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Automotive Messenger

July 2015

How far can reality stretch?

Welcome to our summer edition of Automotive Messenger. We now have registration data for the first six months of 2015 and, at first glance, it is good news with volumes a whisker away from being 7% up over 2014. The concern, however, echoed by many inside and advising the downstream sector, is registration data moving further away from the reality of sales. Targets for dealers are higher than ever and more and more innovation is creeping in to the monthly statistics. Our worry is the impact this is going to have on the used vehicle market, and in particular, residual values. Whilst it is true that average used vehicle prices have risen faster than new vehicle price inflation over the past few years – and that this is unsustainable – it is not a certainty that this situation will reverse suddenly – but it could if factors conspire to knock confidence.

We understand that three year old vehicle values are not showing declines at auction as yet; nonetheless, certain volume marques are not performing as well as premium brands against book values against this benchmark. In the 'late plate' category, the innovation in registration is completely transparent – new vehicle registrations have been growing on a seasonally-adjusted basis for many months yet recent surveys show that is not translating to new sales but adding in to an almost 'created' category of 'delivery miles used', with supply becoming ever more abundant. Strong management by all concerned is the holding glue, but additional supply from further 2015 volume, and faster turnaround Personal Contract Purchase (PCP) return product, could be seriously challenging on prices. So we have an incredibly mixed message of positivity and concern over sustainability.

What do we anticipate? The downstream sector should expect some softening of used vehicle prices in the near term as supply increases in line with heightened new vehicle sales from 2013, accelerated PCP returns and increasing disparity between dealer new car registrations and sales. The wise dealers are managing stock levels with this in mind and ensuring that stock turn is kept high and vehicle availability prioritised. It is an unfortunate consequence of monthly valuation book changes that profit can be lost simply by a drop in used vehicle stock value and the PCP bandwagon potentially derailed by not achieving the right residual value at the point of change. Although some brands seem more affected than others, it is good to be prepared.

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The first half year ends where it started

The first six months of 2015 show volume aplenty but some retailers are struggling to keep up

The more people in the industry we talk to, the more confusing the picture becomes around the new vehicle registration data. As we have commented previously, there is an increasing gap between reported data and reality as the monthly registration data does not reflect new vehicle buying trends.

If you can count a vehicle as a registration when it isn't even remotely delivered, there has to be something awry and we are aware of brands who are following that approach. It devalues the DVLA and SMMT data and does rather question how the positive comments are justified. We are all for confidence boosting and not creating self-fulfilling prophesies, but if vehicles aren't here or are stored in a field awaiting a used customer, can that be right? Better to have data to understand where the registered product has actually gone and then you start to understand the true trends in the sector.

Having said all that, we need to comment on the half year results to June and very (on paper) impressive they are – almost 90,000 more vehicles registered than 2014 giving a grand total of 1,376,889. June itself was an excellent (on paper) result and some brands have now really kicked-on from 2014. Within the bracket of manufacturers achieving at least a 1% market share, MINI, Land Rover, Mazda, Mercedes, Nissan and Renault all registered increases of 15%+, with MINI recording an increase of 46% and Nissan registering 12,500 vehicles over and above 2014.

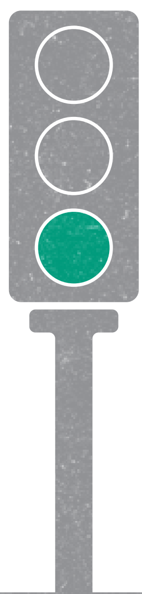
Ford has retained its top spot with 177,150 vehicles registered albeit on a declining market share. This only represents 4,000 new vehicles over and above 2014 and they were virtually achieved in the month of June itself. Vauxhall find themselves at number two having registered an extra 800 vehicles over 2014 and Volkswagen is number three on an increasing market share and an extra 9,500 units sold. VW registered an additional 5,000 units in June 2015 over 2014, an increase of some 27%. Let's hope that translates to bottom line for the dealer network.

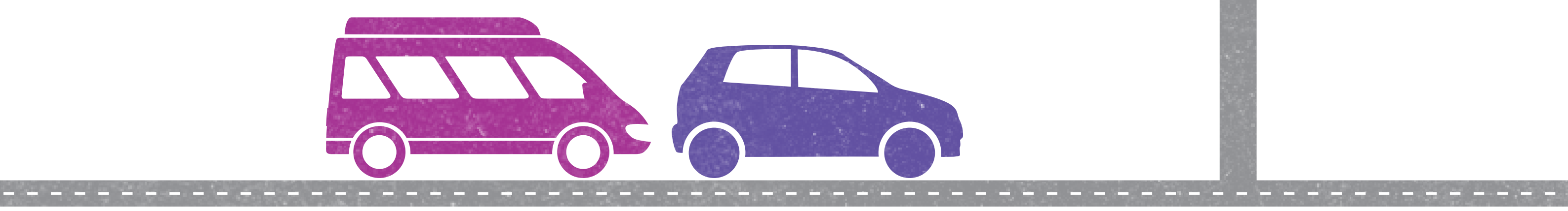
Market share remains the holy grail of statistics with each extra unit sold being a thorn in a competitor's side – and in this department, the half year winner with significant volume has to be Mercedes where 11,000 extra registrations have pushed market share up by 0.5% which although not a huge figure is highly impressive in the crowded world of premium brands and Nissan with not dis-similar results in the volume market. Mercedes will be thrilled because BMW's market share has remained static and Audi's has actually fallen from 6.51% to 6.25%, showing the power of their Personal Contract Purchase (PCP) programme and then Residual Value (RV) management.

Nissan will also be thrilled that Infiniti has pushed up registrations by nearly 400 units, an increase of 169% and boding well for the launch of the new, Sunderland built Q30 in early 2016. Jeep recorded the biggest rise in the half year with an increase of some 229% and additional units of 1700.

