Cox Automotive™

INSIGHT REPORT 2018

October 2018

Grant Thornton
An instinct for growth™

Adapting, evolving and innovating

The automotive industry is experiencing a period of rapid change with the growth in electric cars, autonomous vehicles and a redefined approach to mobility fast becoming a reality. "Back to the Future's" waste-fuelled DeLorean is looking less like the wild imagination of a sci-fi writer and more a potential solution to the challenges facing today's automotive industry.

As with all great periods of disruption, there comes opportunities and challenges. New players in the manufacturing, technology and innovation spaces are putting pressure on the traditional automotive industry and the uncertainty around Brexit is affecting the industry at large.

Electric vehicles have been part of the automotive industry for a number of years. Although range anxiety and cost has meant that manufacturers and consumers have been slow to embrace this technological shift, the pace of evolution and uptake is accelerating. The emergence of companies such as Tesla are driving this change and traditional manufacturers are now prioritising investment in this market to ensure they do not get left behind. Additionally, Chinese manufacturers have recognised this market as an opportunity to increase their international exposure and the global distribution of their vehicles.

Autonomous vehicles represents one of the largest historical changes in the automotive industry. The development of vehicles that can self-drive with no human assistance is still a little way off, but technology such as Light Detection and Ranging (LIDAR) and Autopilot is a step in the right direction. While the opportunities are great, technology led companies including Google, Waymo and Uber are disrupting and reshaping the market and driving traditional manufacturers to invest heavily in a bid to stay ahead of the innovation curve.

The automotive industry is on the cusp of a fundamental change to the way in which goods and people move locally and globally. At present, vehicle ownership is key to this mobility; according to FLA, over 89.5% of new vehicles purchased in the UK are completed with Personal Contract Purchase finance[1].

However, there is increased evidence of a change in ownership patterns as people place greater importance on convenience, speed and flexibility. That is not to say that the future of vehicle ownership is futile but we expect it will become only one component in a more holistic approach to mobility.

The future of the automotive industry is exciting. Although challenges are inevitable where there is disruption, we remain confident that the industry as a whole is resilient and will adapt, evolve and continue to innovate.

I hope that you find the Cox Automotive and Grant Thornton Insight Report 2018 a helpful guide to inspire and inform your future strategy.

Neil Barrell, Partner - Head of Automotive, Grant Thornton UK LLP

1. FLA members POS only

The trick to managing change… is to embrace it.

How will the new and used car markets perform during the rest of this year? What will become the future fuel of choice? What are the barriers as we drive towards Mobility as a Service (MaaS)?

In this first annual Insight Report from Cox Automotive and Grant Thornton we go beyond the headlines to provide our view on the future of our market, and what it means for us all.

2018 has seen significant changes in our local and global environment, with unprecedented shifts in the social and political landscape with the ongoing impact of Dieselgate and the uncertainty caused by Brexit.

Business success today requires being truly agile: from use of data and insight to drive decision making, right through to a complete market transformation and embracing new and innovative ways of doing business.

The need to become customer-centric is crucial. The competitive landscape is already being altered to provide greater ways to connect business with people through the advent of connected, mobile, and data driven technology. Those at the forefront of this significant trend pave the way to be leaders. Embracing change is the key to maintaining relevancy and success in a world where the customer is firmly in the driving seat.

It's clear that the one driving factor for this shift is wider access to information. Consumers now have more freedom than ever to research, plan and negotiate purchases. The access to information online is richer than ever and undoubtedly affects decision making, and as such, buyers are able to make their own informed decisions.

Meanwhile, fuel continues to be a huge dilemma, not just for consumers who face ever increasing taxes and mixed messaging. Dealers too must think ahead when investing in forecourt stock. The introduction of electric and hybrid models, especially over the past five years, has changed the way buyers think about different forms of fuel. This makes sourcing the right vehicles that will sell, more important than ever, which is where data comes in. Accurate, trusted and holistic data provides the confidence to make smarter decisions that ultimately increases profit across our ecosystem.

That's not to say everything in wholesale and retail will move online, far from it, but a blend of digital and physical channels will be even more critical in successful future businesses. The role of physical services such as inspection, collection, reconditioning and logistics has, and will continue to evolve. This combined with online channels, data, and insights helping to make it smarter, better and more profitable for all.

In this ever-changing marketplace, nothing should be taken for granted.

Martin Forbes, CEO, Cox Automotive UK

HERE'S WHAT'S DRIVING CHANGE

THE NEW AND USED MARKET

Where is the market heading?

P7

The new and used car markets reached new highs in 2016. Since then, they have faced the headwinds of diesel demonisation and Brexit. How this will impact sales between now and the end of the year is revealed in our first published forecasts for the new and used car markets.

The future of fuel

P11

Regulatory pressure, the emissions scandal and negative media coverage have caused diesel to fall out of favour amongst new car buyers with registrations down 30%. We assess the viable alternatives and suggest why demand for diesel remains more robust in the used sector.

Changing brands

P13

Premium brands now account for over a quarter of all new car registrations in the UK with affordable funding opening up these marques to new customers. This growth in the new market is influencing stocking management trends in the used sector where demand is also on the rise.

OWNERSHIP

Financing and ownership

P19

Access to affordable funding and the proliferation of low interest deals has empowered new car buyers to take advantage of attractive Personal Contract Purchase schemes, prompting a shift from the traditional ownership model; a trend which is gaining traction amongst used car buyers.

Mobility and usership

P23

We are on the edge of a fundamental change in how people approach personal mobility. At present the ownership of a vehicle is the key to mobility but this is changing with more flexible modes of public and private transport and OEMs increasingly seeing themselves as mobility providers.

RETAIL

Dealer consolidation

P28

Consolidation continues to play a major role in the evolving size and shape of the UK Franchised Dealer sector with fewer retail sites selling more vehicles. What's next for the sector as PLCs and privately-owned companies consider future expansion and international businesses spot investment opportunities?

INSIGHT REPORT 2018

THE NEW AND USED MARKET

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WHERE IS THE MARKET HEADING?

The markets for new and used cars in the UK enjoyed a sustained period of year-on-year growth after being hit hard by the global financial crisis a decade ago. The annual peak was reached in 2016 with the setting of two new records: 2.69 million new car registrations and 8.20 million used car transactions.

Since then both markets have faced media, regulatory and economic headwinds with the demonisation of diesel and uncertainty around Brexit impacting the buying patterns of retail and business buyers.

However, as our Insight Report shows, the new and used car markets remain resilient. Both have benefited from the changing model of ownership, with Personal Contract Purchase (PCP) and Personal Contract Hire (PCH) accelerating in the new car market and emerging in the used market.

There are also fundamental changes in the way new and used vehicles are utilised to get people from A to B, a trend which continues to gather pace.

It is clear the way we buy, sell and own both new and used vehicles is transforming and we explore all these themes in this Insight Report, supported by Cox Automotive's first ever published forecast of both new car registrations and used car transactions.

