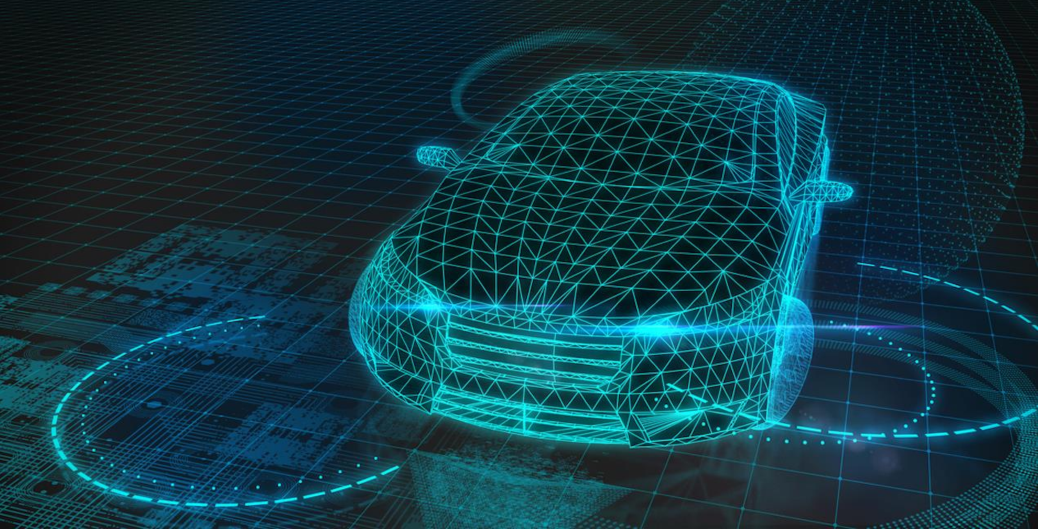


Automotive Retail Business 2030

The Opportunities and Threats for Dealers

2019

Zeus Capital

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Contents

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What are the themes causing disruption?

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The sector will be drastically changed by Connectivity, Autonomy, Shared Mobility and Electrification ("CASE")

Connectivity

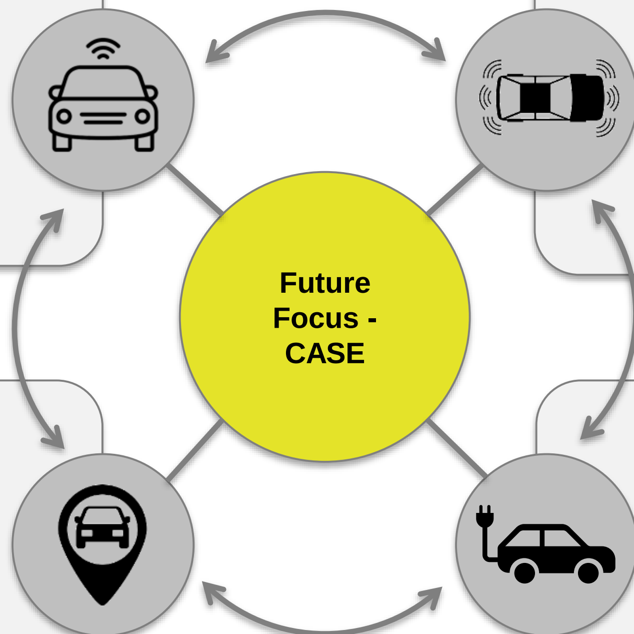
- Connectivity is fundamental to CASE
- Data is already being harvested

- Barriers
  - Data privacy issues – 68% would share their personal information with commercial third parties if they get significant benefits from it
  - Interoperability
  - Monetisation difficulties

Autonomy

- Autonomous vehicles will become a reality, but not as soon as people expect

- Barriers:
  - Regulatory framework
  - Price
  - Technology
  - Public perception



Shared mobility

- Accessing cars on the basis of usage instead of sole ownership
- **$66bn** of revenue was generated from ride hailing services like Lyft and Uber in 2018, but they are struggling to reach profitability
  - Uber lost **$1.8bn** in 2018
  - Lyft lost **$0.9bn** in 2018
- Growth will be at the expense of public transport and may increase the volume of new cars over time

Electrification

- EVs will make up 50% of vehicle sales by 2035 – but this will be split between HEVs, PHEVs and pure EVs
- EVs (Incl. PHEVs and HEVs) won't make up 50% of the vehicle parc until 2040
- Barriers:
  - Charging infrastructure
  - Price
  - Public perception
  - Cobalt supply for batteries

Source: Statista, Company reports, ICDP, APC, Zeus Capital analysis

OEMs have pivoted towards technology focused strategies

Manufacturers, which were once considered ‘Metal Bashers’, are transforming into automotive technology specialists

