Automotive Aftermarket Transformation

An introduction to our hypothesis on the expected technology, sales and sustainability disruptions

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Prepared for

Carmunication

EY Parthenon

Welcome, I’m your host today

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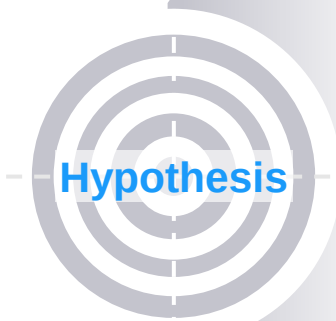
Hypothesis driven by automotive transformation

Hypothesis



Automotive tech transformation (e.g. BEV, SdV) will hit aftermarket already in **3-5 years:**

- **ICE** business **will remain relevant** and considered as “cash cow” in next 10-20 years
- Shift to **BEV** will **reshape the aftermarket** split between OEM and IAM
- **Over-the-air** updates and diagnostics will become **a commodity** (introduction to ICE, PHEV tbd)
- **Software** upgrades will become **more valuable** compared to hardware
- **New products/solutions** in aftermarket driven by new interior product concepts

Customer & sales transformation:

- **Online channels will become more relevant**, and competition in online space is even harder than in offline
- **The right strategy and market approach is crucial,** including portfolio, brand, sales channels, and customer preferences - to achieve a sustainable business growth

Sustainability in the automotive aftermarket **goes beyond regulatory compliance**: Decarbonization is still a key challenge & sustainable business models are on the rise

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1

Technology Transformation

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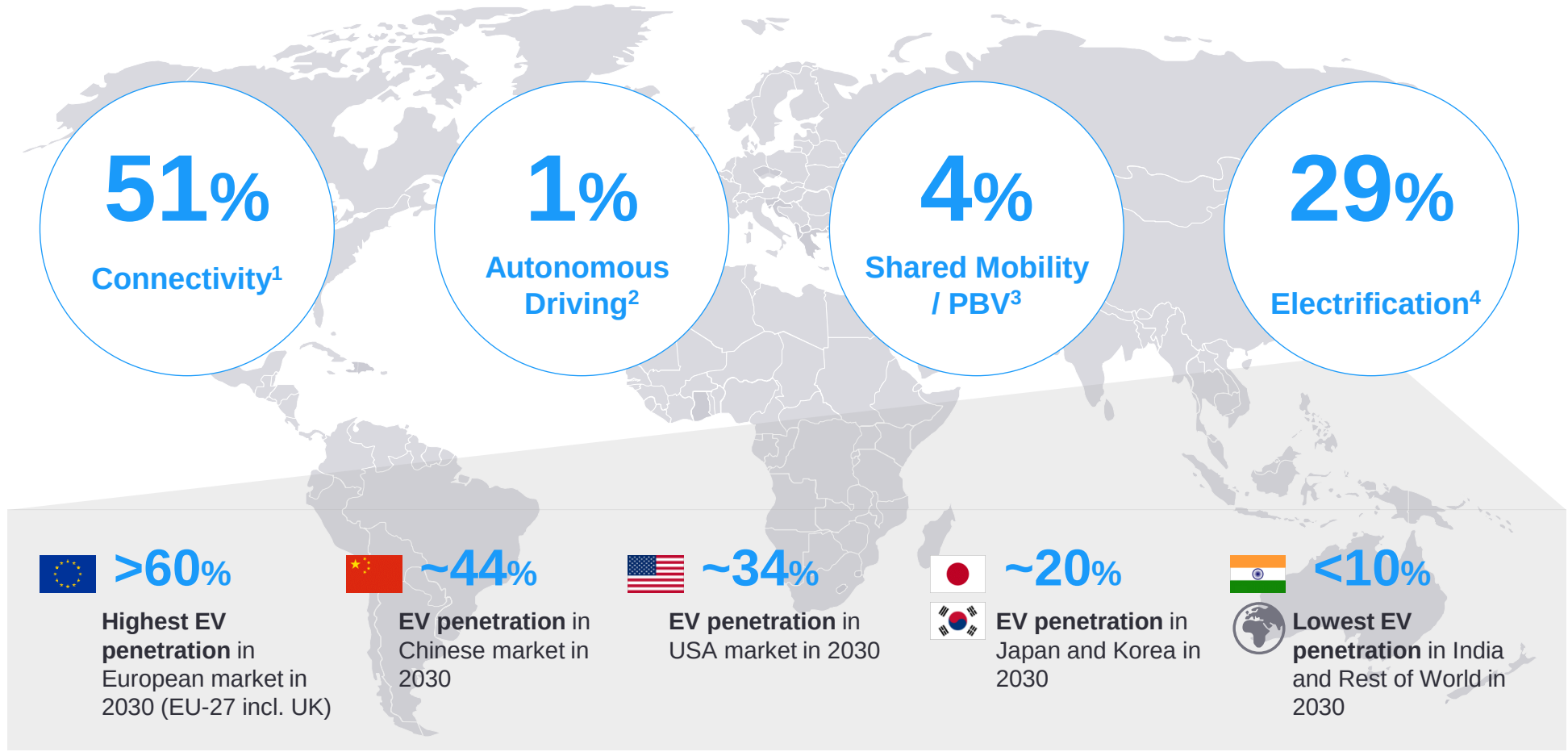
From a technology perspective, electrification is a major game changer, together with other trends forcing many automotive suppliers to strategically reposition their portfolios

