

The automotive market today

The UK automotive marketplace continues to grow. Used car volumes are benefitting from previous new car growth, which is expected to decline modestly from the record highs reached in 2017.

2.7m

new cars registered in the 12 months to March 2017¹

2.6%

increase in new car registrations in the 12 months to March 2017¹

8.2m

used cars sold in the 12 months to March 2017¹

11%

growth in finance agreements for used cars in the 12 months to March 2017²

UK automotive market and macroeconomic conditions

New and used car sales volumes

The number of vehicles in the UK continues to grow, fuelled by increases in both new car registrations and the average scrappage age. The number of new cars registered in the 12 months to March 2017 increased for a fifth consecutive year to 2.7 million units (growth of 2.6%) according to the Society of Motor Manufacturers and Traders ('SMMT')¹. Sales to fleet customers were particularly strong, up 6.3% year-on-year, whilst the number of new cars registered to retail individuals was broadly flat after four consecutive years of growth, despite the dip in consumer confidence following the Brexit result.

2017 started strongly with a record rise in new car registrations in the first quarter. This was in part due to a very strong March as consumers looked to buy ahead of an increase in vehicle excise duty effective 1 April 2017.

Low rate finance and new car desirability are key drivers to the growth the market is experiencing at this time. The continuation

of attractive finance propositions has underpinned levels of new and used car transactions. 86% of private new car sales were purchased using dealership finance, and the total value of finance agreements for used cars grew 11% in the 12 months to March 2017². High levels of finance uptake have contributed to a reduction in the average length of car ownership to 3.2 years from 3.6 years since 2011, as new cars are introduced into the used car market at the end of finance agreements.

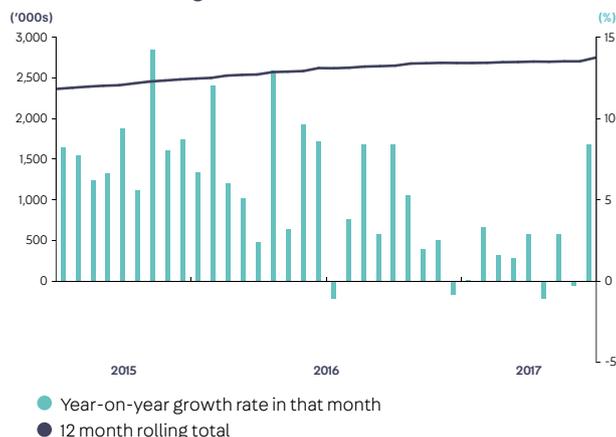
Despite the exceptionally high performing first quarter of the year, and the continuation of low interest rates, the industry expects that new car transactions will begin to plateau or decline in 2017, and new car registrations were down by 0.6% year-on-year for the five months to May 2017¹. We expect the strong new car market performance in recent years will continue to have a positive impact on used car transactions, building on the 8.2 million used cars sold in the 12 months to March 2017, which increased by 4.9% over the same period last year.

UK economy and EU Referendum considerations

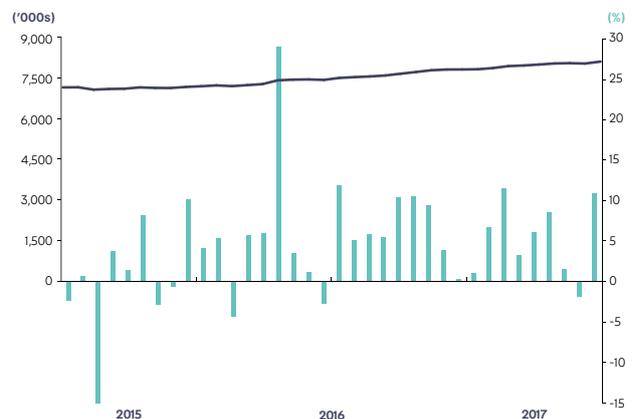
Since Britain voted to leave the European Union, consumer spending and service sector growth have remained steady, helping the UK economy to grow by 0.7% in Q3 and Q4 of 2016. GDP grew by 2.0% in 2016 and similar levels are predicted for 2017. However, inflation has climbed steadily in the past two years, reaching 2.7% in April 2017 and estimated to rise further with the fall in the pound raising the prices of imported goods and raw materials. Interest rates remain low, with the Bank of England cutting its base rate from 0.5% to 0.25%; this continued low level of interest rates has provided consumers with attractive car finance deals and supported the strong new car market.