OEMs have made major commitments to their CASE focused strategies

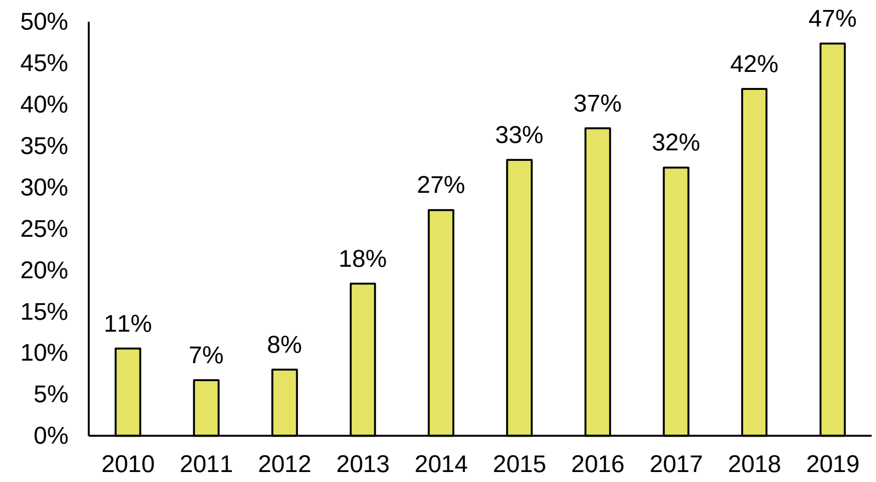
By 2022 VW will have invested **€72bn** (~$81bn) into CASE nearly 2x Tesla’s market capitalisation of $46bn

General Motors

GM Cruise has received investment from Softbank & Honda ($5bn combined)
Valued at **$14.6bn** in October 2018 and is one of Waymo’s biggest competitors

JAGUAR LAND ROVER Reportedly exploring a takeover offer for ADDISON LEE

CASE acquisitions as a % of total acquisitions, by a selected basket* of OEMs, has increased significantly since 2010



OEMs have been de-risking through their venture arms

VC arm	Details	Total disclosed transaction size ($m)**	Current portfolio size
BMW i Ventures	Launched in 2011, $530 fund. Invests in sustainable vehicles and mobility services sectors	1,679	32
GM VENTURES	Launched in 2010, undisclosed fund size. Aim to invest in growth-stage companies to enhance GM's ability to innovate and ensure access to the best technology	802	20
TOYOTA AI VENTURES	Launched in 2017, $100m fund. Invests in start-ups specializing in artificial intelligence, self-driving vehicles, robotics, data analytics, and cloud computing	406	18
HYUNDAI CRADLE	Launched in 2018, undisclosed fund size. Invest in *“pioneers of robotic technologies to create mobility solutions for not just the few but for all”*	67	11

Other automakers with VC arms & strategies: VOLVO, PORSCHE, NISSAN, RENAULT, MITSUBISHI, PEUGEOT, SCANIA, Ford, HONDA

*VW, Ford, GM Daimler, BMW, Peugeot, Toyota, Honda, Renault, Fiat-Chrysler, Hyundai, Volvo, Nissan, Tesla
**Total value of transaction, includes other investors contributions
Source: Mergermarket, S&P Capital IQ, Zeus Capital analysis

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Our research clearly outlines a rise in PE/VC activity into CASE companies

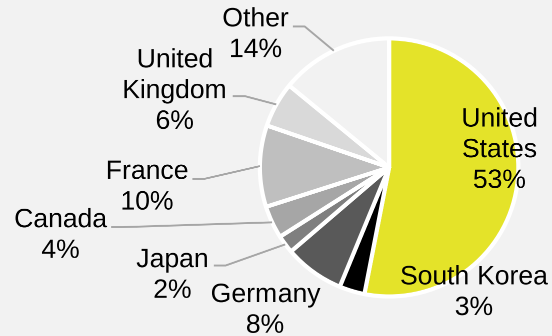
The PE/VC investment is significant, but considering both the internal & external CASE investments OEMs have made, we believe OEMs are winning the race to successfully implement and monetise CASE

PE/VC investment into CASE has increased significantly over the last ten years

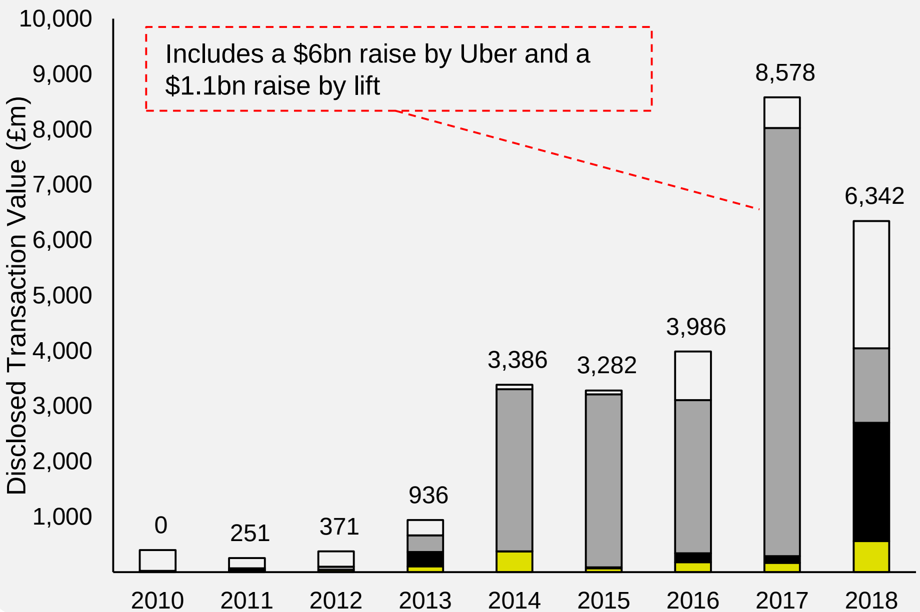
- Shared mobility dominates the disclosed transaction value figures with headline transactions from Uber and Lyft which have raised $11.3bn and $4.9bn respectively – but effective utilisation is yet to be achieved

