UK's Cities and towns. The DfT reports that the UK market for connected and automated vehicles is estimated to be worth £52bn by 2035. To this end, the Government is on track to meet its commitment to have fully self-driving vehicles on UK roads by 2021.

Looking at moves from all the major players within the MaaS space, it's clear that real progress is taking place. Within the next decade, we will see a convergence of technologies, transport operators, OEMs and finance providers that will create a far more seamless approach to getting from A to B.



On average, road users lost **178 hours** in congestion last year, costing **£1,317** per driver

(source: Inrix)

LOOKING AHEAD

There is a clear indication that change is taking place and MaaS is a true disrupting influence on the market. Inevitably, consumers, regulation and technology will all play a part in pushing this change forward at pace. However, is the automotive industry in the UK ready for MaaS?

For leasing companies, dealers and OEMs alike, this fundamental change is already heralding an era of joint ventures and partnerships designed to meet the emerging needs of tomorrow's commuters and

travellers. While true MaaS integration is some years away, leasing companies and dealers with an eye to the future are already establishing relationships with like-minded allies who bring new skills sets into their world.

For the foreseeable future, the focus for the UK automotive sector is likely to be on more immediate concerns such as online retailing and the impact of alternative fuels. However, Mobility as a Service and Car as a Service are two topics that the industry will need to embrace.

The outlook



THE OUTLOOK



Insider Insight / Grant Thornton

Numerous changes are taking place in the automotive industry, and this document explores some of these changes, including dealer consolidation, the shift from ownership to usership, weaker demand for new vehicles, and the continued strength of the used car market. However, we believe that further changes will take place in the remainder of 2019 and continue into 2020.

Automotive manufacturers have made significant investments into new developments such as electric vehicles, autonomous vehicles and mobility as a service (MaaS). Sizeable Research and Development investment, coupled with weak demand in the market for new vehicles, has put the profitability of the automotive manufacturers under pressure. Against a backdrop of declining profits, many of these companies have reviewed their cost base, looking for ways to reduce costs and inefficiencies from supply chains and distribution networks.

Consolidation has characterised the franchise dealer sector for a number of years, and the number of franchise outlets has declined. However, we are now starting to see some brands either considering or starting to rationalise their retail networks. We believe that consolidation rationalisation will continue, the larger dealer groups become bigger and there are likely to be fewer franchise outlets, although this will depend on the brand. If these trends continue to gain momentum, each dealer outlet should achieve higher sales and a higher return on both sales and their net assets.

Consumers' behaviour when purchasing vehicles continues to change, some consumers will be prepared to purchase vehicles online, but we believe that there will still be a number of consumers who wish to purchase through an omni sales channel. These customers need the option to purchase on and offline. A change in the

way that consumers purchase vehicles will mean that the sales process will have to evolve to meet the consumers' demands. Additionally, there will also be changes to the way in which consumers prefer to finance their vehicles. The introduction of PCP was a boost for the passenger car market, and consumers have become comfortable in purchasing vehicles through a monthly payment rather than through the payment of a single lump sum. The personal vehicle market is also evolving with increased growth in PCH as consumers once again become used to other payment processes. Further disruption is expected in the consumer vehicle financing market with the entrance of new disruptor companies.

Ownership remains a large part of mobility, but trends are slowly changing to usership, as illustrated by the incredible growth of Uber. However, we believe there is a two-stage process: firstly Car as a Service (CaaS), and then Mobility as a Service (MaaS). At present, a broad range of companies are developing in the CaaS market; this includes new entrants such as Uber, and companies in the leasing, rental, subscribe-and-drive, and car-hailing markets, dealers and also the auto manufacturers. A large number of acquisitions and partnerships have taken place in the CaaS market as companies develop their go-to-mobility market strategy. In order to move into the MaaS market, many of these companies are also forming alliances with other mobility service providers, both in the public and private sector.

We believe that the second half of 2019 moving into 2020 will be exciting and we expect further change as the automotive market evolves. We hope that you find this Insight Report useful when reviewing your strategy.

**Owen Edwards - Associate Director,
Business Consulting, Grant Thornton UK LLP**



Insider Insight / Cox Automotive

Our second annual Insight Report explores the changes in automotive that are being driven by external pressures, changing consumer expectations, and innovation in the development of new, cleaner vehicles.

In the medium term, our 2019 forecasts predict a modest year-on-year decline in both the new and used car market.

The good news is that we operate in a highly resilient industry, and both manufacturers and dealers have already developed strategies to counter this trend.

While manufacturers review their sales channels to maximise strengths, many dealers will opt to diversify by shifting their focus from new to used cars, putting additional effort into aftersales and servicing, or looking at multi-franchise options.

