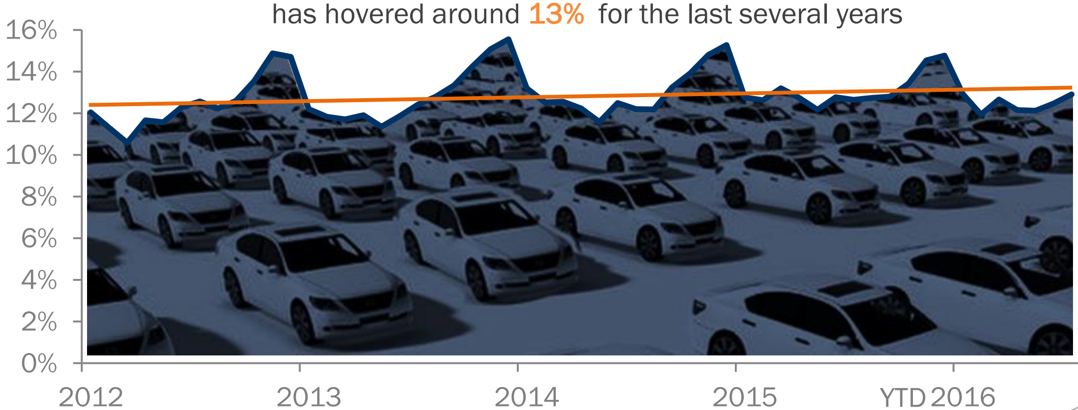
Luxury Market Share Remains Flat Despite Expanded Offerings

GROWTH CHALLENGED AS NON-LUXURY OEMs UP THEIR GAME

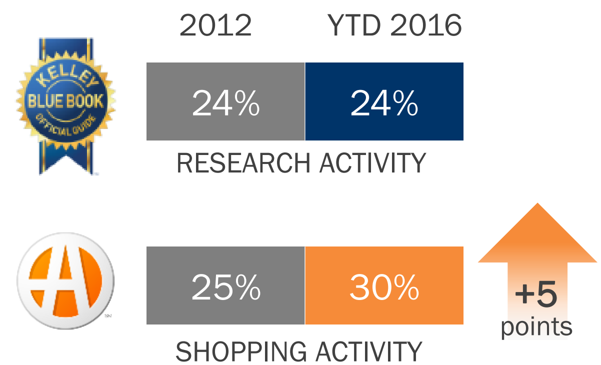
In spite of a wide range of new products and increased shopping in the category, luxury market share continues to idle – an indication that shopper conversion is a challenge. Cox Automotive consumer behavior shows that while luxury research and shopping activities are pacing ahead of sales, shoppers overall are taking notice of enhanced styling and premium features in non-luxury vehicles, creating a fresh source of competitive pressure for luxury OEMs.

LUXURY SALES MARKET SHARE

has hovered around 13% for the last several years

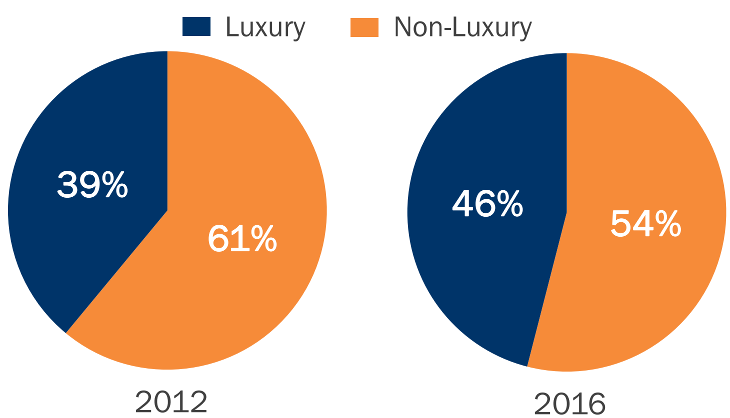


LUXURY SHARE OF ACTIVITY



The number and breadth of luxury models have increased, stimulating new and renewed consideration among a wider shopper base.