The majority of CASE transactions are in the US

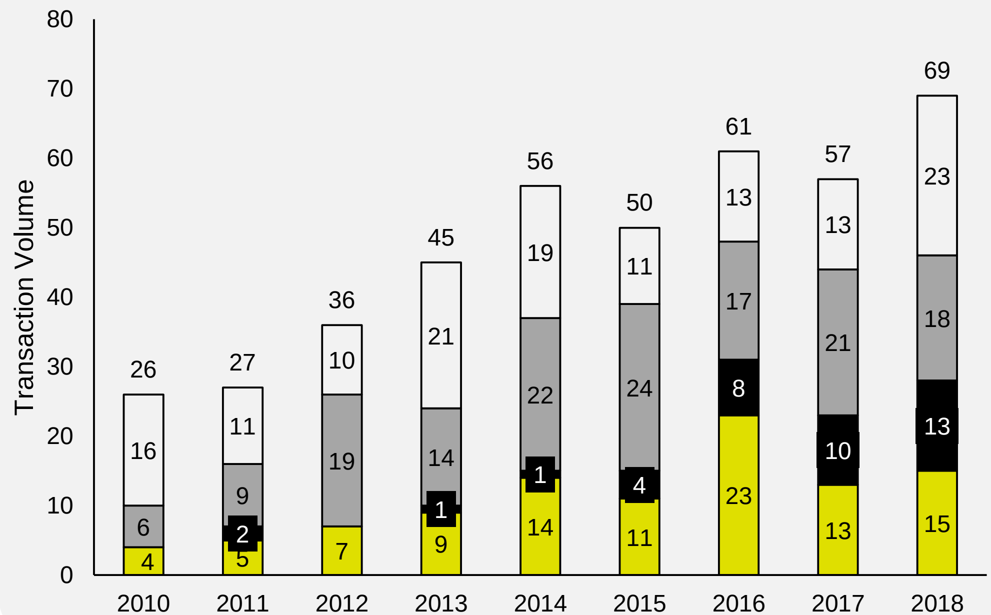
Europe 34%
North America 57%
APAC 8%



Disclosed PE/VC transaction value has increased significantly since 2013 fuelled by a larger volume and average value of transactions



PE/VC transaction volumes across each CASE theme have steadily increased



Connectivity Autonomy Shared Mobility Electrification

Source: Mergermarket, S&P Capital IQ, Zeus Capital analysis

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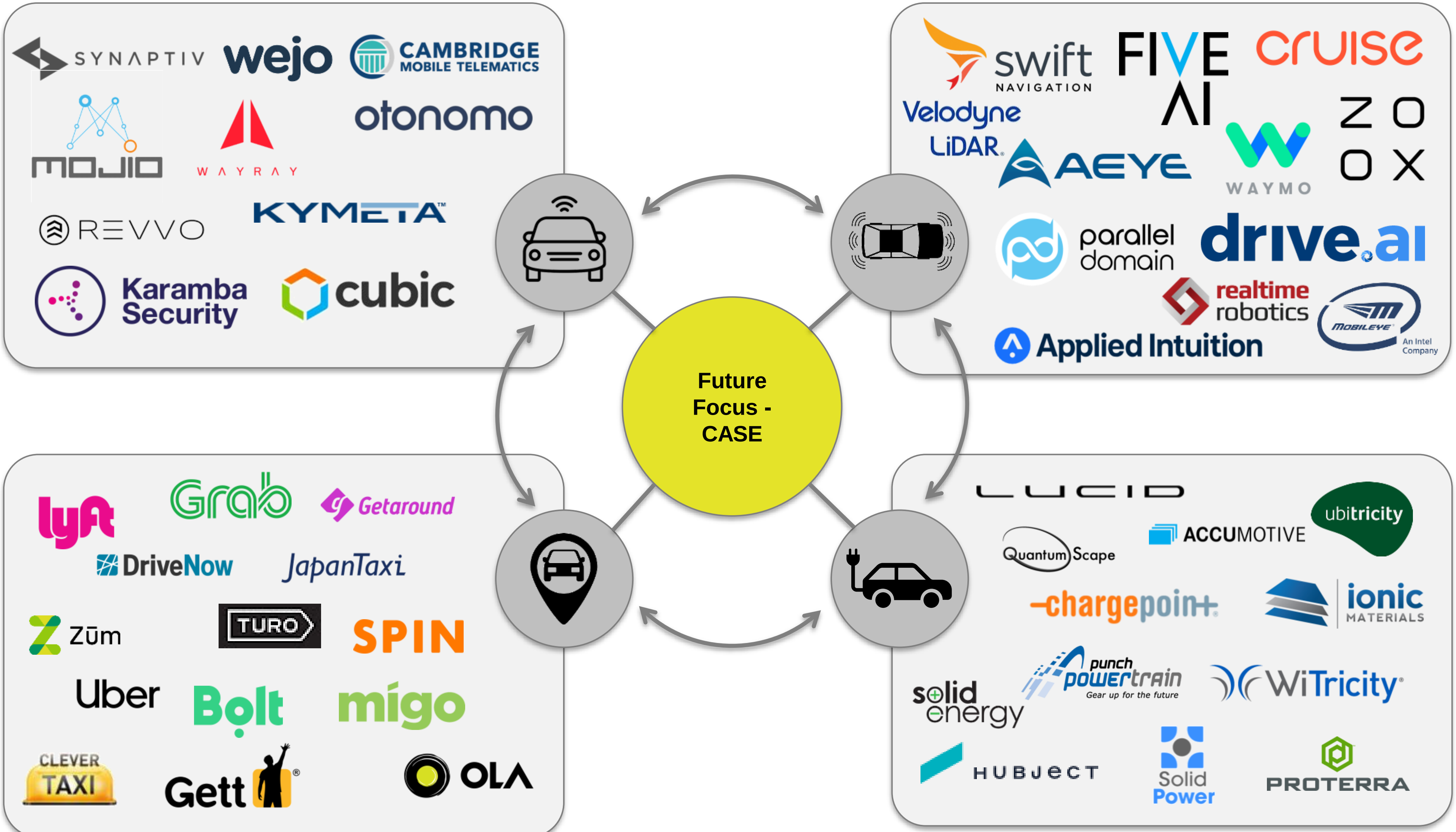
The number of CASE focused start-ups continues to grow – mainly in the US