Whilst we have seen fairly limited impact to date from the result of the European Referendum, the UK's decision to leave the EU does continue to cloud future growth expectations as it is not clear whether Britain will follow a hard or soft Brexit strategy. Turn to page 33 for more details about the impact of the EU Referendum on Auto Trader.

Number of new car registrations



Number of used car transactions



1 SMMT trends data, March 2017 and May 2017.

2 Fleet and Leasing Association ('FLA') data for 12 months to March 2017.

The role of digital platforms in the car buying journey

The importance of trust in today's marketplace

Consumers now approach car buying in the same way as most other purchases. This means a growing dependence on online tools and services that offer more transparency in the retail process. Transparency creates trust which is important because it drives consumer confidence and influences buying decisions.

In the car buying journey, transparency on price alleviates the need to 'haggle', as car buyers are well informed on whether the advertised price is fair and reflects the market. This is instilled further by our price 'indicators' which inform car buyers as to how the advertised price compares to the market price.

Dealer reviews

Reviews by other car buyers also play an increasingly influential role, influencing over one third of car purchase decisions³. Similar to other retail sectors, reviews left by other consumers offer buyers more transparency over the whole process.

Transparent valuations

In addition to clear and transparent information on price, car buyers also demand transparency on other aspects of the buying and selling process. Car buyers may want to know the value of their car if considering its sale, either through part-exchange or a private transaction. Having clear information on the likely financial returns for different selling methods gives sellers more options and also makes processes easier and helps to make decisions quicker.

We anticipate that the growing reliance on online tools by car buyers will increase engagement with Auto Trader's consumer products and its marketplace in general. Auto Trader's valuations tool is used 422,000 times by consumers each month and our Part-Exchange Guide is used 117,000 times per month.

Financing a car

With 86% of new cars bought on finance in the 12 months to March 2017², buyers also want to know what the deposit and monthly payment is likely to be. 55% of recent car buyers said they worked out their monthly budget when researching their next car⁴.

The introduction of our dealer finance tool on our full page adverts has increased engagement with car buyers on the marketplace. With over half of car buyers thinking of the monthly payment during the research process⁴, this product has the ability to extend the car buying journey beyond research to a transactional phase.

New cars

28% of buyers are open to purchasing a new car⁵, highlighting how undecided buyers are on their next purchase. The growth of 'nearly new' or younger used cars also offers more choice, blurring the lines between new and used and leaving car buyers more open to influence. As a result, car buyers rely more heavily on online tools to help them make a purchase decision.

The launch of our new car 'virtual stock' enables consumers to see new car options alongside used cars and therefore offer more choice to car buyers.

We anticipate that the continued development of this product will help position Auto Trader as a new and used car destination, increasing engagement with our existing users and also attracting new audiences who may have not considered Auto Trader as a new car marketplace.



³ Auto Trader Research conducted for Auto Trader's Click Awards May 2016 by Acacia Avenue.