2018 used car market

The highs achieved in 2016 and the subsequent tailing off are shown in the first chart on the right. It also shows the dramatic seasonal dip experienced in December and month-to-month swings of up to 75,000 transactions at other times of the year.

The solid blue line shows our medium forecast scenario for the remainder of 2018 and into Q1 of 2019. The blue shaded area indicates the range of uncertainty around this forecast: 80% of likely actual used car transaction numbers fall inside this blue shaded area. We take the edges of this range of uncertainty as our high and low monthly scenarios.

How our forecast pans out over the course of this year can be seen in the next chart. The grey line represents the actual numbers reported by the SMMT to the end of June 2018, while the blue line is our medium forecast scenario from July to December based on the current trend continuing.

From July onwards, high ("good news all year") and low ("perfect storm") scenarios are constructed by adding to the June 2018 number the high and low monthly scenarios, respectively.

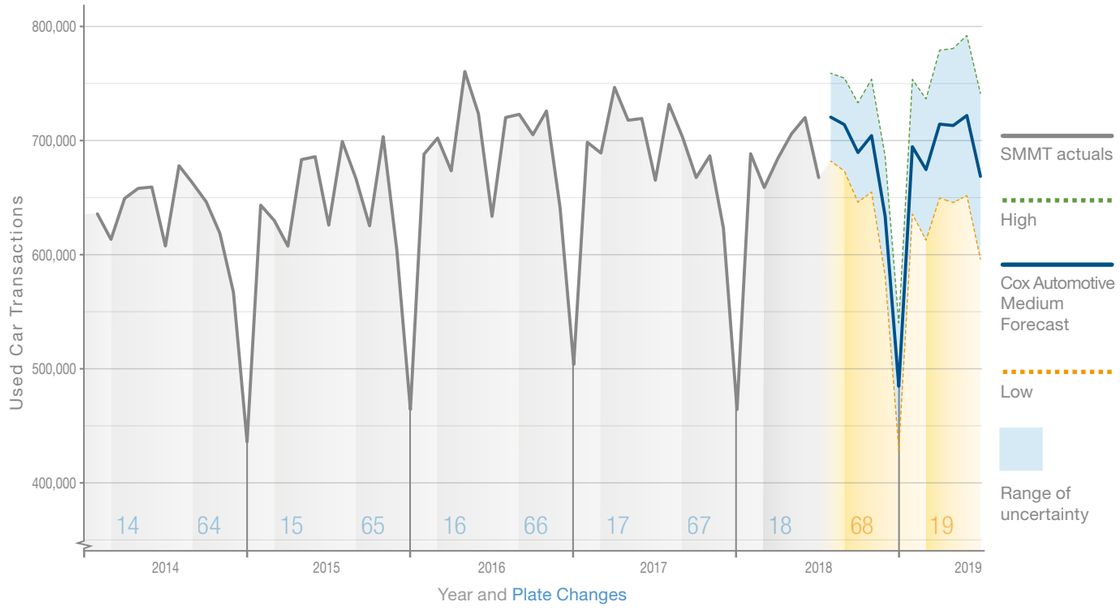
We believe the medium scenario, in which the current trend continues, is the most likely outcome resulting in a marginal 0.51% decline on 2017 to 8.07 million. This forecast is supported by recent results from the listed franchised dealer groups showing their focus and investment in used car operations as well as the continued growth in the car supermarket sector.

Our forecast model also shows how a high ("good news all year") scenario could result in a 2.94% rise on 2017 to 8.35 million used car transactions, while our most pessimistic low ("perfect storm") forecast suggests a 3.96% drop on 2017 to 7.79 million. Both scenarios are less likely than our medium scenario based on current market intelligence, but the gathering storm over WLTP in the new market might push the used market down towards the end of 2018.

Our long-range forecast to Q1 2019 shows our current trend medium scenario would deliver 2.08 million used car transactions, 2.55% above Q1 2018. As the SMMT publishes further quarterly data, we will update our forecast.

FORECAST OF MONTHLY USED CAR TRANSACTIONS

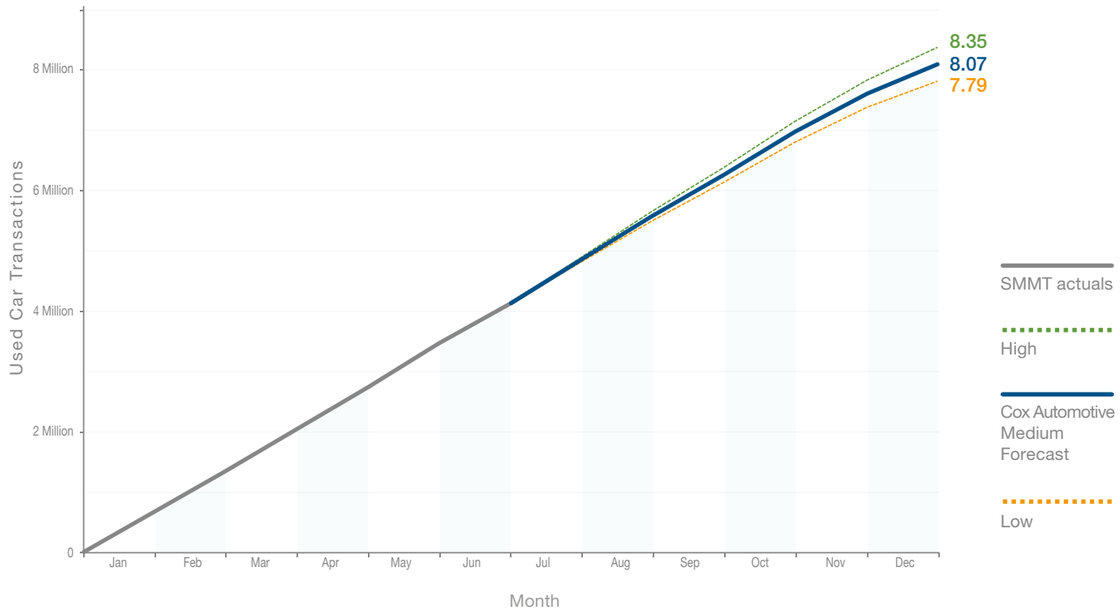
Actual SMMT values to June 2018, Cox Automotive forecast thereafter



(Source: SMMT and Cox Automotive)

FORECAST OF CUMULATIVE USED CAR TRANSACTIONS

Actual SMMT values to June 2018, Cox Automotive forecast thereafter



(Source: SMMT and Cox Automotive)

2018 new car market

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

The headwinds have been persistent, strong and unprecedented with the demonisation of diesel seeing a sharp fall in demand for diesel-engined cars and the introduction of the EU's new WLTP (Worldwide Harmonised Light Vehicle Test Procedure) and Real Driving Emissions (RDE) regulations at the beginning of the September plate-change, impacting the second biggest sales month of the year.