Commercial vehicles (CV) power on

Without a doubt, CV has been the star of the show for the first half of 2015 with a total increase in units to 186,404, a massive 19.85% increase over 2014 with June holding up on that trend. CV is much more about the economy than passenger cars and now the election and Scottish votes are settled, even more entrepreneurs are finding the lure of a new van too good to miss, with deals aplenty.





Ford retains its number one slot but was matched all the way in June by Vauxhall who registered an additional 43% of product. Between the two volume-meisters, they have registered a staggering 73,456 units in the first six months, which puts them well up the vehicle tables. Vans are an important part of a brand portfolio and we see more and more used van operators taking advantage of the plethora of decent used product available to enter the market. We are all too aware that a thriving used market is a necessary building block to keep the new driving forward!

In heavy trucks, there has been a similar renaissance and the month was up by 1,100 units over 2014 and cumulatively that equates to an increase of 48.73% over 2014 and a total registration number of 19,019. All the big players have done well with the exception of Renault Trucks who have gone backwards by 8% and Iveco who have stood still. DAF, Scania and Volvo Trucks have all recorded a volume increase over 2014, in excess of 50%, and Mercedes was only just short on 46%. There is a good vibe in the truck market, long may it continue.

Grant Thornton are delighted to have been primary buy-side advisers on the recent transaction that sees MIRA, the well-respected automotive industry research group, become part of the Japanese listed business HORIBA, Ltd, itself a leading supplier of measurement systems to the automotive industry, in an £83.1 million deal. The transaction sees the formation of the new company, HORIBA MIRA Limited. Established in 1946, Nuneaton-based MIRA provides testing, design and development research services to the automotive, railway and aerospace sectors. Congratulations to our colleagues who provided the specialist services.

The services provided by Grant Thornton, which covered diverse fields, was really valuable given the complexities in this deal. Proactive advice on different areas, such as financial due diligence, tax, was indispensable to complete the deal within the fixed time limit.

Junichi Tajika
Deputy General Manager,
Finance & Control Division, HORIBA, Ltd.

The Summer Budget

The Chancellor has delivered his Summer Budget in the full comfort of a Tory majority and this has been seen as one reason for a very political approach to this recent statement. Colin Tourick, Grant Thornton Professor of Automotive Management at the University of Buckingham, looks at some of the key issues.

Prior to the Budget, the AA asked the government to freeze fuel duty and the Freight Transport Association asked for it to be reduced. The AA got their wish, the FTA didn't. Fuel duty was left unchanged. However the government's revenue from fuel has been rising, because more miles are being driven in corporate land as the economy grows and because the recent rise in the market price of fuel has increased the amount of VAT collected. This is always a variable tax take and we see this price rise in reverse at the current time.

The fleet industry would have been particularly upset by anything that changed the attractiveness of salary sacrifice schemes. They have invested heavily in these and take up has been growing steadily following a slow start. Fortunately the Chancellor left salary sacrifice untouched.

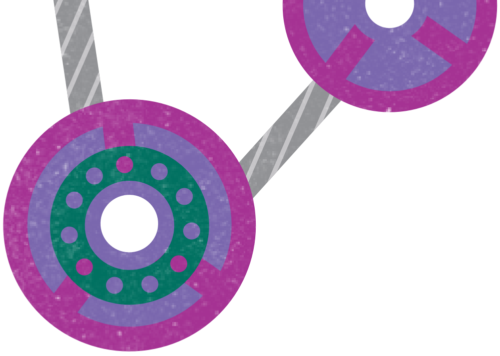
There were two notable changes in the Budget for the automotive sector. The first was the announcement of a new system for vehicle excise duty (VED). The second was in relation to Insurance Premium Tax (IPT), more on this below. Neither change was expected and the changes to VED received relatively little comment in the press following the Budget, possibly because the changes – to be introduced from 1 April 2017 – will only affect new cars bought after that date. Nonetheless the VED changes are extraordinary, for two reasons.

First, the money raised from VED is to be spent on the roads. This type of ring-fencing – called hypothecation – has always been resisted by government because it reduces their flexiblity. It remains to be seen whether this will remain a permanent feature of the system or something that turns out to have been a great sound bite but a promise that cannot be sustained.

Second, the changes radically alter the VED system, as this chart highlights.

	2015-16		2017-18	
Emissions	**Annual rate**	**1st year rate**	**Annual rate***	**1st year rate**
CO2 (g/km)	**£**	**£**	**£**	**£**
0	0	0	0	0
1-50	0	0	140	10
51-75	0	0	140	25
76-90	0	0	140	100
91-100	0	0	140	120
101-110	20	0	140	140
111-120	30	0	140	160
121-130	110	0	140	160
131+	Rising from £130 to £505	Rising from £130-£1,100	140	Rising from £200 to £2,000

*Cars above £40,000 pay an additional £310 supplement for 5 years.



This new system – which is estimated to raise an additional £3.23 billion over four years – has the potential to alter vehicle buying behaviour, in particular for vehicles with a CO^2 rating above 130 g/km.

VED will be payable for the first time on any car that emits any level of CO^2. With the government trying to drive a green agenda, the message is stark in that zero is good but anything beyond is going to carry a penalty charge. This will somewhat undermine the efforts of those who are trying to encourage the take-up of ultra-low emission cars because the VED incentive in buying those cars will disappear on 1 April 2017 (though we may well see a spike in the purchase of those vehicles just before that date).

The changes announced to IPT were labelled by The British Insurance Brokers' Association (BIBA) as a stealth tax rise. They were largely a surprise and could be a real issue for consumers because although IPT is a tax on insurers, it is typically added to the cost of policies. The proposal is that the rate of IPT is increased from 6% to 9.5%. BIBA estimate this will affect 19.6 million households with motor insurance and The Association of British Insurers estimates that the new tax rate will add £12.25 to the average annual comprehensive motor policy.

