



Outlooks for automotive aftermarket

APRIL 2020

3 POSSIBLE SCENARIOS OF MARKET DEVELOPMENT AFTER COVID-19

Despite expected negative growth, automotive aftermarket is expected to go through global crisis more smoothly than whole automotive industry.

The Aftermarket

2020 **-15% - 0%**
expected decline

2021 **-10% - +5%**
possible slight growth

3 POSSIBLE SCENARIOS OF MARKET DEVELOPMENT AFTER COVID-19

Overview of three possible scenarios of market recovery

V – shape Fast recovery

U – shape Delayed recovery

L – shape Deep recession

Possible only when global trade, transportation barriers and automotive supply chains stabilize and start to recover at the end of Q2/2020

Decline in demand will last till end of Q3/2020
Recovery will start together with stabilization of global trade in Q4/2020

Significant disturbances in production, supply chains and financial markets will slow down the economy – sales very poor until end of 2020; Recovery very slow due to deep economy recession;

UNLIKELY SCENARIO



Based on the RB Aftermarket specific COVID-19 model

- Expected production growth compared to 2019 (red numbers in brackets indicate decline) – Vehicle production
- Expected market growth compared to 2019 (red numbers in brackets indicate decline) – Aftermarket GVA

KEY IMPACT FACTORS INFLUENCING ANNUAL IAM GVA

	PERIOD		
	Shutdown	Recovery	Normalization
Market size, including: <ul style="list-style-type: none"> car park mileage 	Unfavourable change	no impact	no impact
Car user expenditure, including: <ul style="list-style-type: none"> spending power willingness to spend for essential repairs ad non-essential repairs 	Unfavourable change	Unfavourable change	Unfavourable change
Value chain and structure, including: <ul style="list-style-type: none"> solvency of customers stock level workshops availability 	Unfavourable change	Unfavourable change	Unfavourable change

Key elements which have impact on growth of IAM will, in nearest future, change in unfavourable direction

- Overall car parc should not significantly change, but share of IAM relevant cars will increase
- Overall mileage will not change – when possible, people will chose own cars over public transport, but spending power will compensate it down
- Willingness to spend money for non-essential repairs will be low, reduced to only must-do-it-now service

As a result, the independent aftermarket will marginally reduce in the normalization period.

