

The automotive market today

The UK automotive market continues to grow modestly. New car registrations maintain strong levels which is feeding used car growth.

UK economy and associated macroeconomic conditions

The UK automotive market is intrinsically linked with the wider UK economy.

The UK remains one of the fastest growing developed economies, with GDP growth for Q4 of 2015 ahead of expectations at 0.6% and annual GDP growth for 2015 of 2.2%. In 2016, the economy has returned to its pre-recession size and the IMF expects economic growth rates of consistently above 2% over the next few years. However, the service sector is growing at a subdued rate and other sectors, such as manufacturing, are struggling. The UK also has a growing current account deficit, which is an indication of the vulnerability of the economy, and the uncertainty surrounding Britain's membership of the European Union poses risks for sterling as well as trade throughout Europe.

Nonetheless, 2015 saw the return of consumer confidence, and retail sales in 2016 are growing strongly as households benefit from continued low interest rates and inflation. Low unemployment, rising earnings growth and a low oil price are also boosting spending.

UK automotive drivers

New and used car sale volumes

Worth approximately £90 billion, the new and used car markets are a substantial part of the UK economy. In 2015 it was estimated that there were 34 million cars in the UK, and 10 million car transactions. New car registrations have increased over the last four years, growing year-on-year for 50 of the last 51 months according to the Society of Motor Manufacturers and Traders ('SMMT'). They reached 2.67 million units in the 12 month period to March 2016, exceeding pre-recession levels. New car transaction growth is translating into used car transaction volumes, with total transactions up 6% in the year to March 2016.

But it's not just consumer confidence and economic recovery that are responsible for growth in both new and used car markets. The availability of competitive and diverse finance options (often heavily incentivised) has made it easier than ever to secure bespoke and affordable funding arrangements for new or used cars. Personal Contract Purchase ('PCP') agreements grew again as predicted, accounting for over three quarters of consumer new car deals and over a third of used car deals in 2016¹, as financing used cars becomes an increasingly popular model amongst UK car buyers.

34m

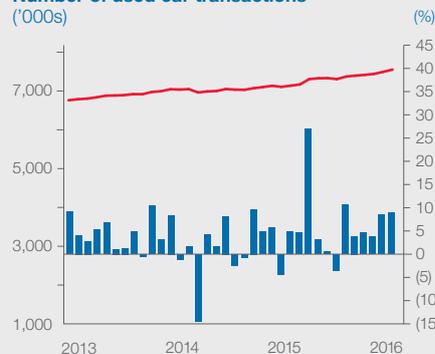
cars in the UK in 2015

Number of new car registrations ('000s)



● 12 month rolling total
● Year-on-year growth rate in that month

Number of used car transactions ('000s)



● 12 month rolling total
● Year-on-year growth rate in that month

Opportunities

- If new car registrations maintain their existing levels, this will mean a good supply of three to six year old used cars in the coming years, thus growing the used car market.
- An increase in the number of used car transactions generally means that our customers are performing well, allowing us the opportunity to provide more solutions to help them to manage and grow their businesses.
- With continued low interest rates and more retailers offering PCPs on used vehicles, there is the opportunity to increase the overall frequency of car sales.

Auto Trader is uniquely positioned in the market and is well placed to take advantage of a range of growth opportunities.

Digital buying and selling drivers

Changing consumer behaviour

As digital technologies play an ever increasing role in our day-to-day lives, consumers expect to access information anywhere, at any time and on any device, and this includes researching and buying a car. As the UK's largest digital automotive marketplace, we are able to observe how consumers research their next car online. Consumers spend on average nearly 11 hours² choosing the exact vehicle that is right for them. This shift online has created a 'digital forecourt', which allows consumers to make their car purchase decisions long before they set foot onto a physical forecourt. Our research tells us that twice as many hours are now spent researching used cars online as offline¹. This in turn leads to fewer forecourts visited than seen historically, so it is key that retailers advertise all their stock online – if it is not online, it is effectively not for sale.