One final point of 'direct' interest in the Budget was the plan to extend the date of the first annual MOT from three years to four. This can probably be justified by the fact that cars have become much safer over the years, and will probably be welcomed by those businesses that have moved to a four year replacement cycle.

Hazel Platt, Partner responsible for Automotive Tax within Grant Thornton, added "Colin's summary shows that the Chancellor announced a number of measures specific to the Automotive industry. In addition he also announced several changes to the way in which corporates are taxed which will have broad application. One key concern our clients must face, not specific to the industry, is the setting of the future minimum National Living Wage. In retail franchise businesses there are likely to be employees who will benefit from the raising of the threshold, but this may put pressure on employers to rethink their employment strategy and whether this causes more problems than it resolves remains to be seen. The sentiment makes sense but the reality may be somewhat different in outcome."

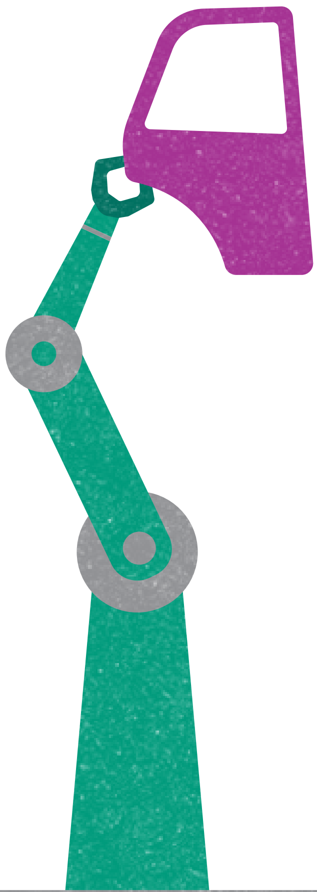
The Summer Budget on 8 July also included a surprise announcement which will affect the strategy for acquisitions going forwards. Historically as a generalisation vendors were typically keen to sell shares and buyers keen to purchase trade and assets. The purchase of trade and assets would quite often result in goodwill being reflected on the acquirer's balance sheet with amortisation of that goodwill being tax deductible. For acquisitions from 8 July onwards such goodwill amortisation will not be tax deductible and the same restriction applies to future acquisitions of customer related intangibles too.

Draft legislation has been published and may be the subject of debate but as things stand the position is clear and negotiations regarding future acquisitions will need to factor in the impact of these new rules in particular the impact on pricing and the need to consider financial and tax due diligence where shares are being bought.

Automotive News Congress

Neil Barrell and Bill Parfitt attended this year's event staged in the UK and came away with some interesting pointers to the future of the industry. The following summary draws out some of the messages given to the delegates, and therefore contains no Grant Thornton opinion.

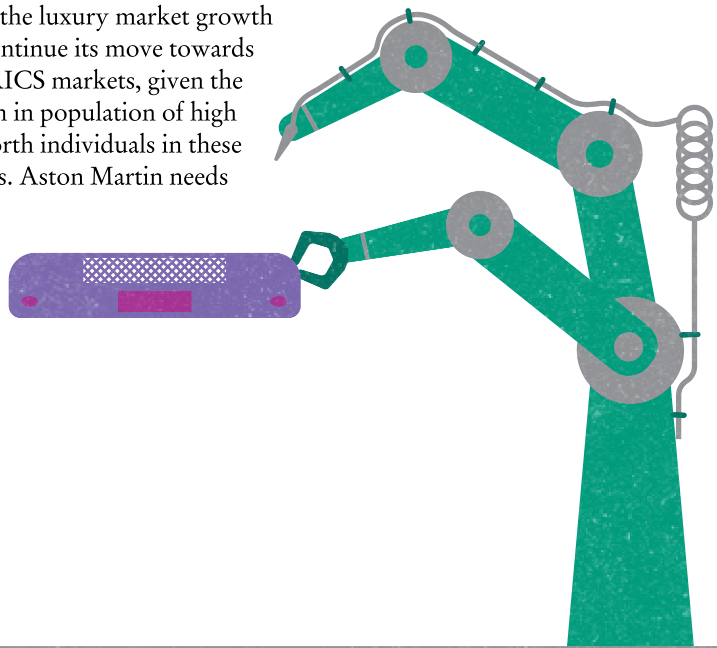
The prevailing messages coming out of this year's Automotive Congress were optimism for the performance of the Global Automotive market, concern over the sluggish European Market and the slow recovery and subsequent anticipated consolidation within the European dealership network.

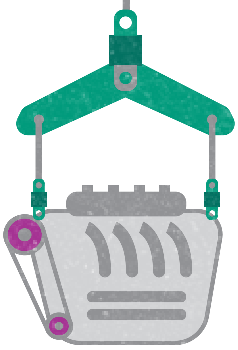


The 2015 congress, held in Birmingham, opened Day 1 with a tour of the IAC-JLR plant at Halewood, followed by the Rising Stars Dinner and Awards Ceremony at Coventry Cathedral.

The opening presentation was given by Andy Palmer, CEO of Aston Martin. Having been voted the UK's coolest brand five times since 2006, the reinvention of the Aston Martin as a luxury brand was a key message. The overall plan for Aston Martin is a three-phase approach, addressing stabilisation before progressing to strengthening and the expansion of the portfolio. The global expectation is that the luxury market growth will continue its move towards the BRICS markets, given the growth in population of high net worth individuals in these regions. Aston Martin needs to maintain their position as a luxury brand making beautiful cars which are relevant to the new growing generation of customers and satisfying the demand for Brand experiences as well as product. The relationship with the dealers remains an essential enabler to delivery of end-to-end service excellence and personalisation.