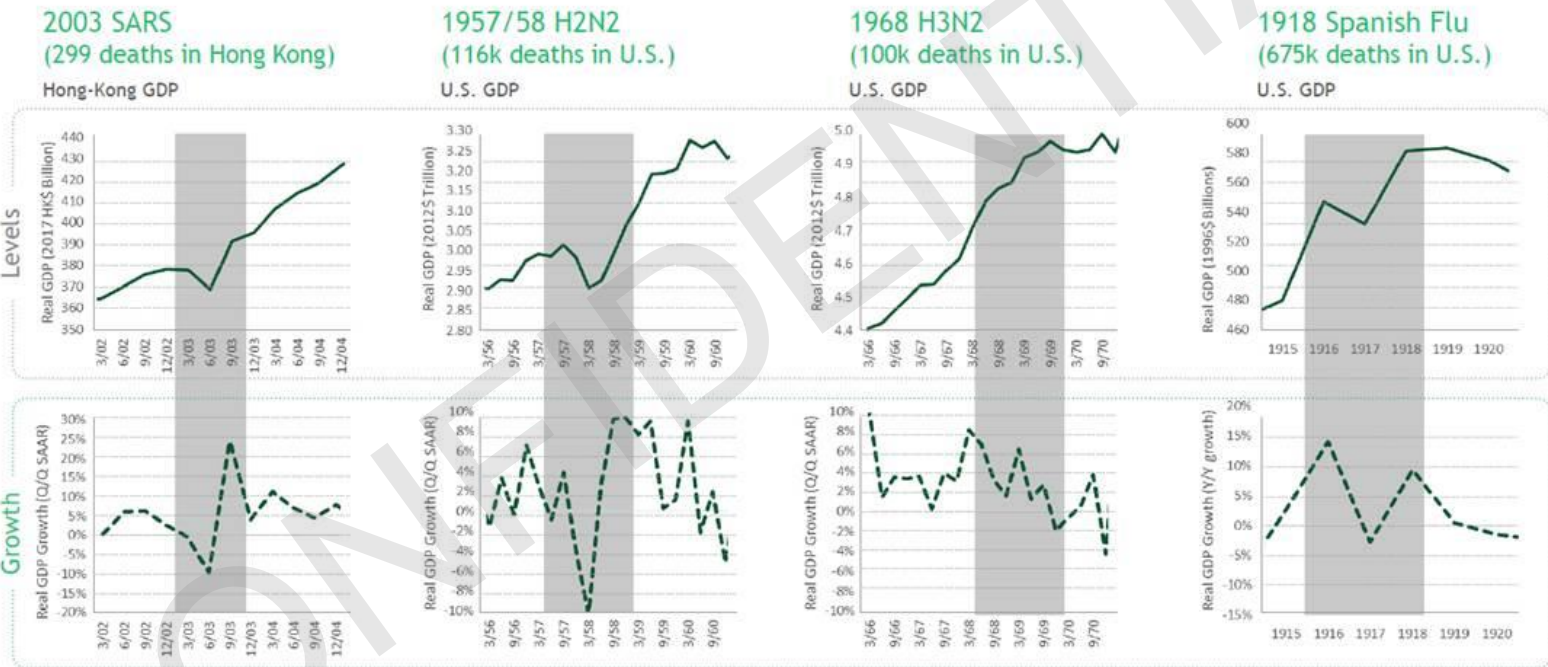


POSSITIVE THINKING ABOUT COVID-19

Although the expectations about the future of the market are not optimistic, empirical landscape shows that V-shape scenario was dominant for previous pandemics.

V-shape monopolizes empirical landscape (all examples)

U would be V's ugly sibling and L-shape implies (improbable) structural damage



Source: U.S. Census, BEA, CDC, Census and Statistics Department (Hong Kong), BCG Center for Macroeconomics analysis

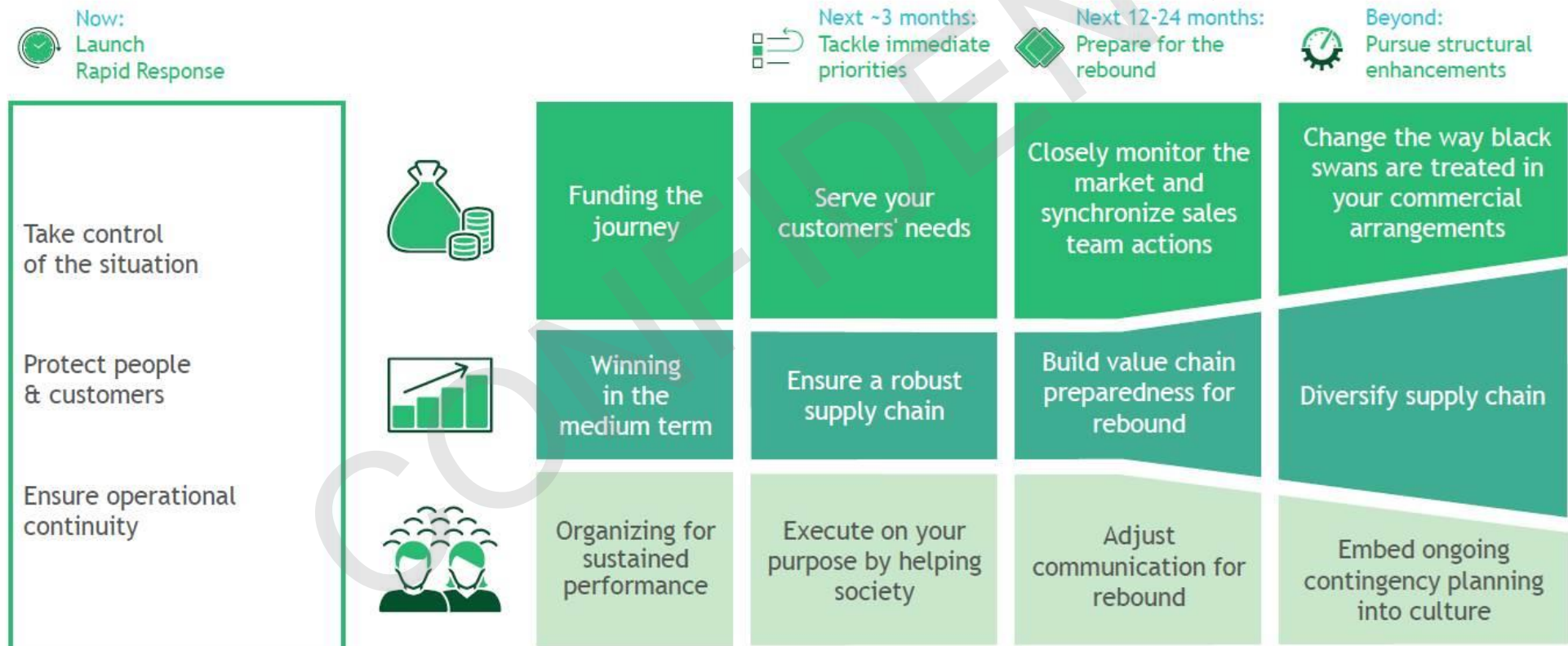
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Stronger or weaker waves in which the epidemic may return will depend on factors such as social distancing or invention of a medicine or vaccine.

