

Cox AUTOMOTIVE™

COVID-19: Automotive Market Trends

/ 1 May 2020

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Introduction

The COVID-19 pandemic has created a unique set of political, economic and social circumstances. Every organisation across every sector is now taking stock and trying to understand what will happen next.

This presentation offers a high-level analysis of the trends as we see them and our insight into the key impacts of COVID-19 on the wholesale and retail markets for cars and LCVs.

The presentation is authored by:

- Craig Mailey, Chief Strategy & Marketing Officer
- Shaun McGirr, Head of Data Science and Business Intelligence
- Philip Nothard, Customer Insight & Strategy Director
- James Davis, Customer Insight Director

Feedback and questions are encouraged. Please liaise with your usual point of contact.

Overview

1. Economic context
2. New and used market scenarios
3. Key trends to discuss with customers
4. Observations your customers can act on today
5. Takeaway messages

Economic context

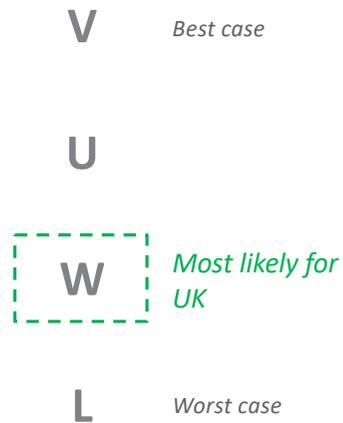
Craig Mailey

Economic context

- Nobody has seen something like this before, and government response has also been different
 - Trigger is public health and not underlying economic factors, governments must balance two very different concerns
 - Global impact like 2007-09 but unlike then, early and extensive intervention by governments to mitigate effects
- Unlikely to wreak long-term destruction on economy as did 2007-2009 crisis
 - Not a liquidity crisis that will lead to bank failures, but banks may pull back on automotive funding
 - Some of the biggest impacts have just time-shifted: airlines were already in trouble, retail was already going digital
 - Lessons were learned from last recession for financial services, but not taken on board elsewhere
- Our informed consensus is “stop-start” recovery and what we see in May/June is not the new future
 - Speed and trajectory of recovery simply unknowable
 - Brexit adds further complications to the UK and especially to automotive
 - Significant risk of unemployment and personal debt reverberating long after initial restart

The Impact of COVID-19 on the way to the 'New Normal' - UK

ECONOMIC RECOVERY SCENARIOS



UNEVEN RECOVERY LIKELY WITH 4 PHASES



Indicator	Year	3 rd party Consensus
GDP	2020	-7.4% to -2.6%
Unemployment	2020	4.7% to 8.50%
Consumer Spending	2020	-5.0% to -2.5%