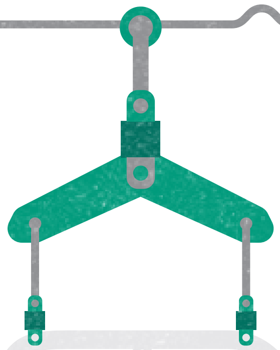
Bo Andersson, CEO of AvtoVAZ, spoke of the impact that falling global oil prices have had on their markets. This has particularly hit the Russian market which has also suffered from the sanctions imposed by the West, the cost of borrowing, increasing





inflation and a Russian recession. The AvtoVAZ market is forecast to drop by 35% in 2015 compared to the prior year and their priorities to address this decline are both internally and externally focused. A key challenge, faced by many manufacturers, is restructuring the supply base to reduce complexities and support manufacturing operations from a de-risked position. Internal challenges include driving continuous improvement through a change of management culture and reducing cost in all business areas. Alongside successfully launching the new Vesta and XRAY on time, the company will also look to improve customer satisfaction and improve quality in both purchased parts and production.

Arndt Ellinghorst, CEO of Evercore ISI Europe, presented a view on the market's financial performance and investor sentiment towards the automotive industry. Evercore's view of the market is a positive one and they expect a steady but slow improvement in European performance. Investments in automotive stocks have yielded significant returns and they anticipate further room for upside, particularly in European Automotive Bonds. The positive outlook is not, however, universal across the industry value chain, with OEMs not being effective at passing costs onto the end user – resulting in around 50% of European OEMs not being profitable. The cost curve for internal combustion engines is anticipated to head upwards, with the opposite expected for that of alternative power trains. Top global OEMs are set to continue to prosper, but in order to do so they need to adapt to a new business model to act smarter and generate better capital returns. Certain suppliers are seen as being structurally better businesses than OEMs, with growth in content per vehicle providing good opportunities for volume growth and pricing power.



The CEO of Citroën, Linda Jackson, was the next speaker and covered the changing global consumer markets. Customer expectations are rising continuously and expectations are now for more personalisation, more added value, better experiences and increased connectivity. Linda discussed the history of Citroën as providing a unique experience and spirit and how they are looking to continue this through their current product portfolio. Citroën will look to focus on creating a successful customer experience, leading to a positive cycle between sales and great service.

An overview of the future strategy of the Volvo Car Group was given by Håkan Samuelsson, President and CEO. The aim of the Volvo journey is to revitalise the brand, make innovative products and focus on global growth. They will focus on Scandinavian design, safety and environmental performance, illustrating that Volvo truly understands its customers. Volvo will focus on a new range of powertrains with lower weight, fuel consumption and omissions, with more power along with electrification and plug in hybrids.

The closing question and answer sessions provided opportunity for more discussion around the various topics raised during the day. The message from the congress was the expectation of a reduction of the dealer network across Europe of between 35% and 40% over the next five years generated a lot of interest and comment. This transition is expected to be gradual but there is a need to manage it carefully to avoid a loss of sales volume and keep in step with other emerging sales channels. The overall outlook for the Global industry is a positive one, with continuing growth in vehicle sales anticipated.

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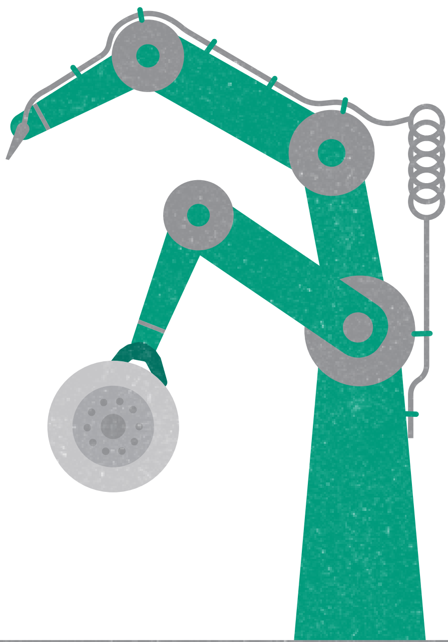


News snippets from the automotive industry

Grexit and Brexit

Sounds a little like a fairy tale, but the reality is far more serious. Endless discussions have been had around the potential exit of Greece from the EU and that nation's effective rejection of the EU rescue package and conditions (although not the parliament), with the latter built around an austerity economy that was not well received. More important is the 2016 UK vote on EU membership which David Cameron is now committed to, and for which he is busily trying to renegotiate our current terms.

A so-called Brexit would have an adverse effect on the German automotive industry, not only for exports but also the supply chain. Unbelievably (or perhaps not!), a fifth of all cars produced in Germany were exported to the UK in 2014. In comparison, only 0.3% found their way to Greece. And of course, the German auto industry has production in the UK with MINI and Bentley. There is a deep fear that production would be adversely impacted by separate regulation and potential new treaties, inevitably disrupting the supply chain as well. All in all, a pretty negative scenario for the German automotive industry.

Further indications of mobility changes

We have long been a professional advisory business that recognises change, and none more so than that reflected in mobility, with usership placed firmly ahead of ownership in the coming generations. This is undoubtedly the industry's biggest challenge and is the cause of sleepless nights. Uber has the highest profile of all "disruptive" technologies, allowing ride-sharing and giving taxi operators severe competition. Uber is growing massively in India where it is slowly opening across the great cities of that country – in India it has competition from local rival Ola, and between them they have around 150,000 drivers, an amazing number over a short period of time.

In June, by response, Ford, General Motors and BMW announced peer-to-peer vehicle sharing projects where vehicle owners earn money by renting out their vehicles to other drivers. DriveNow is the BMW branded scheme, already in existence, and will allow MINI customers to rent out their vehicles. General Motors now have CarUnity and they see Facebook friends as a way to kick off their scheme. Finally Ford has a platform easyCar Club and a pilot, in and around London, will be available to customers who financed their new vehicle purchase through Ford Financial. All three manufacturers share the income generated with the renter, and other independent schemes such as BlaBlaCar and RenteCarlo also offer car-pooling variants, validating the move away from ownership.