POSSITIVE THINKING ABOUT COVID-19

As Inter Cars we are preparing a rebound scenario, in which important element is to strengthen the supply chain together with our strategic suppliers.

How to approach the threat: Rapid Response followed by a structured delivery program



PASSENGER VEHICLE SPARE PARTS SEGMENT

The Aftermarket in PV spare parts will not come back to standard growth in June. The supply chain will be discontinued due to lock down in production. Unavailability may appear.

2021 – Come back to standard growth

Market Value estimation	2020	2021
	(6-12%)	0-5%

TRUCK SPARE PARTS SEGMENT

The Aftermarket in spare parts sector to HD is expected to record negative growth on a larger scale than PV segment. Condition of the segment is closely related to economic growth and directly depends on the development of trade and the industry sector.

Market Value estimation
 2020 (10-20%)
 2021 (0-10%)

Expected market growth compared to 2019 (red numbers in brackets indicate decline)

GDP	POLAND			EU&UK
	2019	2020*	2021*	2020*
Real/estimation	4,30%	-3,50%	4,50%	-3,50%
MFW		-4,60%	4,20%	
Credit Agricole		-3,80%		
S&P		-2,00%	4,80%	
FitchRating				-3,50%
Road construction:				
	2019	2020	2020/2019	
Investment Budget	20,0 mld pln	12,2 mld pln	-39,00%	
Coal consupion:	2018	2019	2020/2019*	
	39,2	36,1	-7,91%	
Agricultural production:	2020 expected decrease in production due to the drought period			
Industrial production:	2020 many units temporarily closed in other disturbances in supply chain; expected decrease in production			
Mobility package	EU regulation restricting the access of foreign carriers to the transport of goods in the cabotage model with negative impact on especially Polish carriers that are leaders in this transport system.			

* estimation



TYRE SEGMENT

➤ **Assuming "loosening" of restrictions starting from Q2 2020**

The decline in the sell-in market in Central and Eastern Europe in Q1'2020 will continue until the end of Q2'2020 (summer tires);

Changing of tires is not considered as absolute first necessity, in case of unnecessary expenses being saved, many people decided to continue driving on winter tires

The market decline in 2H2020 should not exceed 10-15%

Increased consumption of winter tires in the summer season gives a good chance to rebuild the demand for winter tires in 2H2020

After experiencing the lack of winter in the 2019/2020 season, a significant increase in demand for all-season tires is very likely