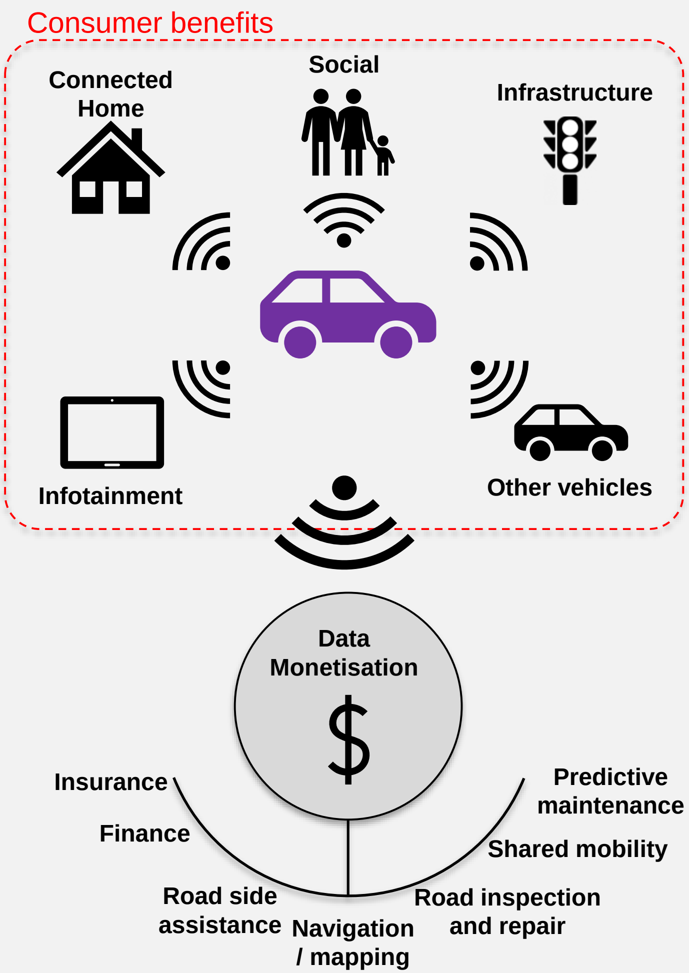


Source: Mergermarket, S&P Capital IQ, Zeus Capital analysis

Connectivity – The foundation of CASE

Connectivity – the foundation of CASE

Connect car ecosystem



99.9% **of new vehicles will have internet access by 2025, only 35% were connected in 2015**

Opportunities

Enhanced customer insights => better customer experience

Increased # of prepaid maintenance programs

Market openings for new entrants

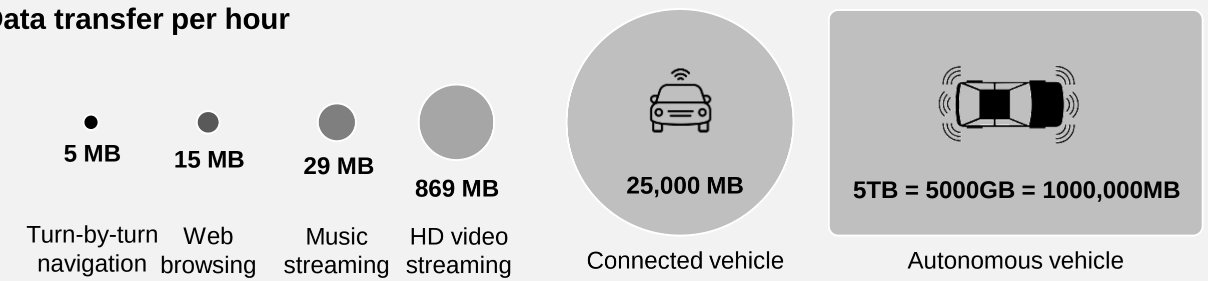
Barriers

Data privacy
68% of people would share their personal information with OEMs if they received significant benefits from it

Interoperability issues
A similar problem to connected home products

Monetisation
Data from connected cars has been around for a long time via traditional telematics systems, GM launched OnStar in 1996, the main issue still remains – how can OEMs build viable models to commercialise data?