Global trends – game changers

Global Penetration Rates of Selected Trends in 2030; EY Supplier Profit Pool Forecaster (Base Scenario)



1. Vehicles with embedded tech allowing devices & systems to connect with one another & other external systems (incl. V2X, 3G/4G/5G, etc.)
2. Vehicles equipped with L4/L5 autonomous driving capabilities
3. Vehicles built for a shared mobility fleet purpose
4. Battery-electric vehicles (BEV) and plug-in hybrid vehicle (PHEV)

Source: EY-Parthenon analysis

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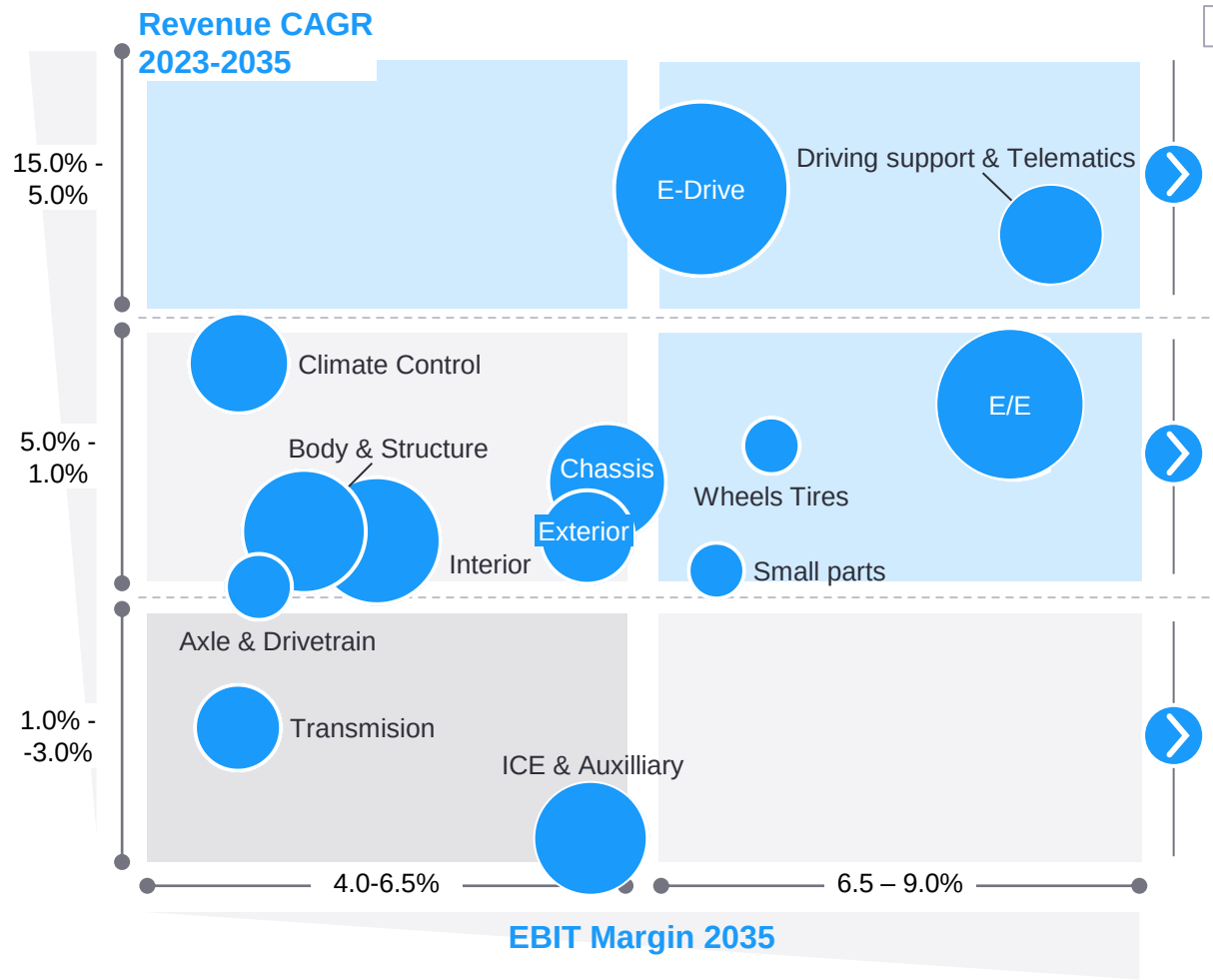
Future component value pools: Developments of primary parts market will affect the automotive aftermarket with a delay of 3-5 years