Against this background were the ongoing uncertainties over the final Brexit agreement. Year on year new car sales have been declining since May 2017 with the two all-important plate-change months facing double digit falls in 2018.

After reaching a record high in March 2017, as a direct result of new VED rules being introduced on 1 April, the March plate-change in 2018 fell by -15.7%, the lowest level for the month since 2014.

Meanwhile, registrations in September were down -20.5% as a result of some cars being unavailable as manufacturers had not completed their WLTP and RDE compliancy testing to get type approval. The new car pipeline is expected to improve after September, with sales rolling into October and November.

Our cumulative forecast to the end of 2018 uses SMMT[1] new car registration data up to September 2018 and our high, medium and low forecasting thereafter.
Q4 registrations will be heavily dependent on supply getting back on track, although the market expects the availability of certain models to continue to be an issue.

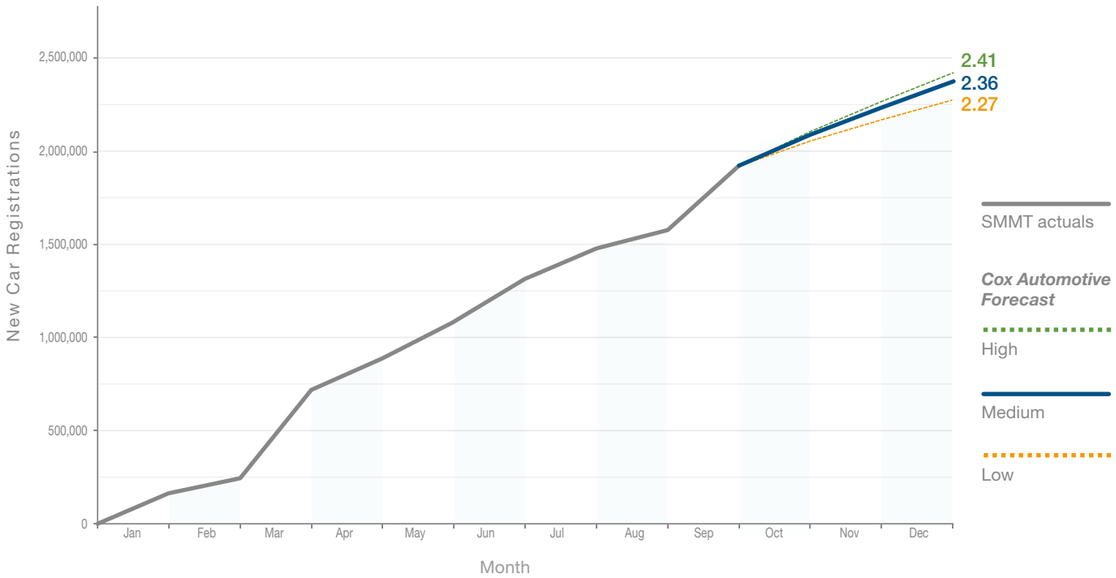
Looking ahead to Q1 2019 we are more optimistic as the challenges driven by WLTP are addressed by the industry, but continued uncertainty remains due to the risks of Brexit.

The downturn impacting the new and used car markets should be seen in the context of markets running at historically high levels. What we are seeing is a stabilising of demand after a succession of year-on-year growth.

Our full-year forecasts for both new and used sales reflect this stabilisation with declines in both sectors based on current trends, although the negative effect on used has tapered off as data emerged over the year.

FORECAST OF CUMULATIVE NEW CAR REGISTRATIONS

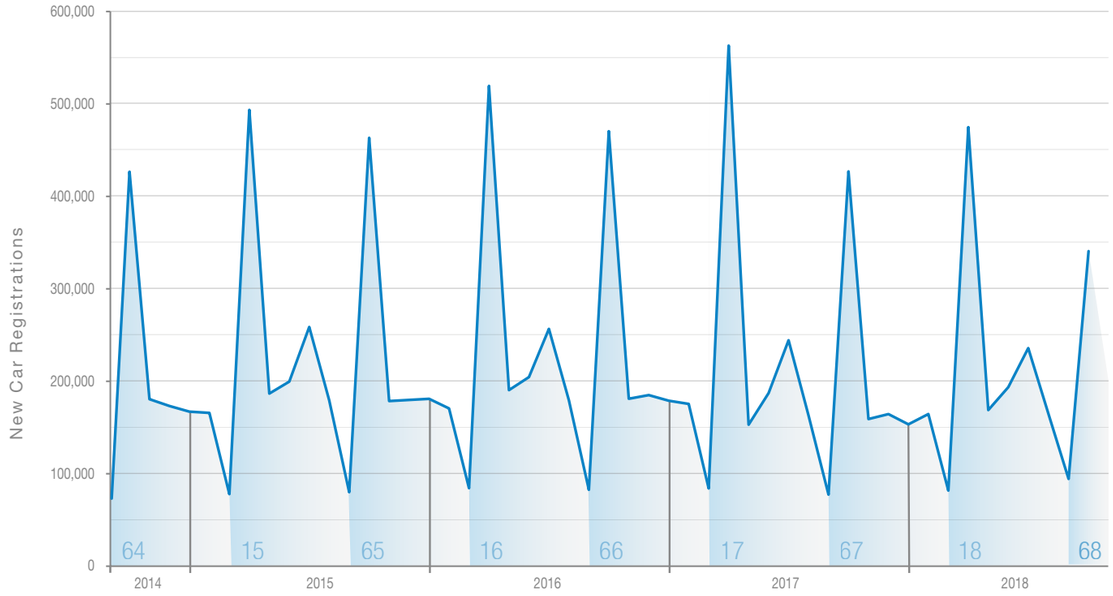
Actual SMMT values to September 2018, Cox Automotive forecast thereafter



(Source: SMMT and Cox Automotive)

MONTHLY NEW CAR REGISTRATIONS

SMMT values to end September 2018



(Source: SMMT)

What will continue to determine demand is the economy and how it impacts consumer confidence.

Overall consumer confidence is still low, according to GFK's May report[2], but the pessimistic consumer environment for the automotive industry appears in line with 2017, rather than dipping back towards 2011-12 levels.

If consumer confidence stays around current levels we believe this supports our medium scenario forecasts, whereas if by some miracle it pushes above 0 (for the first time since mid-late-2016) that would indicate consumer demand for changing vehicles would increase.

THE FUTURE OF FUEL

Dieselgate and the subsequent demonisation of the fuel by policymakers has dominated headlines for three years. The negative impact on new diesel car sales has been dramatic with registrations in the first half of 2018 down 30.2%. However the story for the used car market is more nuanced.

VED changes

The new Vehicle Excise Duty (VED) bandings introduced in April 2017 were designed to discourage the purchase of high emission vehicles, particularly diesels. The impact we have seen so far is an overall decline in new and used diesel in both wholesale and retail, although demand for some diesel engine cars has increased.