Return to natural market level in 2021

➤ **Assuming the continuation of significant restrictions until the end of 2020**

Market decline in 2H2020 at a slightly lower level than in 1H2020 (15-20%)

If an increase of unemployment and a decrease in the wealth of wallets translates into a significant reduction in mobility, then some users will postpone tire replacement for at least a full year

Gradual rebuilding of the market from 2021 (in 2021 return to market at -10 / -15% vs 2019)

OIL AND LUBRICANTS' SEGMENT

- Oil change is „must be” for a car.
- Unemployment after crisis should be compensated by higher mileage driven by passenger cars. Many employees have already given up public transport.
- Market demand for cheaper products will be higher, mainly for older cars.
- Change of market structure structure is expected (increase of cheaper products, decrease of more expensive products)

GARAGE EQUIPMENT SEGMENT

- U-shape scenario (most likely for market recovery) – 10%-15% market decline in 2Q2020 and in whole 2020 is expected (vs 2019)
 - slow defrosting of restrictions, gradual return to normal cooperation with garages and improvement of the economic situation and "controlling" the pandemic will save the market at above level;
- if the wealth will not significantly decrease, the society will shifting to private cars instead of public transport, the car as the basic means of transport must therefore be functional no matter what;
- most of the workshops already implemented cost saving procedures - postponed investment decisions (replacement of garage equipment);

BODY PARTS SEGMENT

- U-shape scenario (most probable) - in case of slow unlocking of individual segments of the economy
- After "lockdown" market should return to the starting point;
- The only turbulence may be due to the potentially smaller number of imported used cars, some of which arrive from West Europe and USA to Poland but also CEE after collisions / accidents;
- Smaller import should be compensated by more cars on the road – people will try not to use public transport. There is chance for aging park and it should also have good impact on sales of AM body parts;
- Probably there will be less „cosmetic” repairs (ex. paint only).
- Collision / accident repairs will be carried out as before, because:
 - the insurer often pays for it
 - keeps mobility of car
 - cars can be stopped by the police or fail technical examination (e.g. damaged lighting, no bumper, rust)
- Collision / accident repairs will be the first repairs to give the driver mobility.

Market players:

- In group of large players changes are not expected;
- Possible market changes among smaller, local companies or brokers.

BATTERIES' SEGMENT

➤ Scenario V - assuming the "loosening" of restrictions starting from Q2 2020

Only temporary perturbations related to restrictions on the use of cars and the functioning of workshops

Replacement of the battery has "action" nature (failure), as a rule, there is no postponement of purchasing decisions

With the level of used cars unchanged, the market has no reason to decline.

The 2020 market should maintain a level similar to 2019 (possible decrease upto 5%)

➤ Scenario U - assuming the continuation of significant restrictions until the end of 2020

10% market decline in 2020

A decrease in the number of cars used as a result of months of limited mobility

Full reconstruction of the market in 2021 (with the prospect for growth)

Increased battery failure rate as a result of limited vehicle use

MOTORCYCLES CLOTHING AND ACCESSORIES SEGMENT

V SHAPE

- End of epidemic restrictions in a short time - quickly reducing the impact of quarantine on consumer behaviour.
- Probability of problems with the availability of goods on the market due to the disturbances of supply chains.
- Market stabilization and sales increase in 2021.

2020	2021
(10-20%)	5-10%

U SHAPE

- The extension of the epidemic - negative impact on consumer behavior until mid-Q3 - most of the motorcycle season.
- Probability of unpredictable reactions - market destabilization.
- Profitability drop for small businesses. Closing of some motorcycles companies.
- Stabilization in 2021 - more opportunities for key brands and sales networks.

2020	2021
(15-25%)	0-15%

L SHAPE

- The negative effects of the epidemic throughout the season.
- Big sales drop. Loss of profitability of many companies. Oversupplied market.
- Probable necessity to change suppliers' strategy. Favorable changes for large distributors.
- Decline in 2021 due to unstable market. More opportunities for large companies.