Value pools

ILLUSTRATIVE



	OE Business	Aftermarket Business
	Growth Bets	**Future stars**
	▸ Market dynamic: rapidly growing market	▸ Market dynamic: early stage of growth (car park still small)
	Business-as-Usual	**Business-as-Usual**
	▸ Market dynamic: relatively small market growth	▸ Market dynamic: relatively small market growth
	Future Obsolesce	**Cash cow**
	▸ Market dynamic: decreasing market, profitability depending on component	▸ Market dynamic: slowly decreasing market, but still high margins (benefiting from big car parks)

= Size of Revenue pool (2035) for assembly line supply (Global)

Expected growth path: Positive … Negative

Source: EY-Parthenon Modell, Expert interviews, EY-Parthenon research and analysis

EY Parthenon

The shift to EVs impacts the aftermarket later and with less maintenance need for BEV; ICE parts will remain “cash cows”, especially with aging ICE carpool

Impact of aftermarket trends on product categories

NOT EXHAUSTIVE

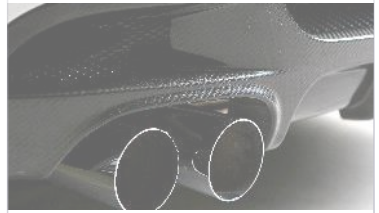
Transmission

ICE parts & gearbox ↘

- Advanced materials with focus on longevity
- Demand strongly effected by increasing BEV penetration

ICE & Auxiliary

Exhaust system ↘



- Short-term increase in demand due to stricter environmental regulations
- Superseded by BEV in the longer term

Oil & fluids ↘

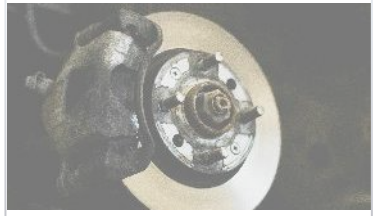
- The shift towards BEV reduces the proportion of moving parts and therefore also the demand for fluids, esp. engine oil

Filter ↘

- Demand driven by e.g. environmental regulations
- No need for oil filtration (high share) in BEV

Axle & Drivetrain

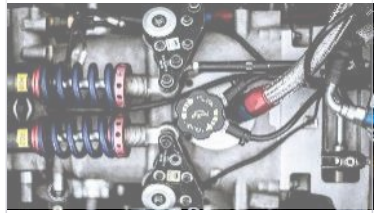
Braking →



- Increasing vehicle weights and safety concerns
- Less stress through recuperation (BEV)