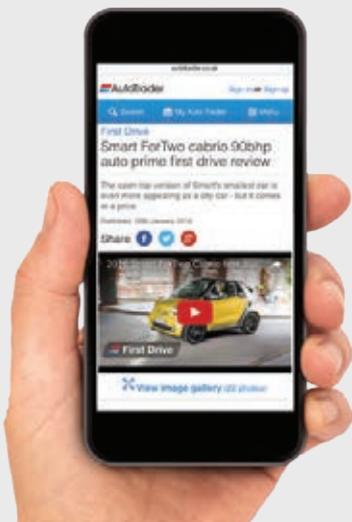


70%

customer searches that come from mobile and tablet devices

11 hours

average time spent by consumers researching their next car online



The traditional forecourt still has an important role to play, but it is no longer the primary destination for consumers to conduct their research – online marketplaces are becoming the most important part of the purchase journey¹. That research plays a significant role in which forecourt a consumer might visit (71% of buyers first visit a forecourt to test drive or transact on a specific car).

Consumers expect car buying to be like any other retail business. This demand is challenging the traditional way car 'dealers' do business. Dealers need to operate as digital retailers to adapt to these changes. Some already have, by adopting digital strategies to run their business. Many understand the need to implement multi-channel approaches, so that the online and offline experience for consumers is consistent and meets the needs of car buyers. More progressive car retailers also exploit data to run their businesses – key to enabling them to buy desirable stock for their area, at the right price and sell at market value.

Opportunities

- With the growing UK car automotive market coupled with consumers conducting the majority of their research online, we anticipate a growth in usage in our consumer valuations tool, something we are focused on embedding as a benchmark for the industry.
- Our research tells us that 64% of new car buyers visit Auto Trader⁴, meaning we are highly relevant to manufacturers. This is an area we believe we can add increased value to through our display advertising propositions.
- There is also the opportunity to use our market position to continue to develop products within and outside of our core classified offering to better meet the needs of consumers and therefore improve market efficiency.

Automotive advertising drivers

Advert views

Advert views increased by 7.5% to 2.9 billion in the year. Advert views are click-throughs from initial search result pages and are the consumer activity measure most correlated to vehicle transactions between consumers and retailers. This means that more than 93 vehicles are being virtually inspected every second of every day on Auto Trader's marketplace.

Transition of automotive advertising

In 2015 it was estimated that 72% of automotive classified spend was online³. We expect this figure to increase further in the next couple of years. It is also worth noting that the overall automotive classified expenditure in 2004 was 40% greater than we see today (over £500m) so there is scope within the existing cost base to put a greater emphasis back on core classifieds, particularly with the more prominent role being played by digital. Beyond that, we estimate that we account for only a small proportion of a retailer's gross profit. There is scope to grow this by increasing penetration of products that meet customers' needs beyond core classified advertising, such as i-Control.

+7.5%

increase in advert views to 2.9 billion in the year

¹ The Finance and Leasing Association.

² 10.6 average hours online vs. 4.5 hours offline for used cars, Annual Buying Behaviour Research Study in conjunction with GfK.

³ ENDERS, used car marketing outlook, December 2015.