Data transfer per hour



Sources: Statista, AT&T, Mckinsey, Verizon, Deloitte, Mergermarket, ICDP, S&P Capital IQ, Zeus Capital analysis

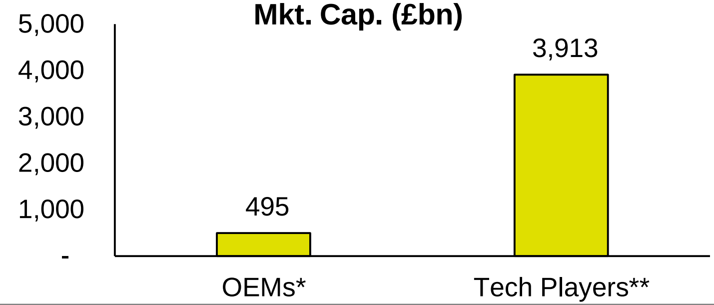
The connected car evolution is providing opportunities for new entrants and triggering partnerships between tech companies and OEMs

Outside of the car, the world is already connected through smartphones, home IoT devices and more. The likes of Amazon and Google dominate this space, but who benefits the most from the opportunity presented by connected cars is still to be determined

OEMs and technology specialists are joining forces to stay competitive

Volkswagen / Microsoft	Partnered to develop "Volkswagen Automotive cloud" on Microsoft Azure
Delphi / otonomo, Controltec, Movimento	Partnerships to develop Delphi Connect, a connected car service from which Delphi will harvest data
Hyundai / Baidu	Co-developing a connected car service that provides a wide range of in-car content
Toyota / SoftBank, Monet	Toyota and Softbank have created the JV, Monet Technologies, which will provide data analysis, on-demand mobility and MaaS services

OEMs vs Tech Players with CASE interests Mkt. Cap. (£bn)



Sponsor backed enablers - which aim to simplify data harvesting, analysis and ultimately the monetisation process

Company	Description	Investors
wejo	Provides a cloud-based data exchange platform and end-to-end service that enables safe and simple access to connected car and mobility data	Ruffena Capital, Endeavour Ventures, General Motors
otonomo	Operates a cloud marketplace that connects cars to services and application for collecting car data and delivering safe services	NTT Docomo Ventures, Inc., Hearst Ventures, Bessemer Venture Partners, Maniv Mobility, Aptiv
Synaptiv	Operates a data analytics platform. The company collects and processes vehicle data to support decision making and provides analytical insight to OEMs and third parties	InMotion

wejo is a UK based mobility 'enabler'

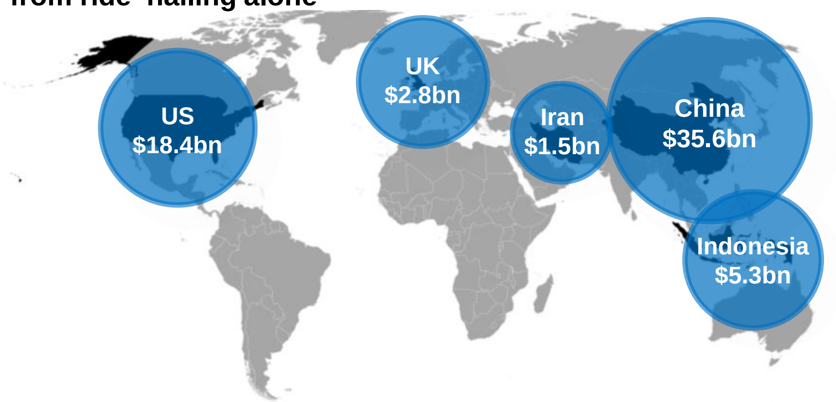
wejo is creating the world's leading vehicle and mobility marketplace, that enables safer, smarter, and more sustainable journeys for everyone

*Basket of ten OEMs (Toyota, Volkswagen, Daimler, GM, BMW, Honda, Tesla, Ford, Nissan, Hyundai)
**Basket of ten technology companies with CASE investments, partnerships or subsidiaries (Apple, Microsoft, Amazon, Alphabet, Tencent, Intel, Samsung, Salesforce, Softbank, Baidu)
Sources Mergermarket, S&P Capital IQ, Zeus Capital analysis, company websites

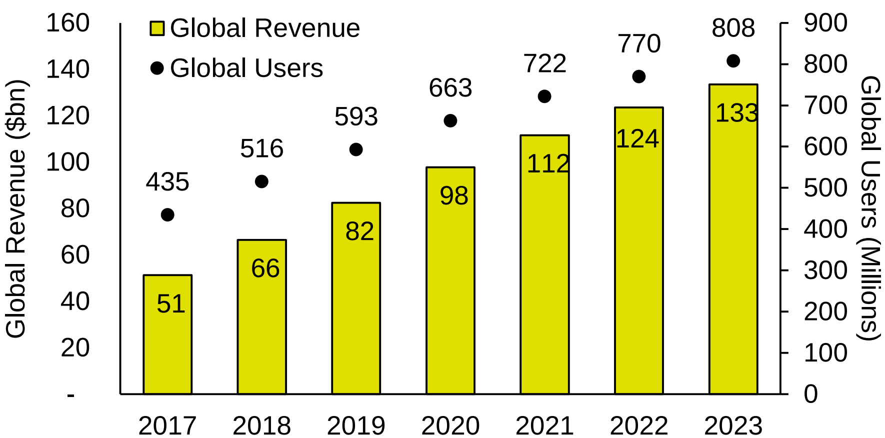
Shared Mobility, Electrification and Autonomy will have a varied impact over the next ten years

Shared Mobility, specifically ride hailing, has already grown into a $66bn market, but it is yet to turn a profit