Chassis

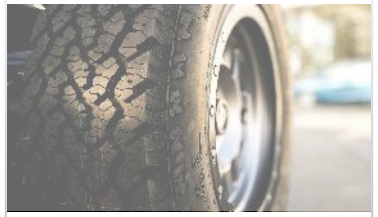
Steering & suspension ↗



- Increasing demand on handling and ride comfort, especially for SUVs and BEV (higher vehicle weight)

Wheels & Tires

Tires ↗



- Rising demand for eco-friendly, low-resistance and long-lasting tires
- More stress due to vehicle weights and drive forces

Exterior

Windshield wiper →

- Demand for long-lasting and all whether high performance wipers
- No major impact to be expected

E/E

Driving Support & Telematics

Electronic & ECUs ↑

- Rising share of electronic features in the vehicle, due to e.g. electrification, connectivity, passenger convenience, etc.

Interior

Interior ↗

- Customer sense for aesthetics, luxury and high-quality materials
- Integration of smart features and infotainment

E-Drive

BEV specific parts ↑

- Strongly increasing market penetration
- High value share of BEV-specific vehicle parts and expensive repair services

Body & Structure

Bodywork →

- More expensive and complex bodywork repairs
- Less damage due to increasing penetration of ADAS and AD

Source: EY-Parthenon analysis

Expected growth path: ↑ ↗ → ↘ ↓ Positive … Negative

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Case study: OEMs are simplifying EVs' interior driven by cost reduction & focus on screens – aftermarket individualization expected like in the smartphone industry

INTERIOR EXAMPLE I NOT EXHAUSTIVE

Product development towards simplicity

- Manufacturers reduce complexity in Hardware compromising with losses in ergonomics and interfaces of device/car usage
- Differentiation comes on Software level (in automotive – SdV[1])

Accessories for customization as add. value pool

- Global accessories market for smart phones accounts to 30-50% of total smart phones market which is the source for revenue and margin growth for manufacturers

Consumer electronics

Automotive


Nissan


Tesla


MG


VW

Software defined vehicle
Source: EY-Parthenon analysis

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2 Customer & Sales Transformation

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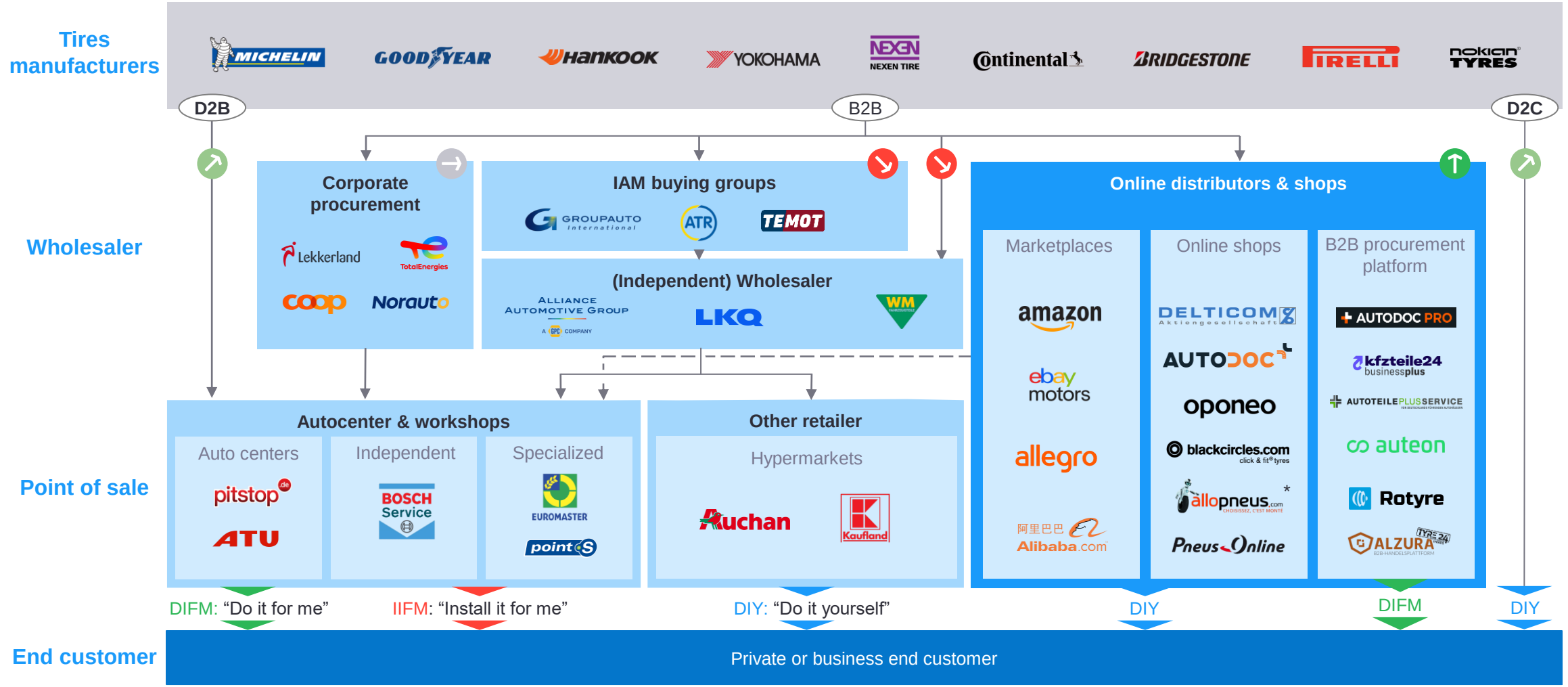
From the end customer's perspective, there is a wide variety of channels and retailers, which are catered by a small number of manufacturers and wholesalers