Demand for used diesel cars

Based on our research into the relationship between consumer trends and fuel choices, we have a clearer view of the road ahead for our industry. For many consumers' needs, newer used diesels will remain the best option for the foreseeable future, a prediction borne out by analysis of increases in demand for these vehicles at Manheim auctions.

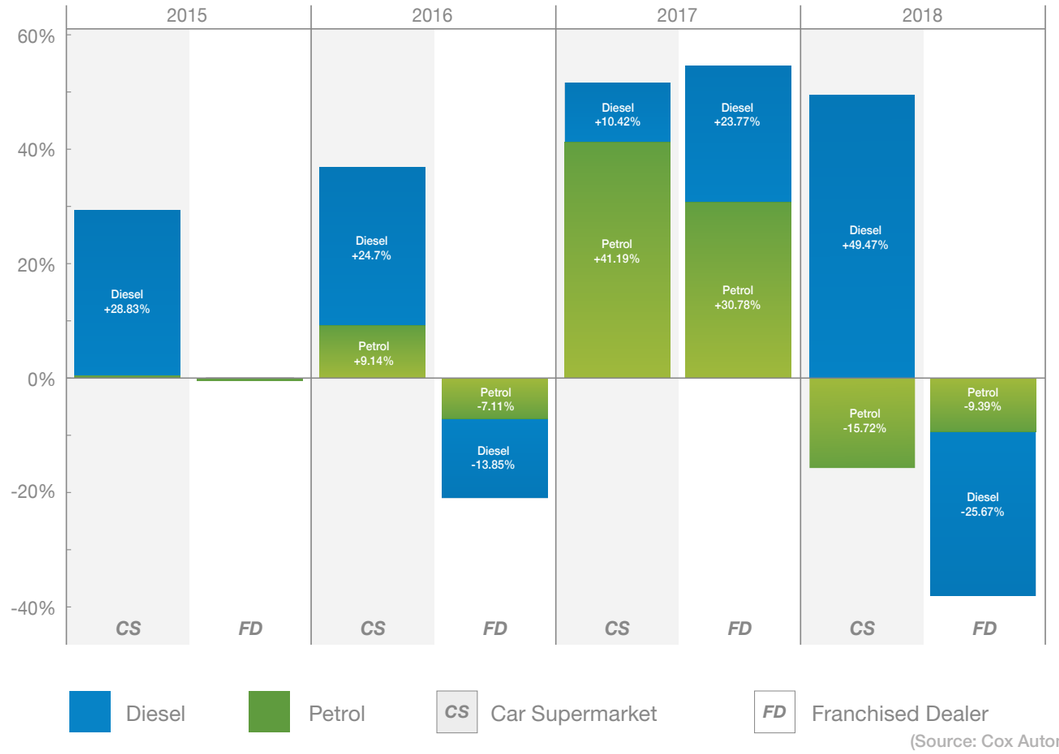
Within wholesale, we are seeing a large increase in the sale of diesel cars registered after April 2017. The growth is mainly attributable to sales of SUVs, showing that diesel engines are still an attractive option for buyers looking to purchase large and executive vehicles. An example of this is the Nissan Qashqai which has become the top selling diesel in the wholesale arena.

The chart shows diesel purchases by Franchise Dealers and car supermarkets have grown in 2017, with a notable surge in demand from the car supermarkets and decline from the franchise dealers in 2018.

Looking deeper into the 2018 diesel vehicles volume growth, we have found it is driven by SUV and lower-medium sales, where volumes grew 58.6% year-on-year across all buyers in Q1. One of the top performing diesel SUVs was the Nissan X-Trail which increased by 181%.

QUARTER 1 USED CARS PURCHASED BY CAR SUPERMARKETS AND FRANCHISED DEALERS

Petrol and diesel vehicles less than 1 year old at sale



(Source: Cox Automotive)

LOOKING AHEAD

What of the future for fossil-fuelled vehicles in general? We are already seeing a decline in new models being offered by manufacturers with both petrol and diesel options.

Vehicles will be fuelled by an engine best suited to their needs. SUVs and 4x4s will continue to dominate diesel sales, while hatchbacks and compacts will be powered by smaller economical petrol engines.

The long-term future for fossil fuel vehicles will largely be determined by legislation with the Government currently proposing a ban on new sales from 2040.

Electric vehicles (EVs) are already taking market share both in the new car market and used wholesale and retail sectors, albeit from a low base. But, as a viable alternative, EVs remain in their infancy as concerns continue over their range limitations, the lack of a recharging infrastructure and higher purchasing costs.

CHANGING BRANDS

The emergence of premium

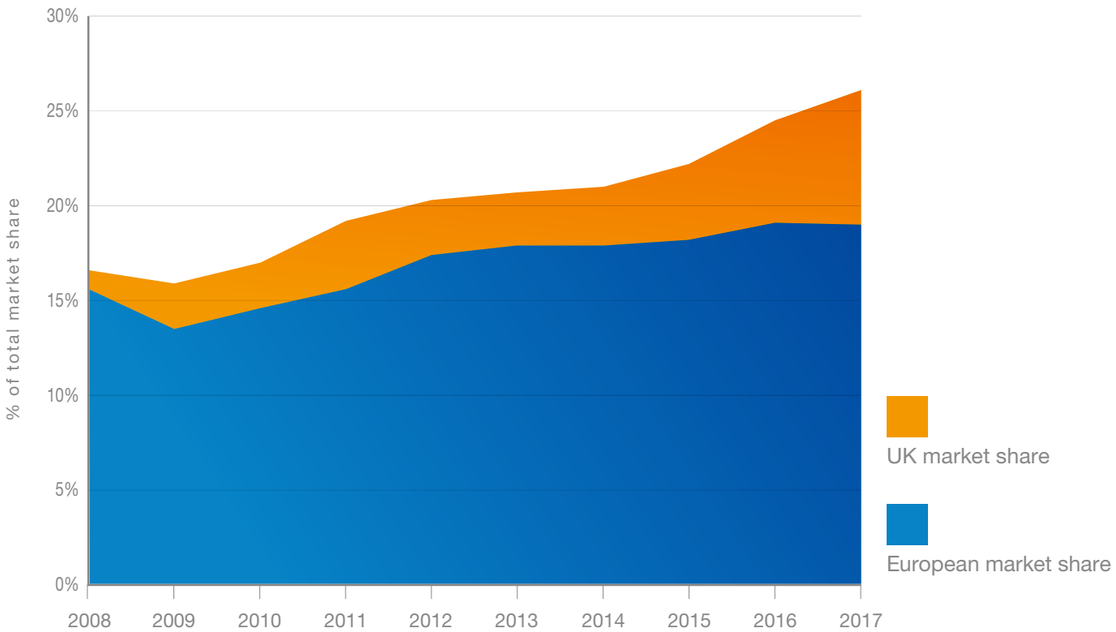
A major success story in the new car market in recent years has been the phenomenal growth in registrations of premium brands, a factor which will in turn increasingly shape the used market and dealer stocking plans.