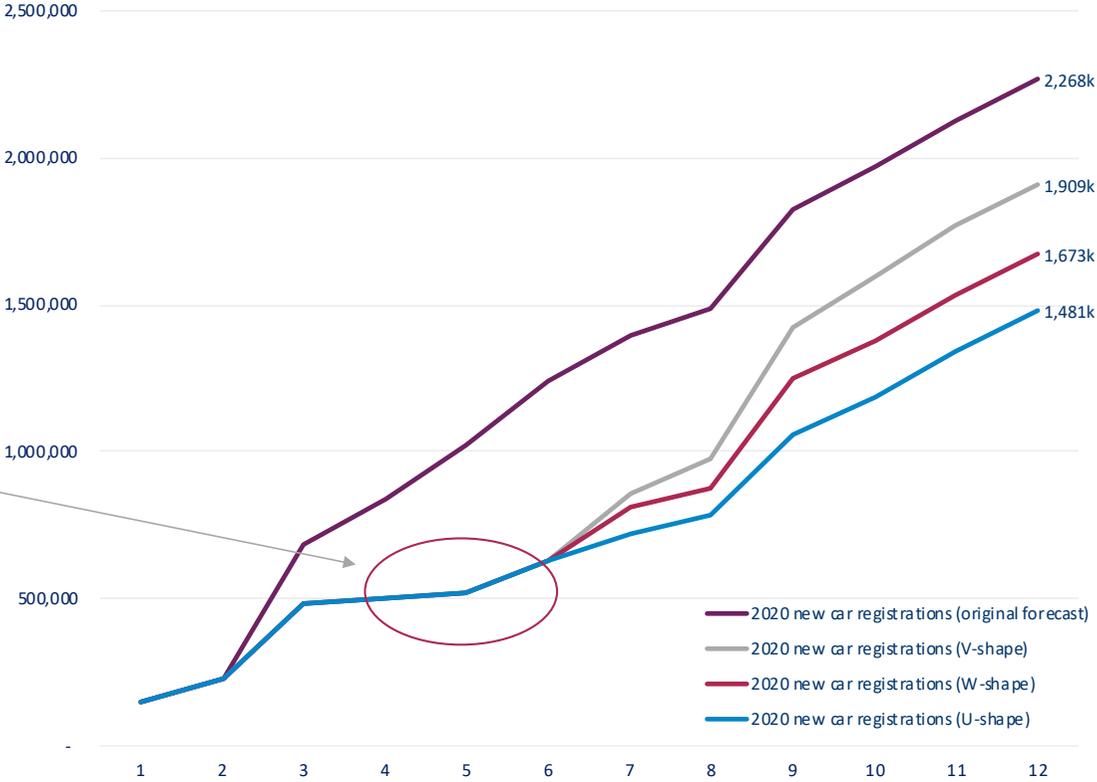
New & used scenarios

Shaun McGirr & James Davis

New car volume scenarios – UK 2020

- We originally forecast 2.27m new car registrations
- In the “W-shape” recovery we expect, down 26%
- Concurs with SMMT forecast (-25%) issued after March actuals released, showing 44% YoY decline
- Actual recovery will be determined by:
 - When and how can dealers trade again?
 - Will there be sufficient consumer demand?
 - How many vehicles will be supplied?

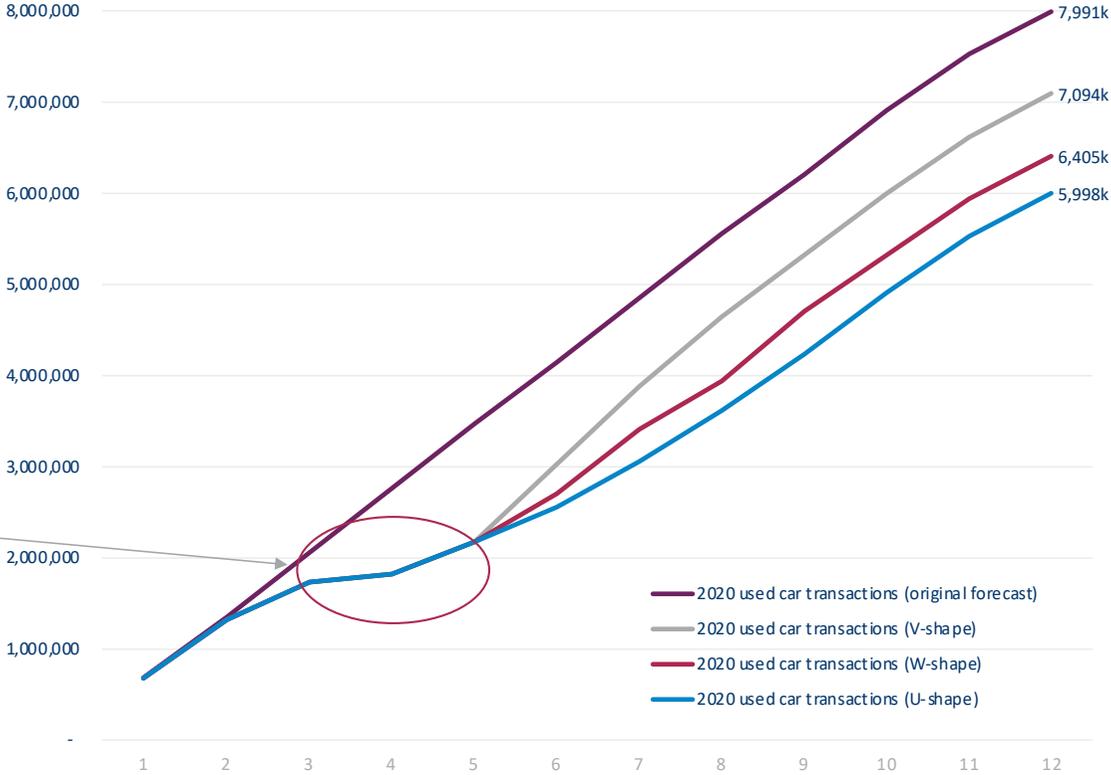
In all scenarios, assumed Apr & May down 90%, Jun down 50%