Channels in parts business

TIRE EXAMPLE I NOT EXHAUSTIVE



* Acquired by Michelin in 2021

Source: EY analysis

Estimated impact on market share until 2030: High positive impact … High negative impact

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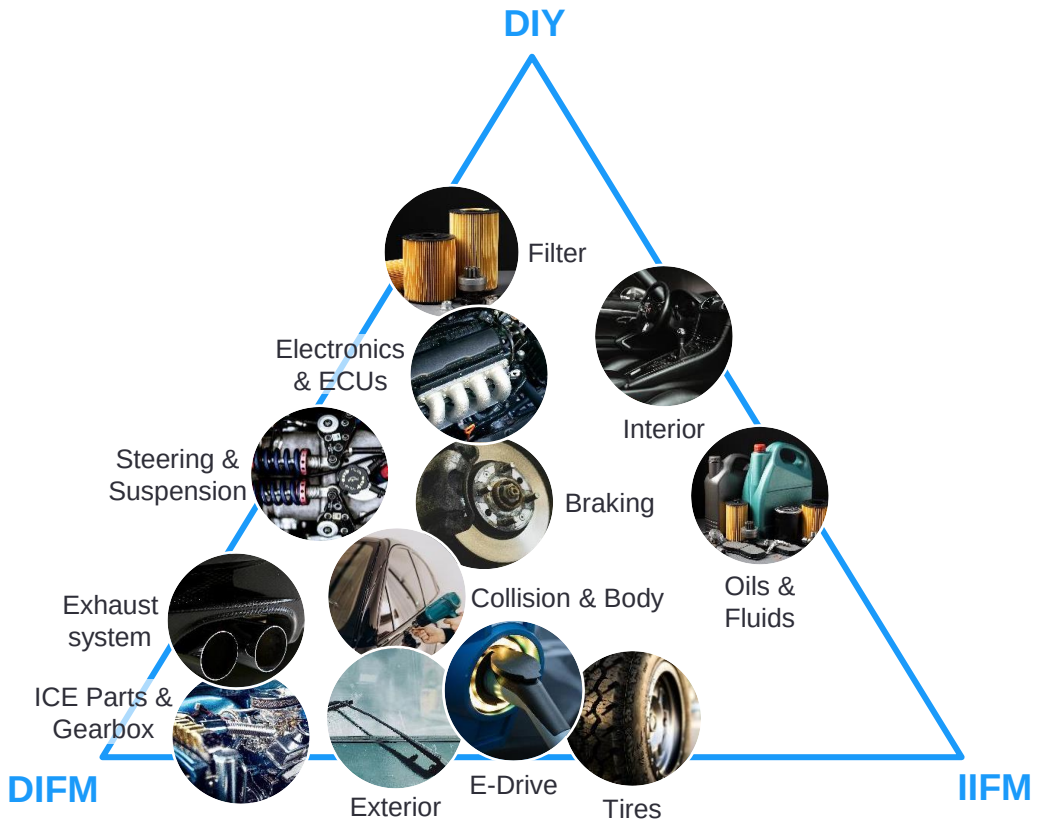
When a customer buys a part, the main aim is to fix the car – depending on the desired way to fix it, the sales channel is selected