In fairness, the projects do seem to be aimed squarely at city dwellers. Whether mobility manifests itself in the same way in the more rural locations remains to be seen. Surely someone is looking to do that right now!

China finds reverse gear – and BRICS seeks an identity

It cannot have escaped attention that the Chinese Stock Market recently fell by a massive one third and all but the five largest groups on ChiNext were suspended and managers banned from selling shares for six months. The Chinese economy is slowing and in June 2015 car sales fell by 3%. Some suggest this may just be a blip but there is further evidence of increased vehicle inventories and major discounting, all of concern for the big vehicle exporters to that market. Having had a torrid time, it seems the local Chinese brands are selling well off a cheaper price structure. China is important as it is a strong margin market and a decline in demand will hurt Automotive manufacturers.

China is a key part of BRICS – alongside Brazil, Russia, India and latterly South Africa. This is not by any means a natural alliance, and there is a gulf between the way they operate as countries, and indeed, as economies. Alongside China, Russia and Brazil are not performing too well at present either, and this gives cause for some concern. Added to that is the BRICS move to set up both a currency pool and a New Development Bank, seen as an alternative to the IMF. Times are changing and it is likely to impact Automotive in ways we have yet to discover!

News snippets continued...

Nokia has something we have to buy

Perhaps a little-known fact, but evidently Nokia Here, which creates high-definition mapping software is used by almost all of the Top 20 automotive manufacturers. So when Nokia announced it might consider selling the division, it was no surprise when three German brands allegedly joined the race to acquire. They face stiff competition from some North American Private Equity companies but the prize is enormous.

The connected-car is similar in stature and importance to mobility – manufacturers crave the ability to communicate real time with drivers and get involved in mobility style offerings such as hotel bookings and traffic updates. Who owns the customer is a familiar question we have posed and this Nokia Here auction seems to suggest the manufacturers firmly believe it is themselves! This is completely understandable, but poses a great challenge – if you build a car and sell it once, but everyone else takes a slice of the action by leveraging your grunt work, what is the real value in production? Google and Apple may see this as their goal – driverless cars seem to us to be a smokescreen for other penetration which pits in-car technology against cloud-based services and uses data to change habits and direct spend. Watch this space!

Patriotic product creates a headline or two

Patriotism is not just for us British even though we seem to treat the trait as our own. Vehicle brands are again stealing headlines for very different reasons. In the UK, the Land Rover Defender is about to be taken out of production, and whilst it may re-appear, it will not be as a utilitarian Farmer's friend which made it so iconic. We understand it was originally designed as a small tractor and to quote a source 'as a toolbox on wheels'. It is seen as patriotically very British – some early models still appear on the roads and it is estimated that 70% of the model are still in use or have at least avoided the scrapyard.

But patriotism rules elsewhere – on a different note, Toyota recently sold a new class of share, the so-called Model AA after Toyota's first ever vehicle. And despite the price being at a 30% premium to the existing stock, small Japanese investors have been drawn to invest with the shares effectively acting like a convertible bond and Toyota buying back at par at the end of five years. There was much criticism of the issue but clearly that did not put off the Japanese investor base.

Then finally on the theme of patriotism – there is the Russian Lada. Despite its Nissan-Renault ownership via AvtoVAZ, you cannot help but admire it as a very Russian product. Vehicle sales in Russia have plummeted by 40% over 2015 to date, yet the Lada has increased its market share – currently around 19%, which is admittedly a huge way off the 1998 peak of 90%! However, the rate of decline for Lada has been lower and it can still form a very Russian part of the Renault-Nissan Alliance objective to be number three in the world, especially as AvtoVAZ build around 150,000 vehicles for other Alliance partners in Togliatti, one thousand kilometres away from Moscow and evidently one of the largest vehicle plants in the world – long live a good dose of patriotism.

Who is Fiat Chrysler?

Having spoken of patriotism, can the same be said of the Italian/American business – yes, there has always been a close connection between the two countries (not always in the most positive way), but where is the soul of the business? Probably more US than anything, but with Sergio Marchionne still seeking another merger partner, who knows. The latest sortie with General Motors seems to have failed, yet he is determined to see further consolidation in the industry. Our view is he has a point, and ultimately if we see another 2008 then he will be vindicated. There is so much to be gained from global and local economies, upstream and downstream, we are sure Sergio will continue his hunt.

The sun shines in Birmingham but you need an umbrella

It was very interesting to hear from Neil and Bill who attended the Automotive News congress held in our second city about the optimism there is for automotive and how brands are positioning themselves for their future growth. Each brand has a different spin on the future but they all see a bright one for their own brand – not surprising really!

A lot of focus seems to be around the customer experience and how that is delivered. Aston Martin placed great emphasis on their dealer networks and the intimate customer relationship. We totally get this, but it is not, in reality, a commodity product, it is something far beyond that and the same cannot be said for the volume generators who have much less ability to personalise the consumer offering and relationship. Brand reputation, decent service, the right price and a connected vehicle seem to us to be much more the route to pursue.

The umbrella comment is exactly on these lines – in the article on the Automotive News congress for this edition, the last paragraph is very pertinent and clearly came out of the Q&A session – what does the future hold for the traditional dealer network. Back in the day, we hit the headlines with a comment that there would be a thousand less dealers (at that point in time) in the UK – and it happened! The Congress seemed to conclude that over a third of dealers across Europe will be lost over the next five years through a gradual process. This seems to suggest further European M&A activity but also a recognition that there are just too many dealers and that cannot be sustained. We are currently working with brands going in the opposite direction (expanding dealer networks) so that means the law of averages dictates the true fall out rate to be much higher than one third. Brand network strategies need to tread that fine line between unviable networks and avoiding the loss of volume – never an easy one to balance successfully but a necessity in challenging times.