Used car volume scenarios – UK 2020

- We originally forecast 7.99m used car transactions
- In the “W-shape” recovery we expect, down 19%
- No 3rd party views published and no actuals yet published for 2020Q1, showing March impact
- Less impact on used than new as not relying on production that was already constrained
- Actual recovery will be determined by:
 - When and how can dealers trade again?
 - Will there be sufficient consumer demand?
 - How many vehicles will be supplied?

In all scenarios, assumed Mar down 40%, Apr down 90%, May down 50%



Commercial vehicles

A different lens

Annual LCV registrations: highs and lows

2009: 186k (YoY **-35.6% or -100k**)

2019: 366k

2010: 223k (YoY +19.6%)

2020: *348k SMMT forecast (YoY **-4.9%**)*

*Current SMMT view on 2020 LCV decline (YoY **-25% or -92k**): 275k*

- CVs are business critical tools that power and protect cashflow
 - Investment projects and economic stimulus underpin demand (e.g. HS2, roadbuilding, construction projects)
 - Winners and losers (e.g. new home delivery services by local shops and gig economy vs early terminations from business consolidations/closures)
- CVs face specific pressures from social distancing and legislation
 - Social distancing in cabs and potential short-term derivative specific RV pressures (e.g. minibus, welfare bus)
 - Clean Air Zones “deferred” – Birmingham, Leeds, London ULEZ Phase 2
 - Unprecedented number of pre-COVID factors - CAFE fines vs capital allowance tax relief vs derogations vs scrappage vs electrification vs Brexit
- CV market short term trends
 - Flexi-rent model - likely to grow significantly, businesses looking to on/off hire without penalty. OEM appetite/capacity to supply bulk orders?
 - SME/Sole Trader – the ultimate used retail buyer. Likely to defer replacement or change requirements
 - Independent CV dealers – largely investing their own cash so likely to reduce stock and operating costs