We analysed registrations of Audi, BMW, Jaguar, Land Rover, Lexus and Mercedes-Benz vehicles from 2008 to 2017 and found their percentage share of the overall new car market increased from 16.6% to 26.1%, representing an average annual growth rate of 7.1% compared to the 2% for the sector in the UK as a whole.

Furthermore, the UK has significantly outperformed the rest of Europe, where premium market share grew from 15.6% in 2008 to 19% in 2017, achieving an average compound growth rate just 0.6%.

The growing volume of new premium cars is having a positive impact in the used sector where demand for three to four-year-old ex-fleet and ex-PCP/PCH cars remains high amongst wholesale buyers looking for the best possible stock to appeal to their customers.

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



(Source: ACEA and SMMT)

(Source: SMMT)

How have premium brands gained pace in the UK?

Premium brand cars now account for more than a quarter of all new vehicle registrations in the UK, making it one of the most competitive sectors in the new car market.

New models

Sales increases have been helped by premium brands increasing their presence across all sectors of the market, enabling more consumers to purchase a premium brand vehicle versus a volume vehicle.

Affordability

Vehicle financing, especially PCPs, has offered a real growth opportunity for all these marques as the monthly price of a premium brand vehicle has become more affordable to more consumers. PCP penetration in the UK new car market is high at 80% and just over 49% in the used vehicle market[1].

Economic stability

Prior to the Brexit vote, we saw robust economic conditions helped by low unemployment, good GDP and positive consumer confidence. Also, £sterling was strong in this period which was beneficial for vehicles imported into the UK; moreover, because demand for new cars was weak in Europe, many OEMs allocated production to the UK. The medium to long-term impact of the UK leaving the EU will be dependent on a hard or soft Brexit.

Brand Loyalty

The top performing premium brands in the UK are the three German marques: Audi, BMW and Mercedes-Benz, all with high levels of customer loyalty. The collective UK market share of these brands increased from 13.6% in 2008 to 20.9% in 2017, the highest penetration of any European country except Germany with a commanding 25.3% stake.

LOOKING AHEAD

Premium brand cars now account for more than a quarter of all new vehicle registrations in the UK, making it one of the most competitive sectors in the new car market.

Consequently, we have seen a growing number of dealer groups moving into or expanding their presence amongst the new premium brands including Marshall Motor Group, Vertu Motors and Lookers[2].

Historically, there has been high demand for premium brand representation and we believe this will continue amongst franchised groups attracted by the higher gross profit per unit potential of these businesses. However, we have also recently seen a surge in interest in some of the volume brands, as some groups looking for acquisition opportunities now consider premium brand businesses over-valued.

With the premium brands moving to fill remaining gaps in their model line-ups, especially with SUVs, we see demand continuing to rise for these brands, but at a slower rate as these marques have already taken considerable market share from the volume manufacturers.

INSIGHT REPORT 2018

OWNERSHIP

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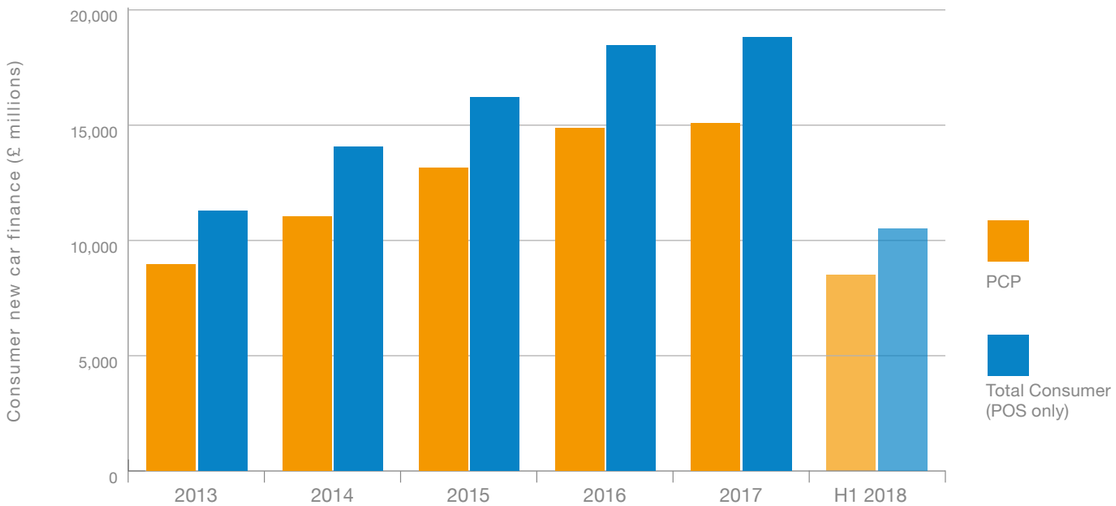
FINANCING AND OWNERSHIP

VALUE OF NEW CAR PCP

Total consumer POS finance



(Source: FLA)

With UK interest rates still at historically low levels since 2008, the way consumers purchase cars has undergone a paradigm shift.

Access to finance and the proliferation of zero and low interest deals underwritten by OEMs, has empowered buyers to take advantage of attractive Personal Contract Purchase (PCP) / Personal Contract Hire (PCH) schemes available at the point of sale, enabling them to budget on a monthly basis over a set period.

With new generations of buyers entering the new and used markets, the need to own a car outright is no longer the norm with 89.5% of private new car sales bought with some form of finance in the 12 months to June 2018, according to the Finance & Leasing Association[1].

As shown in the charts, PCPs dominate new car sales and are a growing force in used car sales, accounting for just 27% of point of sale finance in 2013 but rising to 49% in 2017.