CATEGORY SHARE OF MODELS



OF NEW ENTRIES BY SEGMENT*

Kelley Blue Book Strategic Insights: Luxury Study 2.0, Q1-16
Autodata Vehicle Sales, 2012-2016
Kelley Blue Book & Autotrader New Car Traffic
* **Since 2012; e**xcludes exotics and high performance segment vehicles

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Non-Luxury OEMs Narrow Value Perception Gap To Luxury

NON-LUXURY OEMs EXPAND PREMIUM FEATURES, STIMULATING CROSS-CONSIDERATION

Enhanced offerings from non-luxury brands are affecting the perceived value of high-end products. As a result, consumers, including current luxury owners, are broadening their consideration sets, creating more cross-category competition.

PERCEIVED VALUE: LUXURY VS. NON-LUXURY MODELS

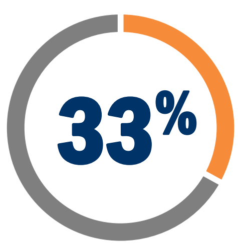
Car Example: Non-Luxury vs. Luxury — SUV Example: Non-Luxury vs. Luxury

Shopper Perception of De-badged Interior

	KIA OPTIMA	BMW 2 SERIES	TOYOTA HIGHLANDER	INFINITI QX60
Interior Description	“Modern” “High-End”	“Modern” “Sensible”	“Comfortable” “High-End”	“Comfortable” “High-End”
Average Transaction Price	$25,754	$46,637	$38,366	$47,319
Perceived Value	$40,366	$36,212	$38,600	$40,446
% Difference	57% higher	22% lower	equal	15% lower

SHOPPERS OVERALL & LUXURY OWNERS OPEN TO CONSIDERING BOTH CATEGORIES

Overall shoppers open to buying luxury and non-luxury vehicles



Luxury vehicle owners open to considering non-luxury vehicles

LUXURY SHOPPERS ARE CROSS SHOPPING NON-LUXURY VEHICLES

Avg Number of Models Cross-Shopped

	Non-Luxury	Luxury
AMONG LUXURY CAR SHOPPERS:	4.2	5.9
AMONG LUXURY SUV SHOPPERS:	4.1	5.2

Kelley Blue Book Strategic Insights: Luxury Study 2.0, Q1-16
Q: What one word describes this vehicle’s interior?
Autotrader Cross Shopping Q2 2016

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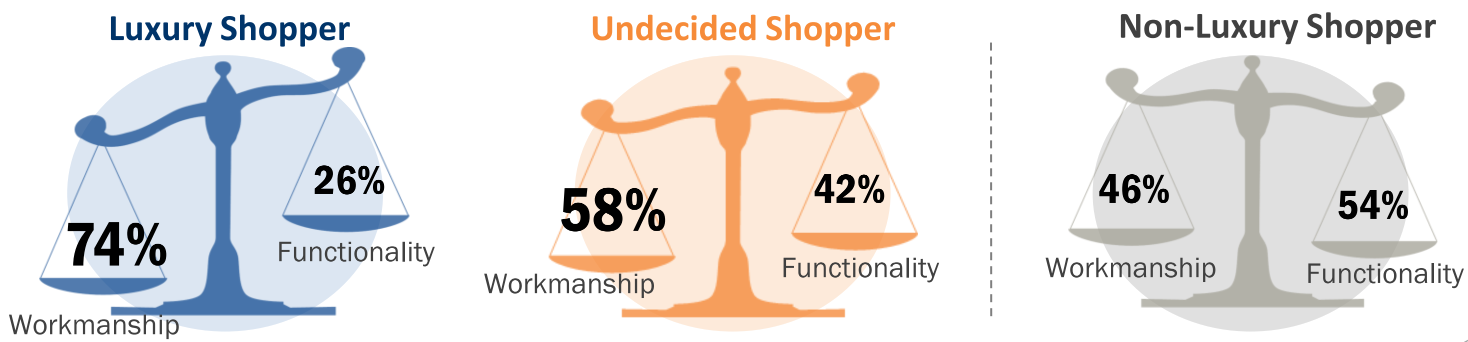
What's Important to Luxury and Undecided Shoppers