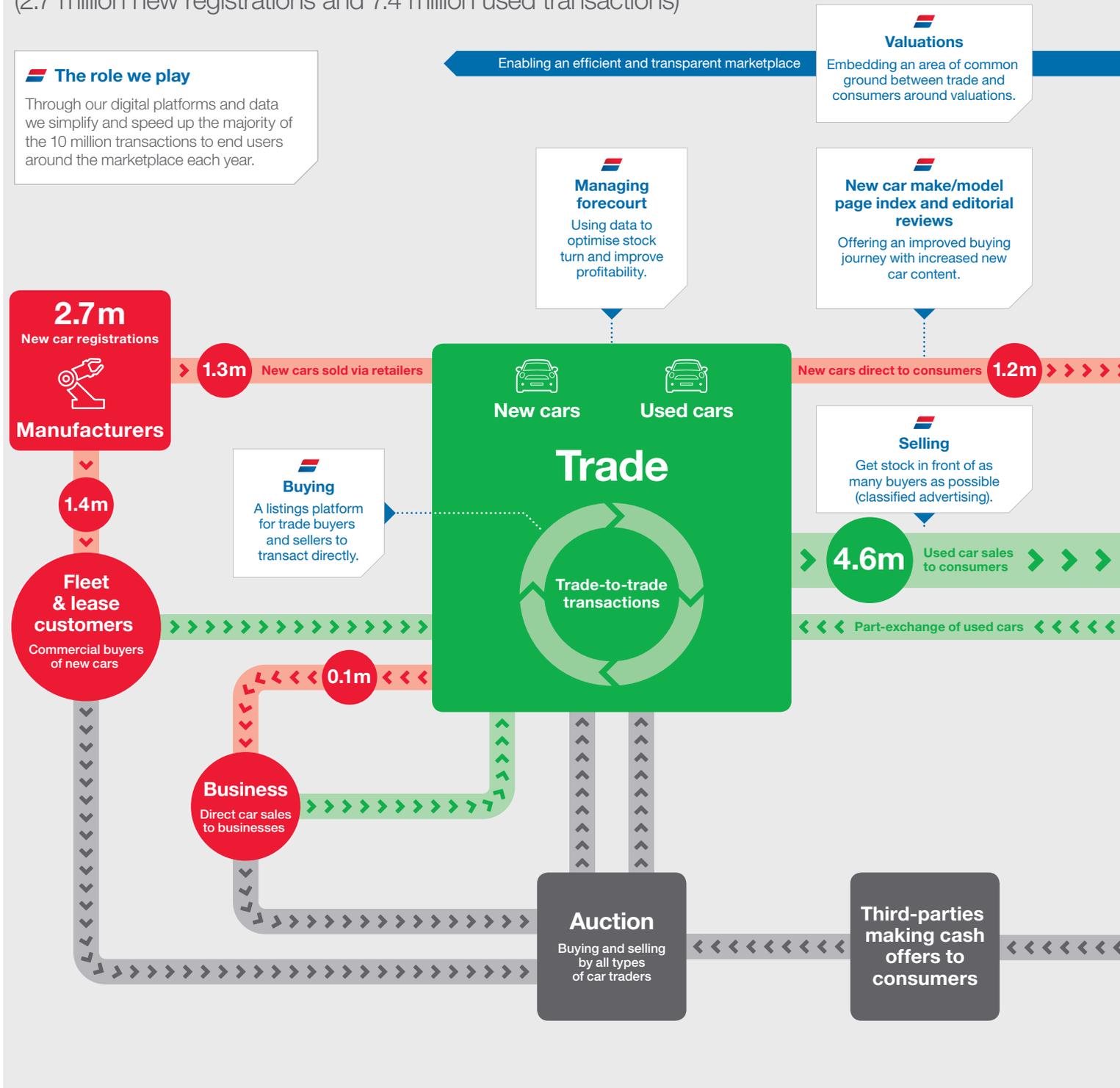
⁴ Kantar Media, The undecided car buyer research report, 2014.

Auto Trader's role in the car marketplace

The automotive marketplace is complex and often inefficient; Auto Trader's aim is to make it simple and more efficient.