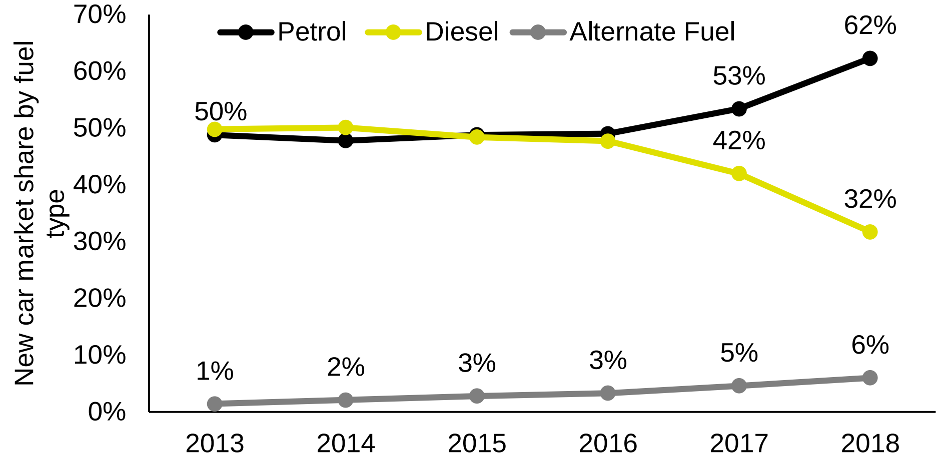
In 2019 five countries are forecast to reach over $1bn in revenue from ride hailing alone



Over half a billion people used a ride hailing service in 2018, with a revenue of $66bn



EV penetration is increasing, but pure EV penetration is only 0.8% YTD



Automation will come, but not as soon as people expect, Level 5 will be post 2030, currently we are at Level 3

0. No Automation	1. Driver Assistance	2. Partial Automation
Zero autonomy; the driver performs all driving tasks	Vehicle is controlled by driver, but some driving assist features may be included	Vehicle has combined automated functions. Driver must remain engaged

3. Conditional Automation	4. High Automation	5. Full Automation
Driver is a necessity, but is not required to monitor the environment. Must be ready to take control at all times	Vehicle is capable of performing all driving functions under certain conditions. Optional manual control.	Vehicle is capable of performing all driving functions under all conditions. Optional manual control

Sources: Statista, SAE, Zeus Capital analysis

Smart parking technology is an emerging theme with huge potential

Under utilised car park spaces provide significant sector wide growth potential

6 million Vehicles parked away from home at any one time

$20.7bn Global smart parking market value by 2028

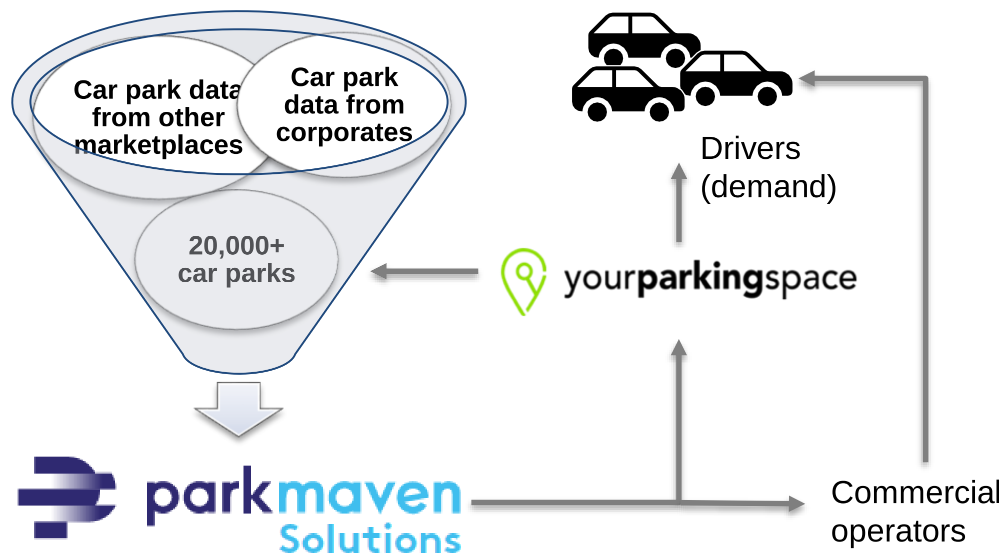
People in the UK use their cars for over 25 billion trips a year. More than 57% of these trips require a parking space away from home – some 39 million every day.

Other parking companies

Smart parking case study – YourParkingSpace ("YPS") is a UK based company founded in 2013

No PE/VC Investment to date

- Operates in two divisions:
  - **YPS** provides a marketplace for the consumers to find spaces, featuring 45,000+ locations, available to book hourly, daily or monthly
  - **ParkMaven** supplies an end-to-end solution for corporates and a back-end solution for marketplaces



Sources: RAC, DVLA, Prudour Research, Park IT Solutions, Company websites, Zeus Capital analysis

How should dealers adapt – Looking forward to 2030

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Volkswagen's 2020 dealership vision

Driven by the progressive digitalisation and connectivity of the VW fleet

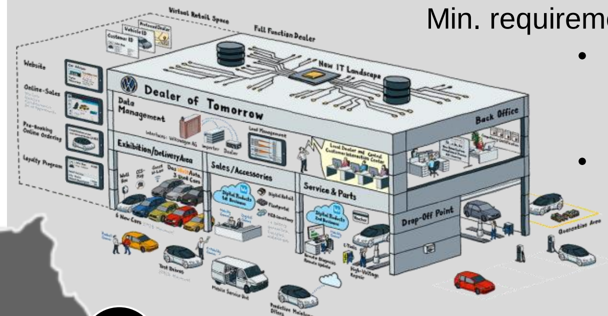
Volkswagen is one of the first OEMs to make their dealership restructuring plans public

- Although direct sales will be possible, they will be focused on the fields of software and on-line services
- Restructuring like this will drive further sector consolidation
- The dealership is still essential to VW's model and the new formats provide flexibility for dealerships to optimise their coverage