Customers' patterns

ILLUSTRATIVE I NOT EXHAUSTIVE

Customer patterns by spare parts category



△ – customer preferences to deal with spare part

DIFM: "Do it for me" **IIFM**: "Install it for me" **DIY**: "Do it yourself"

Comments

- There is a visible consistency accross categories regarding the **customer preference for either DIFM or DIY** work.
- Especially **bigger repairs** such as collision repairs tend to get carried out **via DIFM** while **smaller work** has a higher **DIY** share.
- **Tires and fluids** are an exception with the **highest IIFM share**
- The **younger generation** tends to **prefer DIFM and IIFM** services due to the **growing complexity of new cars** and increasing number of electronic components
- **Agency models or strategic cooperations** might allow manufacturers to get direct access to business customers and consumers (**D2C, D2B**)

Source: EY-Parthenon analysis

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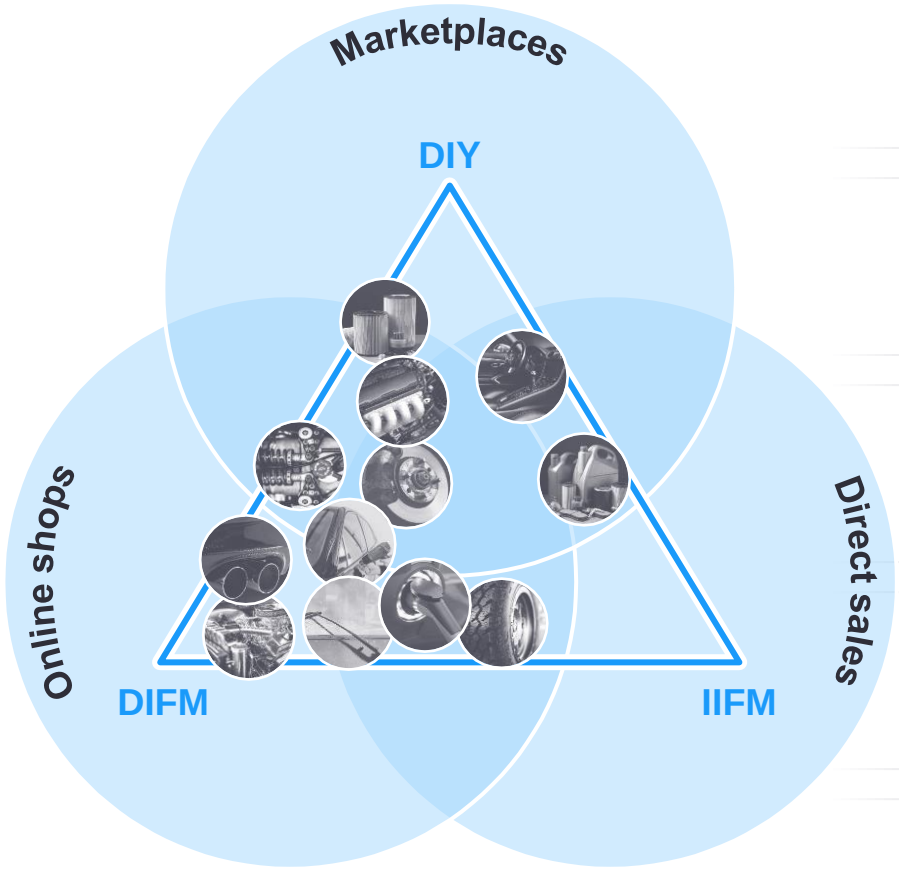
Smartly matching customer needs with product offering and point of sales can lead to improved profitability

Landscape for strategy execution

EXAMPLE FOR ONLINE



△ – customer preferences to deal with spare part

○ – sales channel/players in online space

DIFM: "Do it for me" **IIFM**: "Install it for me" **DIY**: "Do it yourself"