Band reputation, decent service, the right price and a connected vehicle seem to us to be much more the route to pursue.

Registration data

UK new car registrations for six months to 30 June 2015 (YTD)

	YTD2015		YTD2014		2015/2014	FY2014		FY2013		FY2012		FY2011	
Brand	**Units**	**Share (%)**	**Units**	**Share (%)**	**% Change**	**Units**	**Share (%)**	**Units**	**Share (%)**	**Units**	**Share (%)**	**Units**	**Share (%)**
Ford	177,150	12.9%	173,554	13.5%	2.1%	326,643	13.2%	310,865	13.7%	281,917	13.8%	265,894	13.7%
Vauxhall	142,434	10.3%	141,609	11.0%	0.6%	269,177	10.9%	259,444	11.5%	232,255	11.4%	234,710	12.1%
Volkswagen	120,064	8.7%	110,666	8.6%	8.5%	214,828	8.7%	194,085	8.6%	183,098	9.0%	179,290	9.2%
Audi	86,009	6.2%	83,761	6.5%	2.7%	158,987	6.4%	142,040	6.3%	123,622	6.0%	113,797	5.9%
Nissan	83,423	6.1%	70,929	5.5%	17.6%	138,338	5.6%	117,967	5.2%	105,835	5.2%	96,269	5.0%
BMW	80,363	5.8%	75,122	5.8%	7.0%	148,878	6.0%	135,583	6.0%	127,530	6.2%	116,642	6.0%
Mercedes-Benz	74,803	5.4%	63,866	5.0%	17.1%	124,419	5.0%	109,456	4.8%	91,855	4.5%	81,873	4.2%
Peugeot	57,337	4.2%	57,428	4.5%	(0.2)%	103,566	4.2%	105,435	4.7%	99,486	4.9%	94,989	4.9%
Toyota	53,945	3.9%	51,064	4.0%	5.6%	94,012	3.8%	88,648	3.9%	84,563	4.1%	73,589	3.8%
Hyundai	46,743	3.4%	42,732	3.3%	9.4%	81,986	3.3%	76,918	3.4%	74,285	3.6%	62,900	3.2%
Citroen	45,483	3.3%	44,090	3.4%	3.2%	83,397	3.4%	78,358	3.5%	73,656	3.6%	68,464	3.5%
Kia	42,248	3.1%	40,849	3.2%	3.4%	77,525	3.1%	72,090	3.2%	66,629	3.3%	53,615	2.8%
Skoda	39,468	2.9%	39,176	3.0%	0.7%	75,488	3.0%	66,081	2.9%	53,602	2.6%	45,061	2.3%
Renault	36,840	2.7%	32,064	2.5%	14.9%	66,334	2.7%	46,173	2.0%	40,760	2.0%	68,449	3.5%
Land Rover	36,164	2.6%	30,019	2.3%	20.5%	56,200	2.3%	54,699	2.4%	48,626	2.4%	37,637	1.9%
Fiat	32,676	2.4%	34,870	2.7%	(6.3)%	67,162	2.7%	60,198	2.7%	49,907	2.4%	41,612	2.1%
MINI	31,304	2.3%	21,408	1.7%	46.2%	53,661	2.2%	51,933	2.3%	51,324	2.5%	50,138	2.6%
Honda	27,653	2.0%	29,919	2.3%	(7.6)%	53,544	2.2%	55,660	2.5%	54,208	2.7%	50,577	2.6%
SEAT	27,327	2.0%	27,342	2.1%	(0.1)%	53,512	2.2%	45,312	2.0%	38,798	1.9%	36,089	1.9%
Mazda	23,548	1.7%	19,887	1.5%	18.4%	37,784	1.5%	31,228	1.4%	26,183	1.3%	31,219	1.6%
Volvo	21,156	1.5%	19,850	1.5%	6.6%	41,066	1.7%	32,666	1.4%	31,790	1.6%	32,657	1.7%
Suzuki	17,687	1.3%	19,726	1.5%	(10.3)%	37,395	1.5%	33,088	1.5%	24,893	1.2%	20,295	1.0%
Dacia	14,463	1.1%	12,976	1.0%	11.5%	23,862	1.0%	17,146	0.8%	-	-	-	-
Jaguar	9,882	0.7%	9,826	0.8%	0.6%	18,401	0.7%	16,210	0.7%	14,109	0.7%	13,787	0.7%
Other	48,719	3.5%	34,532	2.7%	41.1%	70,270	2.8%	63,454	2.8%	65,678	3.2%	71,700	3.7%
Total	**1,376,889**		**1,287,265**			**2,476,435**		**2,264,737**		**2,044,609**		**1,941,253**	

Source: SMMT

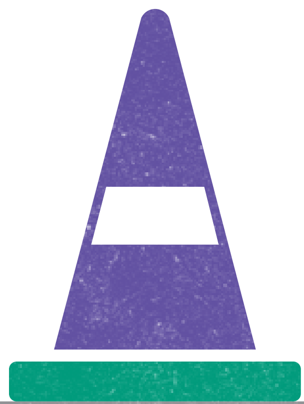
- We have mentioned previously that cracks were appearing in the optimism around new vehicle registrations – and then we land 40 consecutive months of growth and a near 7% cumulative increase in registrations. There are more and more doubts about what this number is telling us as pre-registering seems to be more prevalent than ever. We need to take on board more around the delivery mileage product entering the market and align the two.
- Perhaps it is also telling that the fleet buyer is growing their share of registrations with private reducing to a low 46.3% for the half year, and of course that probably includes the pre-registered vehicles, so not so hot there. Indeed in the month of June itself, the private share of registrations fell to only 42% which is just too low when allied to pre-registration activity.
- The best sellers are very much as you were with Fiesta, Corsa and Focus in those top slots. In the premium space, the Audi A3 continues to be run close by the Mercedes C Class.
- We always enjoy the battle that goes on for volume supremacy within the premium brands – Audi continues to rule the roost at 86,000 and BMW has regained second spot from Mercedes having lost out at the three month stage. These three brands are turning volume and product derivatives into an art form and we expect more fireworks in the second half of the year as China comes off the heat a little and makes the UK market even more important.
- Dacia has managed to increase its volume in the first six months by some 1,500 units and focussing on this meant we noticed that as of May/June 2015 DS is shown as a separate brand. This latter brand sits currently at only 10% of Citroen's own volume and we will have to see in future issues how this dynamic changes.