Key trends

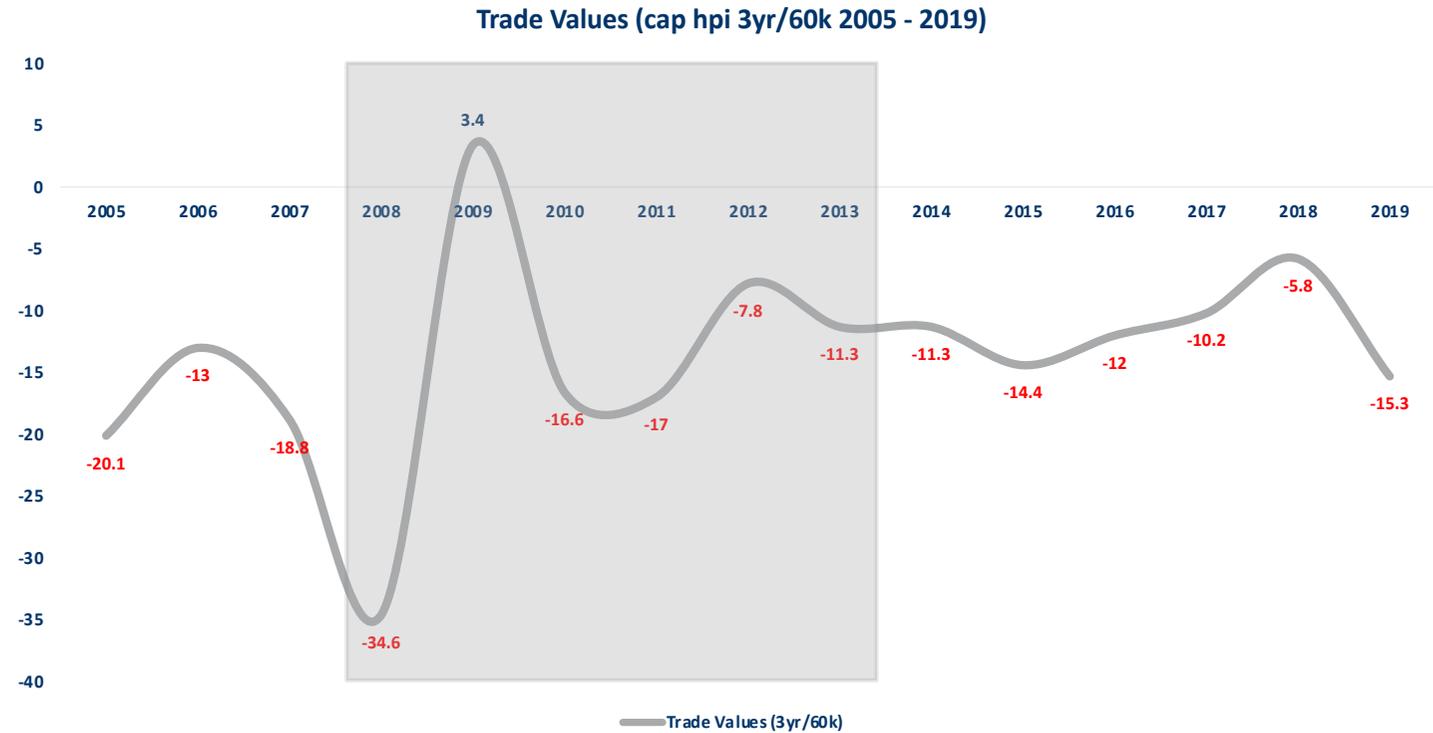
Philip Nothard

Key industry trends emerging from COVID-19 pandemic in the UK

- Shared mobility**
 - *Consumer hesitancy to return to shared mobility and public transportation*
 - *Deferment of strategic OEM and startups in mobility solutions – short to medium – long term strategies will remain*
- Green agenda**
 - *Postponement of 'Clean Air Zone' – potential easing on pressures for SME commercial vehicle operators*
 - *Challenges for OEMs to continue with pre-COVID-19 strategies introduced by the CAFE legislation – scrappage?*
- Industry structure**
 - *COVID-19 is expected to accelerate the pace of change and result in more dealer consolidation*
 - *Provider consolidation due to cash and liquidity pressure (fleet, finance, insurance)*
- eCommerce**
 - *Highlighted the necessity and reliance on a 'complete' cohesive digital proposition for retail & wholesale*
 - *Advantage lies with those who implemented a strong digital transaction proposition earlier*
- Supply**
 - *Market may be in oversupply, especially in particular segments, while many under pressure to move assets*
 - *Benchmark against retail pricing, not just remarketing volume*
- Demand**
 - *Online buying (wholesale and retail) is the only way to adapt to new restrictions and processes*
 - *Prices will be unstable as consumer demand will not match supply as usual, everyone needs more data less gut*
- Working and interacting**
 - *Social distancing will impact how everyone works, including our customers' customers*
 - *Get used to working remotely with everyone: suppliers, colleagues, customers*