UK car marketplace with over 10 million transactions per year

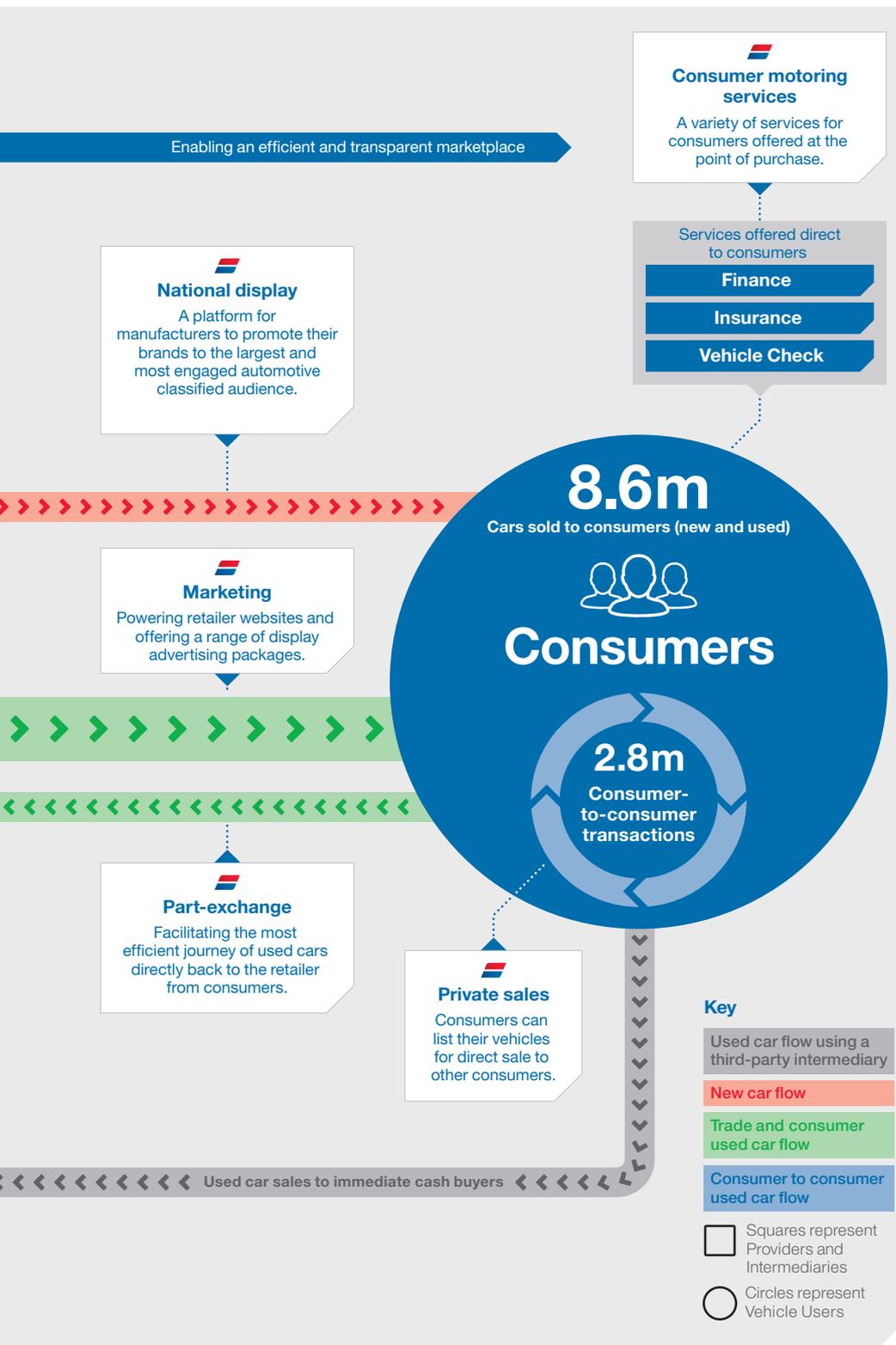
(2.7 million new registrations and 7.4 million used transactions)



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Business model

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UK car marketplace

There were over 10 million car transactions in the year to March 2016 of which 27% were brand new registrations from the manufacturers to a combination of consumers, fleet and lease companies and direct to businesses. According to IDC¹, manufacturers spend £1.5 billion advertising their brand in the UK but only a small proportion of this is online, despite online being a key influencer in the purchasing decision.

New cars are typically traded in after a three to four year period, entering a cycle between retailers, consumers and third-party intermediaries. Greater prominence of finance in new car transactions is reducing the time lag from new to used. These used car transactions make up 73% of the market and this is where our role is currently most prominent.

With the largest and most engaged classified automotive audience, we help anyone listing a vehicle to connect with potential buyers. Our audience and volume of vehicles and retailers also mean we have the largest source of automotive classified data in the UK, which we believe we can use to better connect buyers and sellers in a more efficient marketplace.

Although the diagram focuses on UK cars, our other markets (bike, truck, plant, farm, motorhomes and caravan markets, and Ireland) operate in a similar way.

Outlook

Despite the continued likelihood of low interest rates, we note other commentators who anticipate that new car volumes will start to plateau in 2016 now that they have exceeded pre-recession levels. However, we expect used car transactions to continue to grow on the back of the new car strength over the last four years.

The evolving nature of the consumer buying journey, driven by new technologies, continues to enhance the relevance of digital platforms. This creates continued opportunity for us to develop products and tools for retailers and innovative solutions for consumers to enhance the car buying and selling experiences and to increase efficiency and transparency in the marketplace. There is also still a significant opportunity to prove the value and relevance of our marketplace with manufacturers who currently spend only a small proportion of their annual budgets on digital marketing.

¹ International Data Corporation ('IDC') research 2014.