EU and EFTA passenger car registrations for three months to June 2015

Country	YTD2015 Units	YTD2014 Units	2015/2014 % Change	FY2014 Units	FY2013 Units	FY2012 Units	FY2011 Units
Germany	1,618,949	1,538,268	5.2%	3,036,773	2,952,431	3,082,504	3,173,634
United Kingdom	1,376,889	1,287,265	7.0%	2,476,435	2,264,737	2,044,609	1,941,253
France	1,017,493	958,752	6.1%	1,795,885	1,790,456	1,898,760	2,204,229
Italy	872,951	758,064	15.2%	1,359,616	1,304,648	1,403,010	1,749,074
Spain	555,222	454,943	22.0%	855,308	722,689	699,589	808,051
Belgium	288,424	287,824	0.2%	482,939	486,065	486,737	572,211
Netherlands	201,702	198,954	1.4%	387,835	416,730	502,479	555,798
Others	1,238,354	1,140,402	8.6%	2,155,916	1,941,817	1,936,369	2,142,520
Total EU	7,169,984	6,624,472	8.2%	12,550,707	11,879,573	12,054,057	13,146,770
EFTA	244,974	228,667	7.1%	455,680	457,310	474,036	460,229
Total EU28+EFTA	**7,414,958**	**6,853,139**	**8.2%**	**13,006,387**	**12,336,883**	**12,528,093**	**13,606,999**

Source: ACEA

- We are pleased to see that Europe is showing signs of recovery and one can only hope that the Greece situation does not cause the consumer market to rein back in their spending – it has taken a long, long time to reach this point and any nervousness remaining will be tested by the Greek situation. Cumulatively for the half year the market for Europe and EFTA has grown by 8.2% which is actually slightly down on the 8.5% we saw at March 2015. Germany needs to grow at a faster rate to bring the average up because of the size of the market, and the Greece situation has the biggest impact there. We will see in Q3 what has been the impact.
- Having said all that, the June 2015 market grew across the territory by 14.6% and is the best month on month increase since December 2009. ACEA have commented that the upward trend in registrations started 22 months ago and there is much more positivity in their press releases. Whilst Spain seems to be a real star at present and recorded growth of 22% in the six months, this is much lower than the 32.2% it recorded at March 2015. It is 100,000 units up over 2014 which is a substantial number so there is clearly a seed of change happening in that country.
- We always look at activity outside of the big countries and last issue we commented on the decline in Poland and the good news story is this has been reversed and Poland has seen an increase of a few thousand units. This is the biggest market outside of the major countries in the table and even at 1.1% increase that is good news with the region in some turmoil. Ireland meanwhile has also continued to grow at a significant rate although less than at March, so further comfort will be sought from the Q3 numbers.
- In terms of market share, VW Group is the number one still by a considerable distance with a cumulative market share of 24.9% across the EU and EFTA countries. This includes Porsche. The overall growth for the group has been 7.4% in the half year which is strong but by no means the best amongst its peer group. Nissan takes that accolade with a 21% increase in the six month period. Daimler has also performed well with a combined increase between Mercedes and SMART of 15.3% which represents over 55,000 units, the bulk of those in Mercedes. Given our editorial commentary around profit margins, such volume increase means the brand makes huge strides in performance at manufacturing level and gives it flexibility to support the key downstream markets.
- Lexus and Mitsubishi have seen 35% and 52% growth respectively and we have previously commented around the green credentials of both those brands, so expect more to come as the consumer finds the attraction ever more compelling.
- Fortunately there have been no significant losers in the six months and that has to be a positive for the European manufacturing economy – even if the boss of Fiat is still looking at merger options. It is not unreasonable to assume that proper economic viability has yet to be achieved across their so-called home markets by some of the less fortunate European brands.