89.5%

of private new car sales financed June 2017 - June 2018

(Source: FLA members)

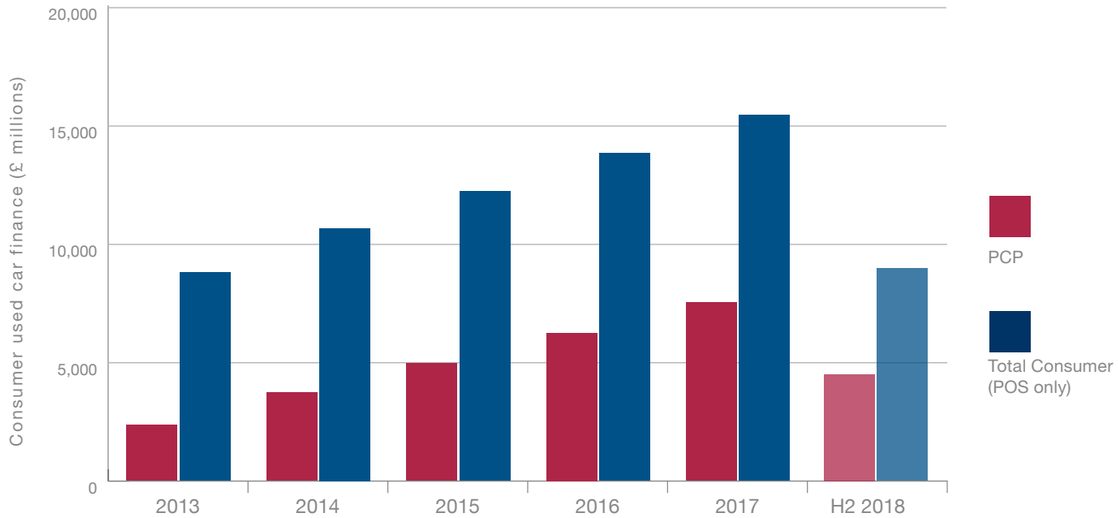
Used car PCP growth (in terms of value)

27% 2013 → **50%** H1 2018

(Source: FLA)

VALUE OF USED CAR PCP

Total consumer POS finance



(Source: FLA)

LOOKING AHEAD

British car buyers are no longer driven by the need to own their vehicles. Relatively cheap finance has enabled buyers to keep hold of their savings and finance new and used car purchases with monthly direct debits similar to how they pay for mobile phones and satellite television packages.

Progressive franchised dealers have embraced the move to PCPs by proactively contacting customers long before the completion of their agreements to offer them the opportunity to trade-in for another new car. This has provided retailers with access to young, low mileage and re-sellable used stock, fulfilling strategic ambitions of some of the country's biggest groups to grow their used car operations.

PCPs have clearly powered the new car market and we expect them to continue to make significant headway in the used sector both in approved used programmes operated by the OEMs and third-party schemes offered by car supermarkets and other independent retailers. Network sentiment suggests retailers are achieving 50-60% PCP penetration on used car finance. We expect to see further growth to match the 80-90% achieved in the new car market and growth in Personal Contract Hire (PCH) business as buyers consider the alternatives to outright ownership.

MOBILITY AND USERSHIP

We stand on the edge of a fundamental change in how people approach personal mobility. At present the ownership of a vehicle is the key to mobility but this is changing with more flexible modes of public and private transport.

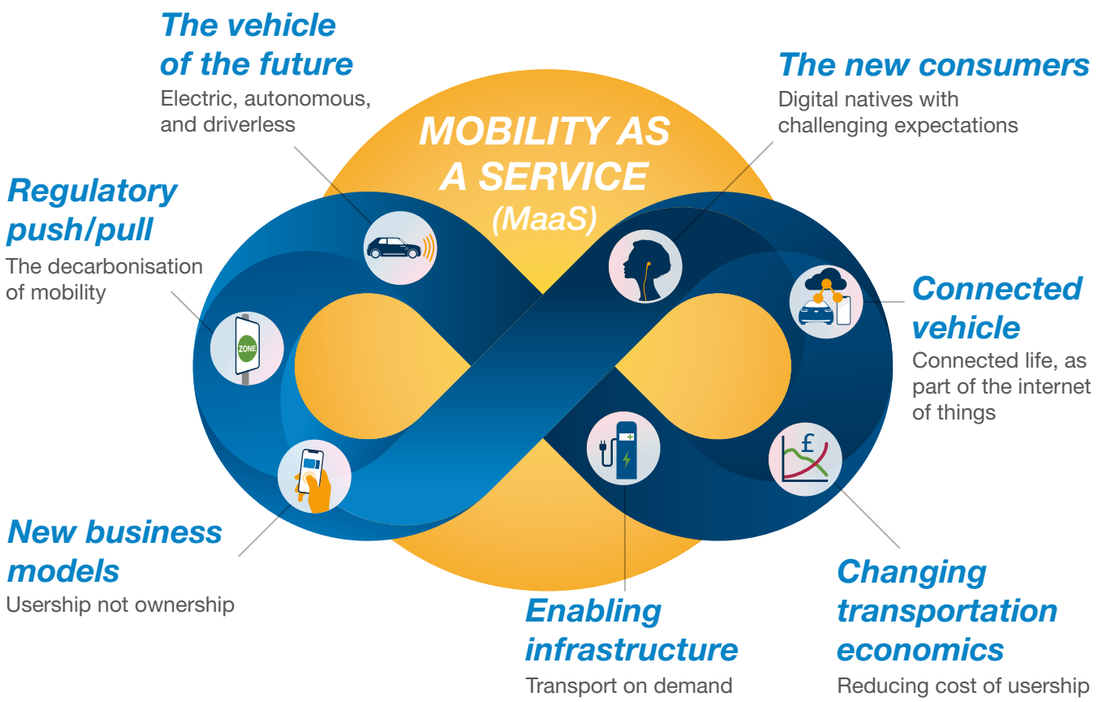
For some consumers, outright ownership is no longer a prerequisite as witnessed by the emergence of Car as a Service (CaaS) alternatives, where payment is made for usership. These include new subscription services offered by a growing number of OEMs, the move away from outright purchase to PCPs and digital disruptors such as Uber shaking-up the taxi model and car sharing provided by the likes of Zipcar.

Size of the MaaS market
$10-$22 trillion

(Source: MaaS Global, Helsinki)

However, these only form a small part of the larger Mobility as a Service (MaaS) ecosystem (see chart) where the integration of various forms of transport services provides a mobility platform accessible on demand with a single payment through an app.

Moves towards MaaS are reflected in Department of Transport figures showing the number of young people holding driving licences is declining with a 35% drop in those aged 17-20 between 1995 and 2016[1], while Morgan Stanley has forecasted that vehicle production will stagnate from 2022[2].



(Source: Cox Automotive)

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

35%

(Source: Department for Transport)

An owned vehicle is parked

95% ***of the time***

(Source: Fortune)

URBAN STRATEGIES

Although currently in its infancy, new mobility services and MaaS models will continue to grow over the next decade.

Changes in urban areas are moving at a faster pace than rural regions, driven by a decrease in car ownership due to congestion measures and the rollout of Low Emission Zones (LEZ) in major conurbations as the Government moves to enforce air quality policies.

Cities will continue to encourage car share services to ease congestion, pollution and to offer alternatives to prohibitively high ownership costs for residents.

Transport for London, for example, has a defined car club strategy, supporting pay-as-you-drive programmes, while London Mayor Sadiq Khan announced that homes and offices in some parts of the capital will be built without parking spaces[3].

Meanwhile, Barcelona will have implemented 53% of its MaaS inspired Urban Mobility Plan by the end of this year, just five years after its introduction.

37% ***of car-share rental app users in London decided not to buy a car***

(Source: Imperial College)

OEM & RENTAL MODELS

As car sharing gains pace, new peer-to-peer rental services continue to enter the market at a rapid rate, buoyed by ongoing investment from rental companies and OEMs themselves, the latter looking to limit risk as ownership decreases.