Source: EY-Parthenon analysis

Customer journey

- **Focus** on the customer **creating propositions and tailoring experiences** based on their needs and preferences, also leveraging customer data (e.g. guide to install the part)

Omnichannel and CX

- **Create seamless online & offline experience**, **eliminate frictions and boundaries** between sales channels and digital/physical touchpoints (e.g. book appointment in service directly)

Pricing strategy

- **Increase price transparency and steering** across channels, eliminate price competition among channels (e.g. agency model)

Branding and marketing

- **Use efficiently communication channels** through sales channel, use opportunities to differentiate offering from competitors on online platforms (e.g. shop-in-shop concept)

Planning management

- **Leverage big data for proper sales planning and stock**, differentiate product availability among sales channels, focus on the key preferences (e.g. short delivery for the most demanded products)

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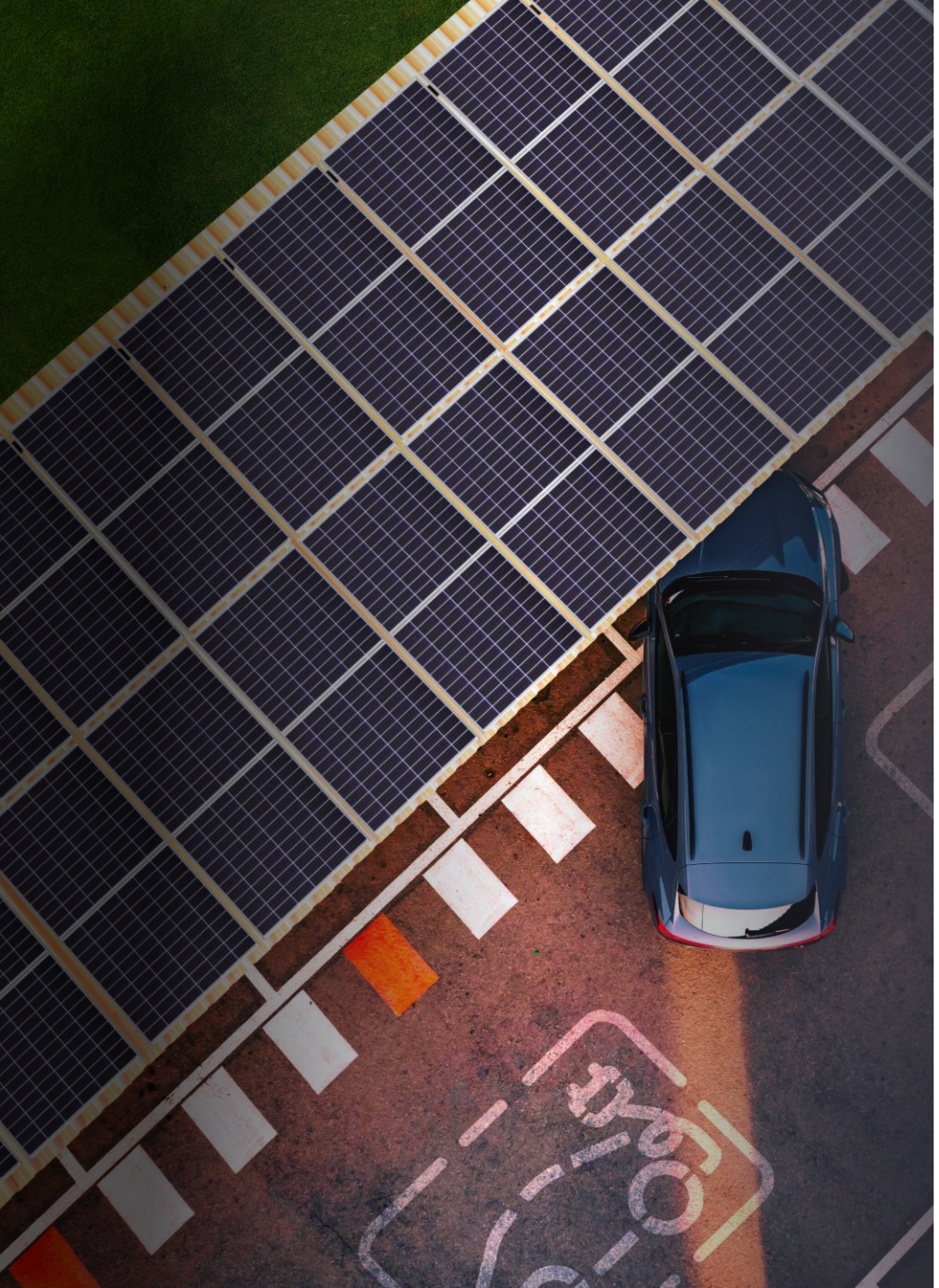