2020	2021
(25-35%)	(0-5%)

TUNING SEGMENT DEVELOPMENT

NEGATIVE EFFECTS

very difficult to determine the probability of events

all predictions are subject to high uncertainty, due to uncertain future

Tuning parts are not first necessity products

POSITIVE EFFECTS

Although strong turbulence in H1 2020 we expect that overall tuning market decline in 2020 should be around 10%

TUNING SEGMENT DEVELOPMENT

U-shape scenario - most likely for market development, if in the middle of the year the situation in the country will begin to return to normal.

Tuning and Motorsport

- **Decline of the 2020 tuning market potential will occur, mainly due to:**
 - delayed season - At least half of the season will be lost, but it will start - many motorsport enthusiasts use their free time to prepare cars for the season. There is time to change the turbocharger, intercooler, or do overall tuning.
 - sharp decline in the wealthiness of the population and fewer Motorsport events,
 - motorsport accessories are not the first-need, it may take longer to rebuild the market potential.

Car LPG Installations.

- **Decline of the 2020 LPG market potential will occur, mainly due to:**
 - the wealth of the society – together with the fact that aftermarket installations sometimes generate technical problems – means that often drivers after purchase of used car decide to drive on gasoline, not opting for conversion to LPG;
 - Market downstream - decline - for several years, in the case of aftermarket (not dealership) conversions, we have been observing a very clear downward trend. In Poland, the only criterion for the assembly of LPG installations was economics (not ecology, as in e.g. countries such as the Netherlands);
 - society wealth decline trend – this trend can limit the expenditure for LPG installations, especially now when LPG installation is more expensive than it used to be and return from investment takes more time;
- **Positive aspects:**
 - the decline in the wealth of society - combined with the fear of using public transport, will reverse the downward trend and a slight increase or at least "flatten" the market decline.

We must not forget that after the coronavirus epidemic, some people will simply be poorer. It will also affect those whose passion is motorization and motorsport, which is why it may take more time to rebuild the market. Still, the extended U-Shape variant can be considered more likely.

ACCESSORIES SEGMENT

Most probable market scenario - duration of quarantine - until the end of May

Market situation after quarantine:

- Weekend trips for short distances (June) - to the family, recreation own place, etc.
- Holiday trips seem to be realistic (July - September) - trips mainly domestic and mainly with their own cars (certainly in a larger number than in previous years)
- The desire to return to a "normal" life will significantly increase purchases (mainly through e-commerce)

Accessories especially purchased

- Chemical disinfection products
- Car care products - cleaning of the car after winter and after the ban on visits to the car wash
- Retrofitting the car (comfort products, child seats, telephone holders, bicycle racks, roof boxes, video recorders, CB-radios, seat covers for transporting animals)
- Replacement of the car equipment after quarantine - new floor mats, covers, steering wheel covers, elements with a high concentration of pathogens that can be easily replaced - general disinfection of the car

MARINE SEGMENT

POSITIVE EFFECTS

Weaker companies are unable to cope with market stop

The market is looking for cheaper replacements though by then the maintenance was made of the originals.

Supply problems reward companies that keep goods on stock

Reducing demand for new units increases renovations of old boats

NEGATIVE EFFECTS

Market decrease in 1H 2020

Practically cancelled start of the season falling on the May weekend in PL

Holidays and luxury products come to the second during the crisis

High probability that many boats will not be launched for the 2020 season

The pandemic will have a long-term impact on market situations.

The sales structure will change significantly and the importance of the aftermarket will increase.

We expect that the 2020 holidays will be very limited - the market will not be able to return to pre-epidemic in 2020.

SUMMARY

- Each market segment will suffer smaller or bigger decline in 2020
- Pandemics and slowdown of the market gives Inter Cars a chance for internal optimisation - cost and structural
- In each segment we see the chance for consolidation and increase of market share
- We expect that consolidation on the market will occur – smaller players are at a disadvantage

As the key player in many segments and CEE aftermarket, we would like to continue the stable partnership with our suppliers.

We would like to share with you in the future the Information about vectors of the markets – we will update the Information if possible.