In the rental market, Zipcar was acquired by Avis in 2013, Enterprise Rent-A-Car swallowed up City Car Club in 2015 while Sixt is looking to develop its own MaaS product.

Meanwhile, OEMs have launched schemes including BMW DriveNow, Mercedes-Benz car2go and Ford's bike sharing programme, with others planning to roll out smartphone app-based rental services using dealer networks as local hubs.

MARKET BARRIERS

While the move from CaaS to MaaS is growing, there are still many technological and data concerns to address before it can become a fully viable alternative to ownership:

Cybersecurity

Concerns over the ability to hack into vehicles and networks have raised questions about the level of security currently needed.

Technology

The technology to generate an integrated payment system across several bundled products and the security around this is not yet accessible, although Blockchain cryptography technology is being reviewed as a potential solution to this.

Quality of Data

The availability of good data and apprehensions over its quality remains, along with questions over its handling and the ability to share such huge amounts between all the necessary parties.

Fragmented market

At present, there is the requirement to have separate apps for each of the providers which can generate confusion and make transportation services less available.

Political and legal challenges

There are a number of questions over the regulation and government of an unrestricted transport network, both for public transport and road networks.

LOOKING AHEAD

Traditional car ownership is in transition. The number of young people holding driving licences is in decline, owning cars in cities is becoming more onerous, annual mileages are falling and owned vehicles are parked for 95% of the time.

Car clubs are already an established alternative to ownership and these services will grow in terms of numbers and sophistication.

OEMs are increasingly seeing themselves as mobility providers as witnessed by Jaguar Land Rover's new Carpe short-term usership service and the future launch of the Polestar and LYNK & Co car brands with subscription models.

The trend towards convenience rather than ownership is set to continue, but while car sharing and alternative rental models are growing, overall adoption of a true MaaS system is a long-term vision, beset by technological, market and legal challenges.

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RETAIL

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DEALER CONSOLIDATION

55%

decrease in franchise sites from 1976 to 2016

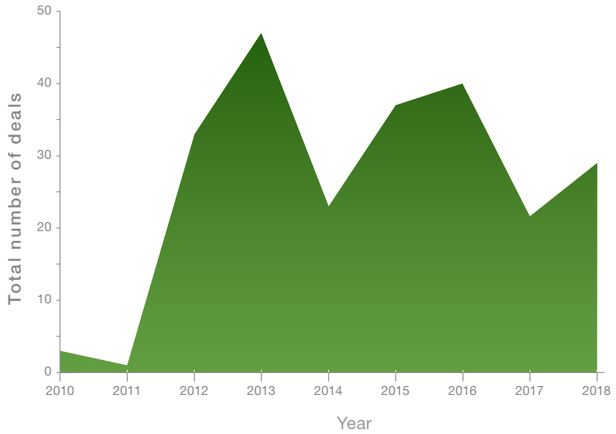
(Source: ICDP, SMMT, Grant Thornton)

Against this background the number of franchised sites has been in decline for some years as OEMs and dealers refine their representation to achieve the best possible economies of scale.

In 1976, the earliest date we have for new car registrations, there were 10,000 franchised outlets serving a market with 1.28 million registrations[1]. In 2016 the number of outlets had more than halved to 4,500[2] although the market for new cars had more than doubled to a peak of 2.6 million[3].

NUMBER OF FRANCHISE ACQUISITIONS

2010 TO Q1 2018



(Source: Zephyr Research)

Consolidation continues to play a major role in the evolving size and shape of the UK Franchised Dealer sector.

The graph shows how dealer transactions, including management buy-outs, increased as the UK exited the recession with a high level of consolidation in 2013. Some of this could be the result of pent-up demand following the downturn as well as the restructuring of a fragmented industry.

Both 2017 and 2018 have seen lower numbers of transactions and although not proven this could be related to the EU referendum which took place in 2016 with groups delaying purchases because of Brexit uncertainties.

Many of the largest dealer groups by turnover have grown significantly in recent years through acquiring businesses with the view to make them earnings enhancing as soon as possible. Successful acquisitions have been based on achieving economies of scale, increasing representation with target brands and growing adjoining geographical areas.

Who is buying?

PLCs
Recent years have seen established listed player Lookers grow through acquisition; Vertu Motors was established on an acquisitive model; while Marshall Motors transitioned from a small privately-owned regional group to a listed group acquiring sites across England.

Private companies
Both small and large privately-owned dealer groups have been buying in order to increase their local market presence. Acquisitions made in this sector are typical for one or two dealerships rather than large groups.

Internationals
Interest from international investors has increased with acquisitions in both volume and premium brands. Growth in international investment has been facilitated by a weak exchange rate, increasing the attractions of UK-based assets following the Brexit referendum. Key players are the US-owned Sytner Group (the UK's biggest dealer group which acquired the CarShop and Car People supermarkets in 2017) and Group 1 Automotive and Hong Kong-based LSH which represents Mercedes-Benz across the Birmingham and Manchester market areas.

What is driving consolidation?

Brand strategy
Retail network restructuring, such as Mercedes Benz in 2002, and more recently Jaguar Land Rover and Vauxhall under PSA ownership

Earnings enhancement
Company earnings growth has been achieved through organic and acquisition growth and cost savings through increased economies of scale.

Regionally strategic
Acquiring regionally close competitors to extend market areas and create strong footholds in selected areas of the country such as Scotland and East Anglia.

Realising capital gains
Many motor retail shareholders are looking to realise capital gain from the businesses that they have developed over a number of years, an example being Ridgeway which started as part of the VW dealer sponsorship scheme.

Insolvency
A declining market presents the risk that weaker or over-indebted companies will suffer from a lack of cash flow, enabling stronger acquirers in the market to absorb them at a low cost.

LOOKING AHEAD

Purchasing activity amongst the acquisitive PLCs has slowed, a reflection no doubt of weakening share prices.

However, they will return to the market when assets are perceived by shareholders to be good value, as recently seen with the acquisitions by Vertu Motors PLC of Hughes Holdings Group, enabling them to continue to expand as there continues to be capacity for larger motor retailers to take more market share, although the scale will depend on individual brands.

Further consolidation is expected as more international investors enter the UK and those already here expand their presence. Although overseas investors shied away from the risks presented by Brexit, some are now seeing acquisitions here as long-term investments in both volume and premium brands.

INSIGHT REPORT 2018

THE OUTLOOK

Cox Automotive™

LOOKING AHEAD

INSIDER INSIGHT // GRANT THORNTON

Research we have conducted specifically for this Cox Automotive Insight Report helps shed light on three key trends impacting the UK car retailing sector: the continuing move towards consolidation in the franchised dealer sector, the increasing consumer appetite for premium brands and the way mobility options are evolving.