3 Sustainability Transformation

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Sustainability in the Automotive Aftermarket goes beyond regulatory compliance: Decarbonization is still a key challenge & sustainable business models are on the rise

INDICATIVE

Current critical aftermarket business challenges …

- Cost & margin pressure
- E-mobility driven portfolio & services transformations
- Upcoming competitive pressure (esp. Chinese players)
- Continuous market consolidation
- Creating supply chain resilience

… need to be aligned with key sustainability trends

Growing corporate & product specific regulatory requirements are the key driver of aftermarket's sustainability

Decarbonization & energy transformation remain the most urgent challenges to be tackled, next to ensuring regulatory compliance

New sustainable business models are mainly focusing on component lifetime management & extension

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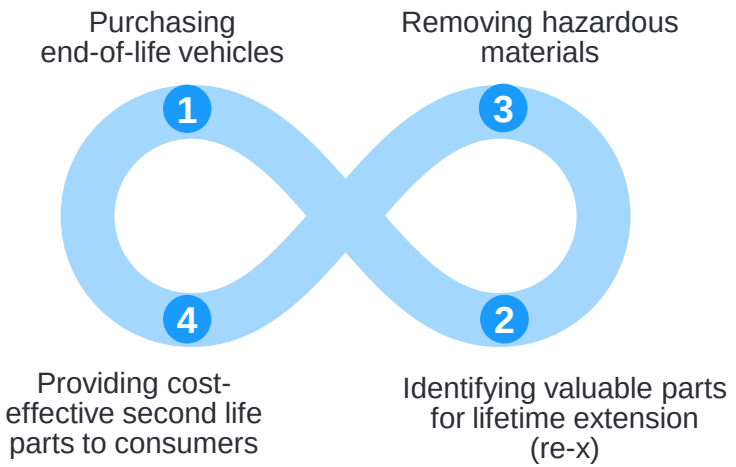
Case Study Automotive Aftermarket Wholesaler: Circularity creates opportunities for profitable growth and value creation in a growing parts salvation market

INDICATIVE

Expanding parts lifecycles at competitive costs



- Extraction of parts in more than 10 categories from damaged or old vehicles, e.g. batteries or body panels
- Reusage, refurbishment, remanufacturing or recycling paired with extensive distribution network & customer service
- Parts offering at competitive prices

Creating an aftermarket business case from circularity

Circularity as driver for profitable growth

- ~20% revenue attributed to salvage activities, with <10% of corporate facilities involved[1]
- Business unit with highest share of salvaging activities is the most profitable & fastest growing

Competitive advantage through lower price point

- Price as the top competitive factor in the aftermarket
- Up to ~75% reduced costs and repair time benefitting customers & end users[1]

Rapid market growth as revenue driver

- Aftermarket Wholesaler expects:
  - Market to hit nearly 100 B$ by 2027[1], indicating sizeable opportunity
  - Parts salvage market grows rapidly at ~8-9%[1], driving revenue growth

Circular initiatives are already successfully being implemented in the aftermarket, driving sustainability while proving profitability

Source: EY-Parthenon analysis
[1] Automotive Aftermarket Wholesaler's Sustainability report

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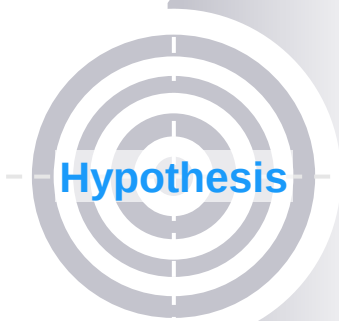
We expect technology, sales and sustainability transformation to have a major impact on the aftermarket

Summary of hypothesis



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