Meanwhile, the fall in new diesel registrations as a result of 'dieselgate' is now being felt in the used market. The rise in popularity of AFVs over recent years doesn't come close to plugging the gap, and our advice for dealers in the short term is not to be phased by the headlines. When it comes to newer diesel vehicles, we could see demand outstrip supply in the coming months.

In contrast to cars, our commercial vehicle forecast predicts strong results for both new and used transactions. The only risk here is for policymakers keen to promote cleaner vehicles, who don't always recognise the difference between first and second owner usage.

The electric van is not an attractive enough proposition for first-time buyers, and with Euro 6 vans in short supply in the wholesale market, it's unlikely we'll see a fall in Euro 5 values over the year ahead.

Longer-term, changing consumer behaviours have accelerated the need for both manufacturers and dealers to invest in e-commerce. In my view, success in this area will be achieved by using digital tools to improve the customer journey, rather than attempting to duplicate the physical dealership experience online.

The move to online presents both opportunities and threats, and retailers would do well to consider how they can effectively compete with online-only businesses, including specialist finance providers.

In this report, we also explore evolving attitudes to ownership. PCP is already beginning to give way to the growth of PCH, and from here, we foresee a gradual move towards a Cars as a Service model, in which technology enables drivers to use a range of cars to fulfil their needs. In our view, this is a stepping stone towards the much-discussed concept of Mobility as a Service.

What's absolutely clear is that we are operating in a dynamic market. Automotive businesses can't risk standing still, and in our experience, they're not!

Our customers are keen to take advantage of the opportunities presented by changing market forces, and this detailed report is part of our commitment to supporting them as they navigate the changing automotive landscape.

**Philip Nothard - Customer Insight & Strategy
Director - Cars, Cox Automotive UK**

REFERENCES

Where is the Market Heading?

Sources:

Cox Automotive UK
Department for Transport
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ICDP
Manheim UK
ONS
SMMT
UK Government

Forecast Methodology

To build our forecasts of the Used and New Car and LCV markets, we use data published by the Society of Motor Manufacturers and Traders (SMMT), of which Cox Automotive UK is a member.

For the Used markets, we forecast transactions (i.e. changes of ownership for vehicles already registered at least once, and not for the purposes of scrappage), which SMMT derives from anonymised ownership data maintained by the Driver and Vehicle Licensing Agency (DVLA).

For the New markets we use SMMT's view of new vehicle registration data, also maintained by DVLA. All data are publicly available on the SMMT website and released on a monthly or quarterly basis.

We use these published data, from January 2014 through to March 2019 (for Used) or April 2019 (for New) to generate forecast models for the remaining months of 2018. Our statistical approach uses the auto.arima procedure in R.

After fitting the forecast models, we use their predictions to construct the three scenarios explained in the chapter.

Ownership

Sources:

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Frost & Sullivan
Government Office of Science
Grant Thornton
Leasing.com

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ABOUT COX AUTOMOTIVE

Cox Automotive is the world's largest automotive service organisation. Its mission is to transform the way the world buys, sells, owns and uses vehicles. Cox Automotive UK includes Manheim, Dealer Auction (our joint venture with Auto Trader), Movex, RMS, NextGear Capital, and Modix.

The brands touch every stage of the vehicle lifecycle and combine to simplify work flows, remove friction, open up marketplaces and enable the smart, connected experience. Its strength is its ability to create efficiencies that enable customers to maximise the return they can make on the vehicles they trade.

The group employs more than 2,500 team members in the UK and works with thousands of businesses throughout the automotive industry.

For more information, visit coxauto.co.uk

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ABOUT GRANT THORNTON

Grant Thornton UK LLP is part of one of the world's leading organisations of independent advisory, tax and audit firms. We help dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice and we know the automotive industry inside out. Our advice is drawn from people who have worked in the industry themselves so we're able to offer advice that we know works, to help you make the best choices to grow your business in uncertain times. We are also one of the few firms that can advise you across the whole automotive supply chain.

As a Grant Thornton member firm, we are part of a network of over 50,000 people in over 130 countries. Our network of industry associates and experts places us in a unique position to deliver a fully integrated service, providing clients with the comfort of a dedicated and bespoke service from a single source provider. Combining local knowledge with our international strength means that we can support you with operations anywhere in the world.

We work with banks, regulators and government to rebuild trust through corporate renewal reviews, advice on corporate governance, and remediation in financial services. We work with dynamic organisations to help them grow. And we work with the public sector to build a business environment that supports growth, including national and local public services.

All this means you will get a solution that works in the real world, not just the boardroom.

To find out more about Grant Thornton, and how our dedicated automotive team can help your business grow, visit our website - grantthornton.co.uk/en/industries/automotive/

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