Consolidation has characterised the franchised dealer sector for over a decade with the continuing decline in the number of showrooms across the UK, with fewer groups running them but achieving higher sales from bigger premises.

Although the rate of consolidation has slowed this year we expect it to increase as PLCs and a growing number of overseas investors move to achieve even greater critical mass through strategic acquisitions aimed at strengthening geographical and brand representation.

Meanwhile, overseas investors, wary of the risks presented by Brexit, are now starting to view acquisitions here as long-term investments, so we anticipate more activity on this front over the coming months.

High on the list of groups looking to make acquisitions are businesses representing premium brands, as this part of the market has expanded in recent years to account for over a quarter of all new car registrations.

With car production likely to reach its peak within the next five years, the market needs to prepare itself for the myriad of alternatives to the traditional new and used car ownership model.

The growth of easy to budget Personal Contract Purchase and Personal Contract Hire schemes has opened the doors to customers choosing to pay for usage rather than ownership.

The move has accelerated with the emergence of car share services, especially in urban centres where parking and congestion charges are making outright ownership prohibitive for many. OEMs are recognising the emergence of usership with subscription services to facilitate this growing demand.

All these changes are taking place against the emergence of the wider Mobility as a Service (MaaS) ecosystem, where the integration of public and private transport services will provide flexible on-demand mobility options, the logical extension of usership. We hope you find the trends identified in this Insight Report informative and useful.

Owen Edwards - Associate Director, Corporate Finance, Grant Thornton UK LLP

INSIDER INSIGHT // COX AUTOMOTIVE

The first annual Cox Automotive Insight Report provides clear evidence of the changes in the way cars are bought, sold and used.

It is well documented that recent years have seen UK buyers discovering they no longer need to own a new car outright to enjoy the freedom of mobility. The Personal Contract Plan (PCP) boom has changed all that with cars being budgeted and paid for monthly, with many buyers benefiting from the option of trading in for a new car on a more frequent basis.

PCPs are also changing the way used cars are acquired, accounting for 49% of dealer funded sales in 2017, a trend we expect to continue to grow year-on-year as buyers take advantage of low APR rates offered by franchised dealers, car supermarkets and independent dealers.

Digital retailing is making significant in-roads as routes to market evolve. OEMs have launched online sales channels and opened digital stores in major shopping centres, including Ford's collaboration with Next and Rockar in Manchester Arndale.

While changing consumer requirements for usership, rather than ownership, has prompted some OEMs, notably Volvo, Jaguar Land Rover and BMW/MINI, to offer subscription services as a way of delivering mobility solutions.

But what will fuel cars in the future? Negative media coverage, Dieselgate and regulatory changes have challenged diesel ownership with new sales in the year to date falling by almost a third, a trend set to continue as buyers consider petrol, hybrid and electric alternatives.

Our view is that EVs are gradually establishing a place in the model mix considered by buyers, but the rate of growth will be determined by battery range improvements and the rollout of a more comprehensive national recharging network. In the meantime we expect hybrid and plug-in hybrids to increase in popularity amongst customers who see the economic, practical and environmental advantages.

Meanwhile, diesel continues to appeal to used car buyers especially those looking at the best options for larger cars, especially SUVs, where fuel economy, performance and the lower emissions of EU6 engines in many cases outweigh the counter arguments.

The new and used car sectors continue to be dynamic, as shown by our forecasts suggesting a new car market of 2.36 million new registrations and 8.07 million used car transactions by the end of 2018 if current buying trends continue in the lead up to Brexit.

Although both new and used sales will be lower this year than the peaks achieved in 2016 and 2017, our forecasting still suggests a sizeable market with up to 10.4 million cars traded by the end of the year.

This is an encouraging outlook for franchised retailers, independent dealers and car supermarkets, as well as suppliers, finance providers, OEMs and, of course, customers as our industry enters a new phase.

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

REFERENCES

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Sources:
1 FLA members, POS only

Where is the market heading

Compiled by:
Shaun McGirr - Lead Data Scientist, Cox Automotive Data Solutions

Sources:
SMMT and Cox Automotive

References:
1 SMMT
2 GFK May report

Research Methodology:
To build a forecast of Used Car Transactions (i.e. changes of ownership for vehicles already registered at least once, and not for the purposes of scrappage) we rely on data published by the Society of Motor Manufacturers and Traders, of which Cox Automotive UK is a member.
This is available as a monthly series from January 2014 through July 2018, and is derived by SMMT from anonymised ownership data maintained by the Driver and Vehicle Licensing Agency (DVLA).
We used these data from January 2014 through June 2018 to generate a forecast of Used Car Transactions over the remaining months of 2018 and in to Q1 of 2019. Our statistical approach uses the auto.arima procedure in R. With these data, auto.arima chooses an ARIMA(2,1,0)(1,1,0) model.
Our New Car Registrations forecast uses the same approach on SMMT's new car data to September 2018, for which auto.arima chooses an ARIMA(0,1,2)(1,1,0) model.Technical details and code to reproduce this analysis will be published on www.coxautodata.com in due course.

The future of fuel

Compiled by:
Philip Sefton - Business Intelligence Analyst, Cox Automotive Data Solutions

Sources:
Motors.co.uk, Manheim and SMMT

Changing brands

Compiled by:
Owen Edwards - Grant Thornton Mobility

Sources:
ACEA and SMMT
FLA April 2018

References:
1 Source FLA April 2018
2 SMMT

Financing and Ownership

Compiled by:
Philip Nothard - Cox Automotive

Source:
FLA April 2018

Mobility and usership

Compiled by:
Owen Edwards - Grant Thornton Mobility

Sources:
MaaS Global, Helsinki
Department for Transport
Fortune
Imperial College

References:
1 Department of Transport
2 Morgan Stanley
3 TFL http://content.tfl.gov.uk/tfl-car-club-strategy.pdf

Dealer Consolidation

Compiled by:
Owen Edwards - Grant Thornton Mobility

Sources:
1 SMMT
2 ICDP, SMMT and Grant Thornton
3 SMMT

ABOUT COX AUTOMOTIVE

Cox Automotive is the world's largest automotive service organisation, providing solutions to our clients at every stage of the vehicle lifecycle. We help dealers, manufacturers, fleet and leasing companies to boost the value of their assets, improving performance and profitability. In the UK, Cox Automotive provides inventory, financial, media and retail solutions to clients including franchised and independent dealers, car supermarkets, vehicle manufacturers and fleet and leasing companies. Cox Automotive brands in the UK include Manheim, Dealer Auction, Movex, RMS, NextGear Capital, Motors.co.uk and Modix. The group employs more than 2,300 team members in the UK and works with thousands of businesses throughout the automotive industry. For more information, visit **coxauto.co.uk**

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.

Our underlying purpose is to build a vibrant economy, based on trust and integrity in markets, dynamic businesses, and communities where businesses and people thrive. 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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