City showrooms

- City showrooms bring VW closer to the customer
- Provides warm introduction to main dealership
- Can be used as education / experience centres for VW's new features and vehicles
- Placed in high footfall areas to enhance brand awareness

Scaled full function dealership



- One full function dealership required and a reduction in other Min. requirements
  - Hosts back office support services for satellite site formats*
  - Largest selection of vehicles which can be rotated between satellite site formats as required*

Pop-up stores

- Provides greater exposure to a wide range of potential customers
- Dealers can choose the target audience
- Improves brand awareness

Servicing factory

- Merging servicing facilities will provide a more efficient service to enhance earnings and increase customer satisfaction

Used car centres

- Dedicated used car sales centres will provide a more traditional dealership experience

Sources: Volkswagen, Zeus Capital analysis
*Not sourced from Volkswagen

EV penetration growth will adversely effect aftersales, connectivity will provide opportunities

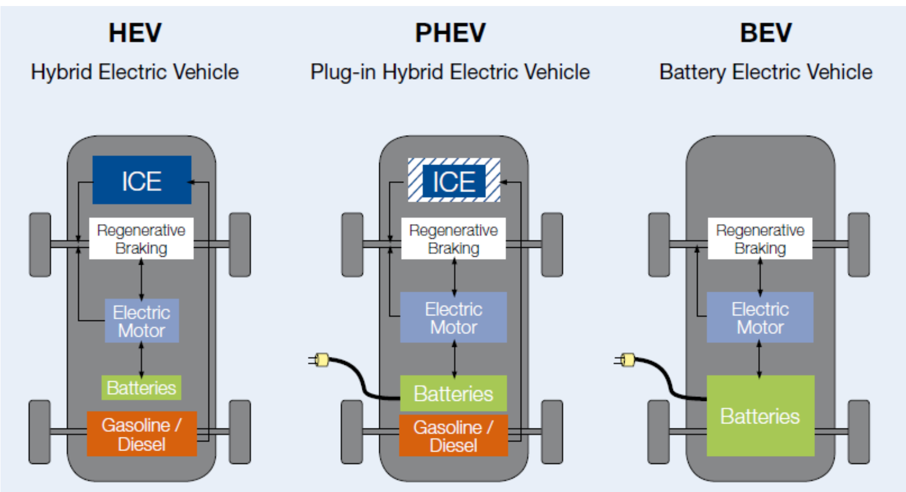
ICEs typically contain 2000+ moving parts, an EV contains around 20

Norway highlights the risks which EVs present to aftersales

- Norway has the highest **EV sales penetration** for any country in the world, 20.8% in 2017, up to **55% in March 2018**
- Norwegian Automotive Association forecasts a **46% decrease in aftersales** per pure EV and market dynamics remain unchanged

If 100% of vehicles became EVs overnight then the effect on aftersales would be huge, but this isn't the case

- EVs will make up 50% of vehicle sales by 2035 – but this will be split between **HEVs, PHEVs** and pure EVs
- EVs (Incl. PHEVs and HEVs) won't make up 50% of the vehicle parc until 2040



We expect consolidation throughout the automotive value chain, but there is value to be added from CASE

- ✓ EVs require more specialist staff – a massive threat to independents, but an opportunity for larger dealers
- ✓ **PHEVs and HEVs contain both ICEs and EV propulsion systems and may create an uplift in aftersales revenue**
- ✓ Data will be available to tailor customer experience
- ✓ Prepaid Maintenance Programs (PPM) are likely to increase which will provide a stream of recurring revenue
- ✓ PPMs are currently increasing service revenue by 15% and customer retention by 60%
- ✓ A study found that buyers with a PPM visited their service department more frequently than those without, every 2.87 months instead of every 5.95 months
- × OEMs may begin to use connectivity to expand into aftersales activities

Sources: Performance Loyalty Group, LoyaltyTrac, Credit.com, WWF, APC, Zeus Capital analysis

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Generally customers dislike the car buying process

72% of people would visit dealerships more often if the buying process was improved – this indicates that change may benefit dealer groups

To be successful disruptors are likely to add value to the existing ecosystem and most would not survive without it

carwow — investors: Samos Investments, Vitruvian Partners, Accel, Episode 1, Balderton.

- Aims to reduce pain points for the customer
- Partners with OEMs and dealerships – **19 of the UK's Top 20** dealer groups use carwow
- Utilises modern marketing techniques – carwow's YouTube channel receives **40 million+** monthly views (#1 YouTube car channel globally)

Auto Service Finance — investors: Draper Esprit, **Additional undisclosed investors**

- Partners with OEMs and dealerships to cover the cost of repairs through instalments with no interest, fees or hidden charges – the Klarna of automotive retail
- Various benefits to repair centres e.g. 90% of their customers would return to the same garage because they offered 0% finance

Trustpilot scores reflect customer satisfaction

Trusted carbuyers.com ★★★ | MOTORPOINT ★★★★ | Auto Service Finance, webuyanycar.com, carwow ★★★★★

An online presence is essential

86% of car buyers research online before visiting a dealership	**90%** of car buyers prefer a dealership where they can start the buying process online	**59%** of car buyers time is spent researching online researching

Sources: Mergermarket, Fame, Company websites, Trustpilot, Adtaxi, CDK Global, Auto Trader, Zeus Capital analysis

Cumulatively each change will work together to enhance and support the omnichannel model