WORKMANSHIP AND OWNERSHIP EXPERIENCE PREFERENCES ARE KEY DRIVERS

Among undecided shoppers, workmanship is a bigger selling point, demonstrating these fence-sitters lean more toward a luxury mindset – an advantage for luxury OEMs. Ownership experience factors also play a part, and luxury shoppers show a stronger propensity for some factors over others, indicating important areas of focus for luxury OEMs in the battle for shopper attention.

SHOPPER MOTIVATION: WORKMANSHIP VS. FUNCTIONALITY

When determining their next vehicle purchase, luxury and undecided shoppers value workmanship over functionality

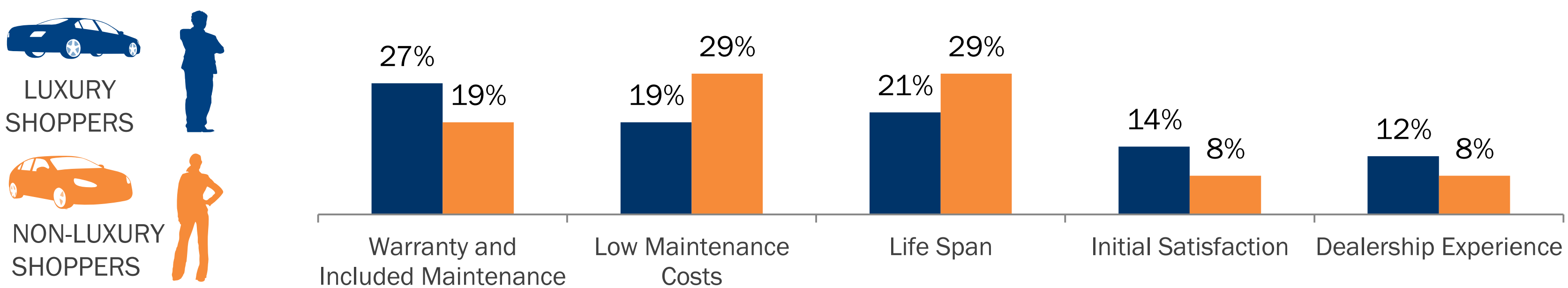


WHAT SHOPPERS VALUE IN THEIR OWNERSHIP EXPERIENCE

8 OUT OF 10 SHOPPERS RANK DURABILITY AS THE #1 FACTOR

Durability is equally valued among luxury and non-luxury shoppers

Ownership costs are a priority in general, but luxury shoppers place more importance on point-of-sale inclusions (warranty, included maintenance), and also place a higher value on initial satisfaction and dealership experience compared to non-luxury shoppers.



Kelley Blue Book Strategic Insights: Luxury Study 2.0, Q1-16
Q: Which of the following best describe your main motivation for purchasing/leasing your next vehicle?
Q: What are the top 2 items that make a good ownership experience with a vehicle? (Only select 2 items)

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Interior Features Resonate with Shoppers

CONSUMERS COME TO EXPECT MORE OUT OF VEHICLE OFFERINGS

Interior styling is a top consideration among sedan and SUV shoppers, with seats, paneling, and infotainment among the top three features that contribute most to interior attractiveness for both groups. Notably, fence-sitters are inclined toward luxury sensibilities, expecting premium features, such as leather seats and technology, to be standard offerings.