Registrations of new commercial vehicles in the United Kingdom

Commercial vehicles < 3.5t

	YTD2015		YTD2014		2015/2014	FY2014		FY2013		FY2012		FY2011	
Brand	**Units**	**Share %**	**Units**	**Share %**	**% Change**	**Units**	**Share %**	**Units**	**Share %**	**Units**	**Share %**	**Units**	**Share %**
Ford	49,550	26.6%	37,027	23.8%	33.8%	82,519	25.7%	68,054	25.1%	62,372	26.0%	70,226	27.0%
Volkswagen	23,906	12.8%	20,702	13.3%	15.5%	40,238	12.5%	36,925	13.6%	30,956	12.9%	31,716	12.2%
Vauxhall	20,583	11.0%	15,853	10.2%	29.8%	32,619	10.1%	29,736	11.0%	26,524	11.1%	33,514	12.9%
Peugeot	18,048	9.7%	16,140	10.4%	11.8%	31,867	9.9%	21,230	7.8%	21,272	8.9%	19,328	7.4%
Citroen	15,659	8.4%	14,011	9.0%	11.8%	30,464	9.5%	22,989	8.5%	18,379	7.7%	17,275	6.6%
Mercedes	13,529	7.3%	12,670	8.1%	6.8%	27,228	8.5%	25,667	9.5%	21,055	8.8%	19,495	7.5%
Renault	11,136	6.0%	9,164	5.9%	21.5%	18,170	5.6%	12,978	4.8%	14,710	6.1%	19,382	7.5%
Nissan	6,413	3.4%	6,058	3.9%	5.9%	10,270	3.2%	10,619	3.9%	10,136	4.2%	10,854	4.2%
Fiat	6,327	3.4%	6,010	3.9%	5.3%	12,629	3.9%	12,019	4.4%	7,060	2.9%	8,130	3.1%
Land Rover	5,560	3.0%	4,132	2.7%	34.6%	8,344	2.6%	6,644	2.5%	5,917	2.5%	6,209	2.4%
Toyota	5,168	2.8%	5,301	3.4%	-2.5%	9,611	3.0%	8,063	3.0%	7,747	3.2%	8,391	3.2%
Mitsubishi	4,146	2.2%	3,113	2.0%	33.2%	6,946	2.2%	5,927	2.2%	4,853	2.0%	7,341	2.8%
Isuzu	3,205	1.7%	2,448	1.6%	30.9%	5,502	1.7%	4,112	1.5%	2,762	1.2%	2,431	0.9%
Iveco	1,973	1.1%	1,352	0.9%	45.9%	2,769	0.9%	3,275	1.2%	3,593	1.5%	3,628	1.4%
Other	1,201	0.6%	1,551	1.0%	-22.6%	2,510	0.8%	2,835	1.0%	2,305	1.0%	2,233	0.9%
Total light CV	**186,404**		**155,532**		**19.8%**	**321,686**		**271,073**		**239,641**		**260,153**	

Commercial vehicles > 3.5t and < 6.0t

	YTD2015		YTD2014		2015/2014	FY2014		FY2013		FY2012		FY2011	
Brand	**Units**	**Share %**	**Units**	**Share %**	**% Change**	**Units**	**Share %**	**Units**	**Share %**	**Units**	**Share %**	**Units**	**Share %**
Ford	1,381	33.7%	1,141	31.3%	21.0%	1,852	27.2%	2,767	40.8%	2,879	40.4%	1,381	25.0%
Fiat	1,047	25.6%	546	15.0%	91.8%	1,313	19.3%	1,231	18.1%	1,416	19.9%	1,171	21.2%
Mercedes	894	21.8%	949	26.0%	-5.8%	1,889	27.8%	1,485	21.9%	1,367	19.2%	1,458	26.3%
Peugeot	333	8.1%	180	4.9%	85.0%	386	5.7%	200	2.9%	359	5.0%	354	6.4%
Iveco	163	4.0%	223	6.1%	-26.9%	402	5.9%	420	6.2%	444	6.2%	567	10.2%
Volkswagen	129	3.2%	205	5.6%	-37.1%	401	5.9%	342	5.0%	251	3.5%	221	4.0%
Vauxhall	86	2.1%	73	2.0%	17.8%	-	-	-	-	-	-	-	-
Renault	33	0.8%	35	1.0%	-5.7%	74	1.1%	117	1.7%	215	3.0%	113	2.0%
Other	26	0.6%	296	8.1%	-91.2%	480	7.1%	226	3.3%	195	2.7%	269	4.9%
Total heavy CV	**4,092**		**3,648**		**12.2%**	**6,797**		**6,788**		**7,126**		**5,534**	

Commercial vehicles > = 6.0t

	YTD2015		YTD2014		2015/2014	FY2014		FY2013		FY2012		FY2011	
Brand	**Units**	**Share %**	**Units**	**Share %**	**% Change**	**Units**	**Share %**	**Units**	**Share %**	**Units**	**Share %**	**Units**	**Share %**
Daf Trucks	5,146	27.1%	2,677	20.9%	92.2%	8,616	24.9%	14,046	28.4%	11,153	28.9%	9,863	26.4%
Scania	3,231	17.0%	1,758	13.7%	83.8%	4,752	13.7%	6,846	13.8%	4,652	12.1%	4,071	10.9%
Mercedes	3,101	16.3%	2,119	16.6%	46.3%	6,485	18.7%	8,793	17.8%	6,422	16.6%	6,326	16.9%
Volvo Trucks	2,606	13.7%	1,580	12.4%	64.9%	4,074	11.8%	5,524	11.2%	3,976	10.3%	4,624	12.4%
Man	1,479	7.8%	1,220	9.5%	21.2%	3,381	9.8%	4,934	10.0%	4,324	11.2%	4,772	12.8%
Iveco	1,314	6.9%	1,310	10.2%	0.3%	2,876	8.3%	3,773	7.6%	2,908	7.5%	2,834	7.6%
Renault Trucks	964	5.1%	1,045	8.2%	-7.8%	2,050	5.9%	2,534	5.1%	2,555	6.6%	2,763	7.4%
Other	1,178	6.2%	1,079	8.4%	9.2%	2,438	7.0%	2,980	6.0%	2,586	6.7%	2,157	5.8%
Total heavy CV	**19,019**		**12,788**		**48.7%**	**34,672**		**49,430**		**38,576**		**37,410**	

Sources : SMMT

- The light and heavy sectors have continued their year's growth and it is pleasing to note a strong June suggesting that the trend is continuing. Ford now has a market share exceeding 26% in the light sector and has created a number of derivatives around the Transit model. It is a much sought after franchise and we can see more growth to come.
- The heavy sector benefitted from the Type approval issues of late 2014 carrying over in to 2015, but nonetheless all the top brands have put in a tremendous performance.
- In light commercial vehicles, all the top players benefit from showroom sales which Mercedes delivered via its heavy network. Clearly a showroom does pay dividends!

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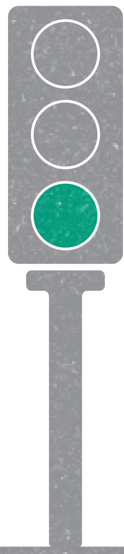

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