Trade values took a long time to recover after 2007-2009

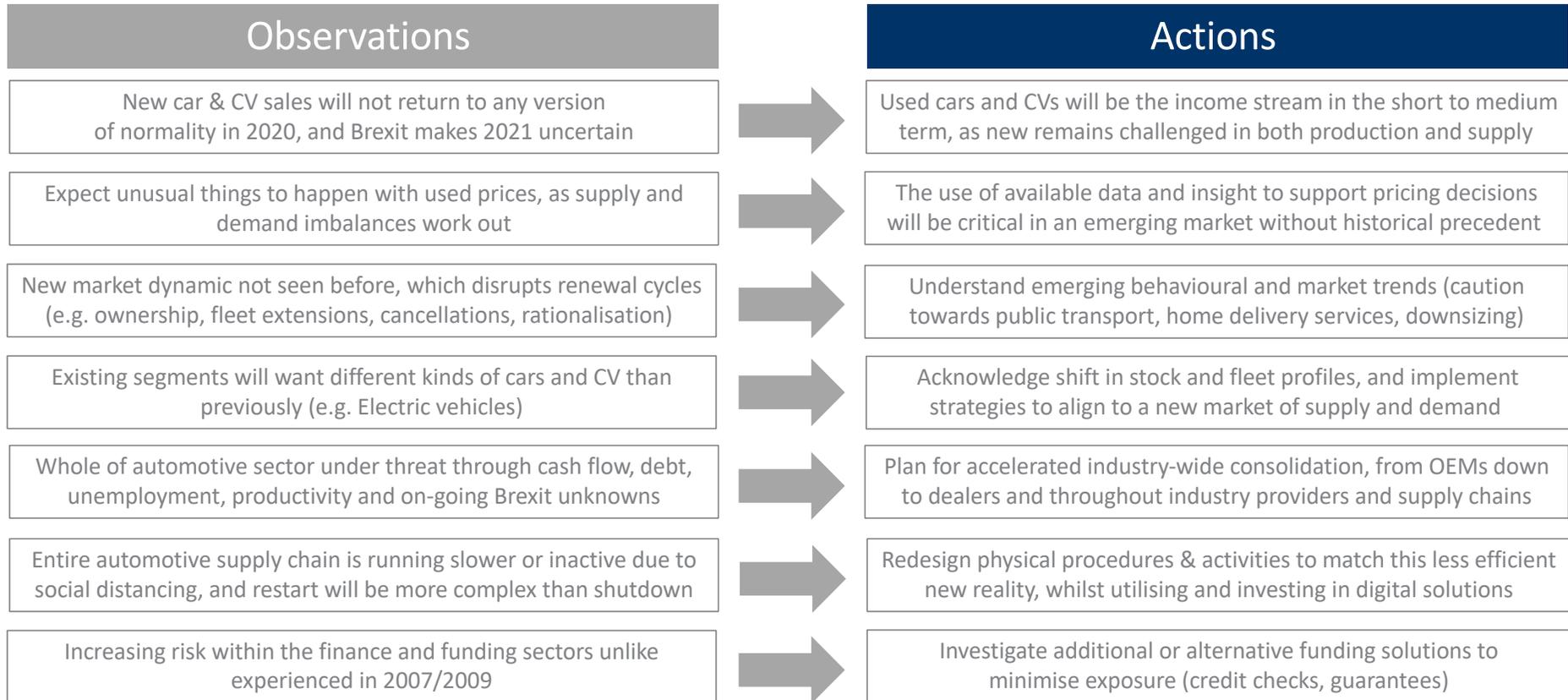
"With the current unprecedented situation and the higher than would be expected current values, there is the possibility of some value drops to come"
cap hpi May 2020



Observations

Philip Nothard

Observations and actions



Takeaway messages

Craig Mailey

Takeaway messages about Cox Automotive

- Nobody knows how the future will look but stick to what matters to you
 - Cox Automotive UK is part of a strong global business that genuinely cares about its people and customers – we're in this together with our customers
 - **Cox Automotive will weather this storm.** No company in our industry is better placed than us to support customers when restrictions start lifting
 - We will always be guided by the Cox Automotive values, and proud of how we have stuck by our values
- Automotive will change forever due to COVID-19
 - We will be adapting our processes to ensure we can operate in a safe and efficient way, mandating the use of PPE for certain roles and introducing new ways of working to ensure we comply with necessary social distancing measures
 - Change may not happen overnight – digital retail
 - Inefficiencies in operating models exposed
- We are here to support you through this
 - Our reactivation plans ensure that we can support customers fully as restrictions are lifted
 - We have created a Coronavirus hub section on the Cox Automotive website to help signpost customers to useful information and advice
 - Continue to drive our online channels to help customers adapt, and develop business models to enable safe collections and deliveries

More info at our COVID-19 help page <https://www.coxauto.co.uk/coronavirus/>



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