Despite an equal number of interior & exterior photos,

88%

of photos viewed on kbb.com are of the interior, reinforcing the high consumer focus on interior amenities and styling

CONSUMER PERCEPTION:
TOP 3 FEATURES THAT DRIVE INTERIOR ATTRACTIVENESS

SEDAN SHOPPERS

1. Seats
2. Paneling
3. Infotainment Screen

SUV SHOPPERS

1. Paneling
2. Seats
3. Infotainment Screen

Among fence-sitters looking for their next vehicle, more than

50%

expect each of these features to come standard

UNDECIDED SHOPPER EXPECTATIONS: INTERIOR FEATURES

51%

57%

59%

61%

64%

Kelley Blue Book Strategic Insights: Luxury Study 2.0, Q1-16
Q: Which feature do you like MOST and LEAST about this interior? How attractive is this interior?
Q: Which of the following INTERIOR features would have to come standard in order for you to consider purchasing/leasing (select all that apply)

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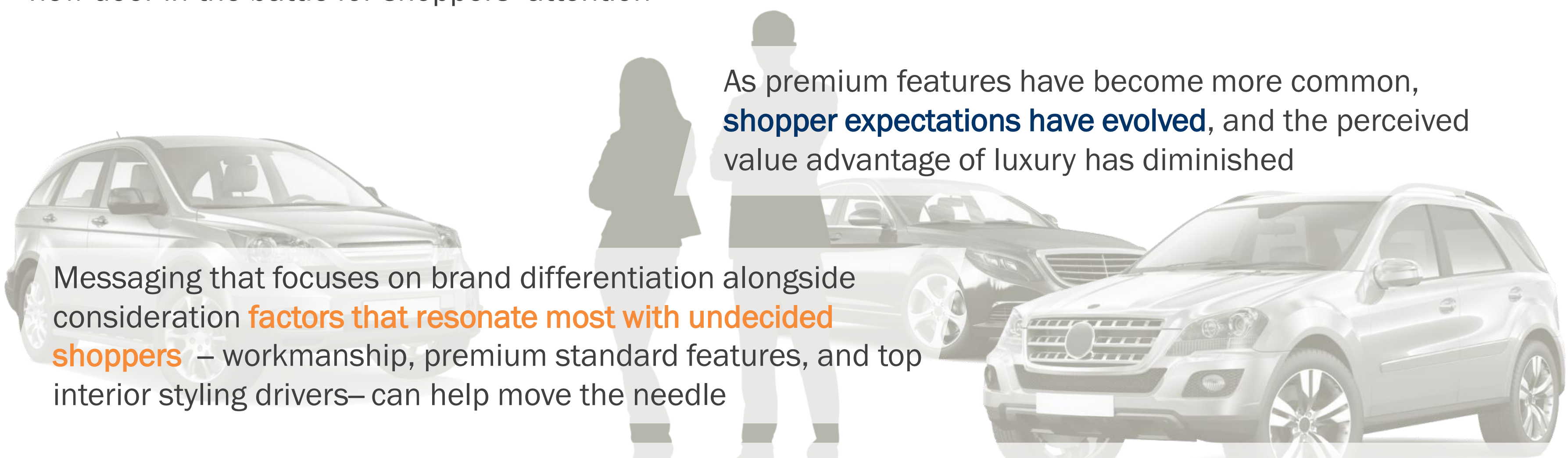
OEMs Have an Opportunity to Influence the Growing Number of Fence-Sitters … But Now It's a Tougher Challenge.

Though the luxury product mix has expanded and shopping has shown positive momentum, **market share has remained virtually unchanged**

There is a sizable pool of shoppers weighing **luxury against non-luxury** when shopping for a new vehicle, including current luxury owners

The widespread addition of **premium features in non-luxury vehicles** has opened a new door in the battle for shoppers' attention



As premium features have become more common, **shopper expectations have evolved**, and the perceived value advantage of luxury has diminished

Messaging that focuses on brand differentiation alongside consideration **factors that resonate most with undecided shoppers** – workmanship, premium standard features, and top interior styling drivers– can help move the needle

While luxury attraction is strong and includes a broad range of shoppers, effectively adapting to these **emerging competitive pressures** and **shifting consumer perceptions** can make the difference in closing the deal

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