Omnichannel is crucial, but so is brand awareness

On average, at the point of making their first physical site visit, the number of brands being considered has dropped to just under two, and around half are only considering one brand

Online (OEM or Dealership)

- The majority of car buyers start their journey online - 86% of car buyers research online before visiting a dealership
- Car buyers spend 59% of their time online researching
- 84% use their mobile in the car buying process

× Customer information has to be re-keyed 10-20 times from first enquiry to final handover in a typical OEM/Dealer environment today

✓ New formats, like city showrooms, boost branding and direct consumers to dealerships online platforms or physical sites

Case Study: Volvo

✓ Volvo Car UK has developed Volvo Online, a system to provide a premium online experience in support of its retail network

✓ Consumers are required to first select one of its franchised dealers, and will then discover what offers and stock that retailer has

Dealership

Information from a customers online searches will be easily available to dealership staff and the data they collect will influence the customers online experience

The majority of sales are finalised in a dealership

Sources: Auto Trader, ICDP, WEVE, Zeus Capital analysis

Dealership numbers will undoubtedly decline, but the survivors will benefit

Large listed dealer groups are best placed to benefit from the changes ahead

OEMs and dealerships will change simultaneously

Every major OEM has public ally announced their commitment to their dealer network strategy

Dealership numbers will decrease through consolidation and some players may be eliminated

Mid-sized and smaller investors will be prime acquisition targets for large market investors

ICDP data shows that dealer visits per car buyer are increasing (See right)

Smaller rural sites will decline the most may disappear altogether

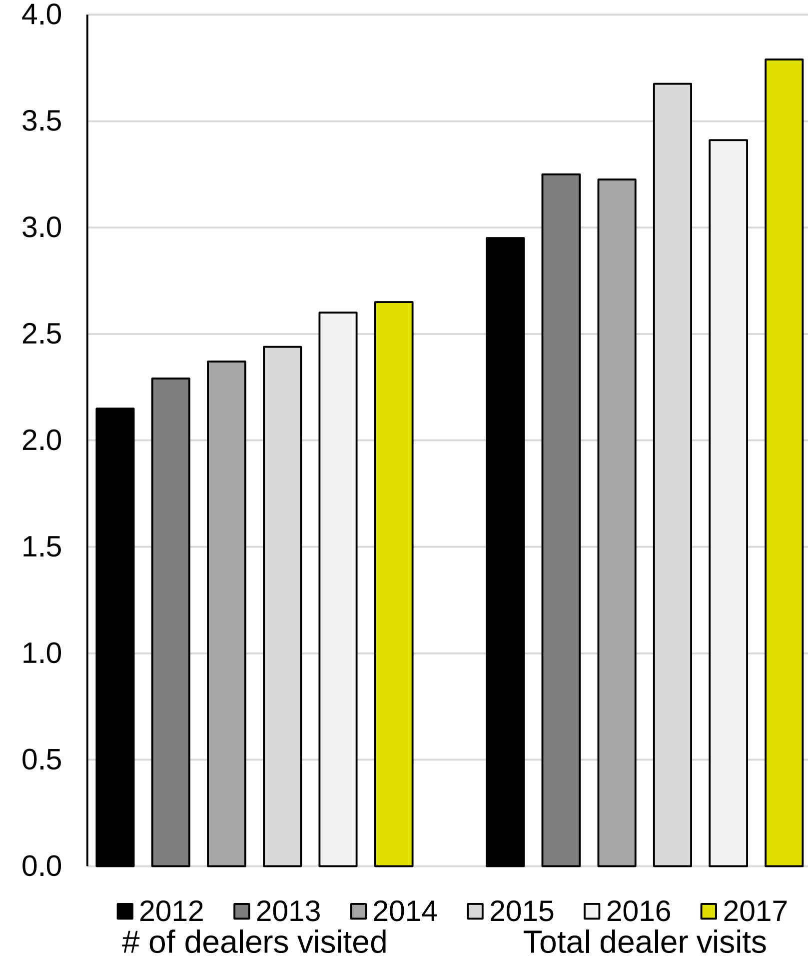
The dealerships business model is likely to change as much as their physical formats – the conventional margin and bonus system is not compatible with an omnichannel model

The dealers which survive will reap the benefits of increased throughput as a result of lower dealership numbers

These changes favour the **large listed dealer groups**, which have:

- M&A firepower
- Ability to react quickly to market demands and the capital to invest internally to meet these demands (e.g. omnichannel network)

Over the last six years the number of dealers visited, and the number of visits made to those dealers by the average new car buyer has risen steadily



Sources: ICDP, Zeus Capital analysis

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Dealerships will remain an essential part of the value chain for the foreseeable future

The bottom line is that dealerships are indispensable

67% of people consider a test drive to be a "very important" part of the buying process

14% of the annual household budget is spent on transport – the largest proportion of annual spend even trumping Housing

The most successful start-ups are likely to add value and work with dealerships

Websites are used for research, but the final stage of the customers journey is in the dealership, a trend which is likely to continue

OEMs continue to support and invest in their franchised dealerships

Sources: ONS, Auto Trader, Zeus Capital analysis

Key conclusions

1. New business models are already emerging and existing models are evolving

2. Change will inevitably happen in the industry, in the near term we see Connectivity, Shared Mobility and Electrification as having the biggest impact on retailers

3. The most successful disrupter models will understand the industry and create value for the consumer

4. OEMs will invest significantly across the board

5. Dealers will have to change and adapt, but will remain part of the customer buying journey

6. AutoTech will continue to be one of the most rapidly changing technology markets through to 2030

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