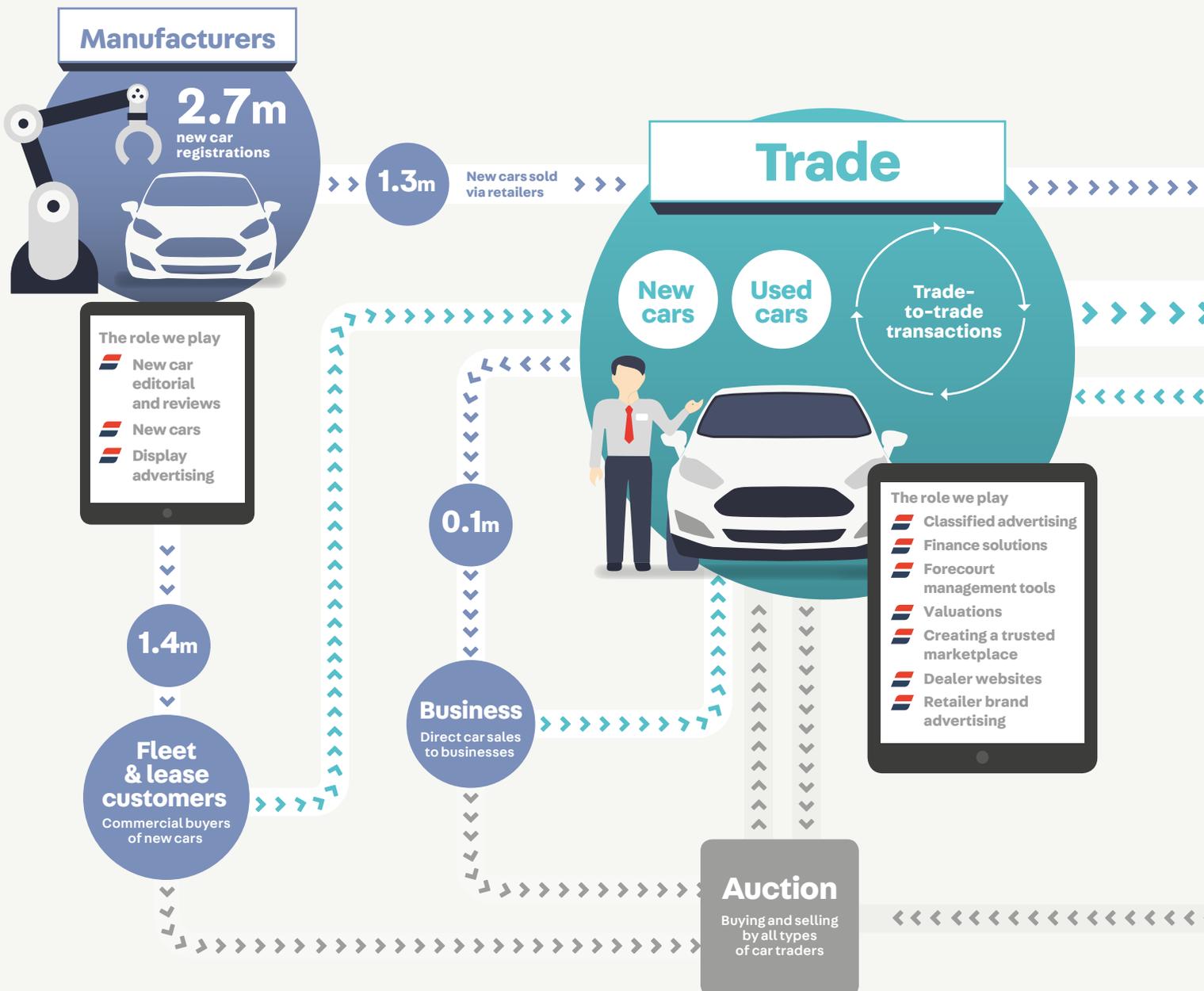
⁴ Auto Trader Market Report, March 2017.

⁵ Auto Trader Market Tracking Study 2017.

Driving efficiencies in today's complex market

The automotive market, with nearly 11 million car transactions each year, is complex and often inefficient. We believe that by improving transparency, we can help remove some of the friction that's currently felt in the car buying process, which will lead to people changing their cars more often – a win for consumers, retailers and the industry as a whole.

Through the evolution of our digital platforms and our innovative data products we continue to make the car buying process easier for **Consumers, Trade** and **Manufacturers**.



Consumers

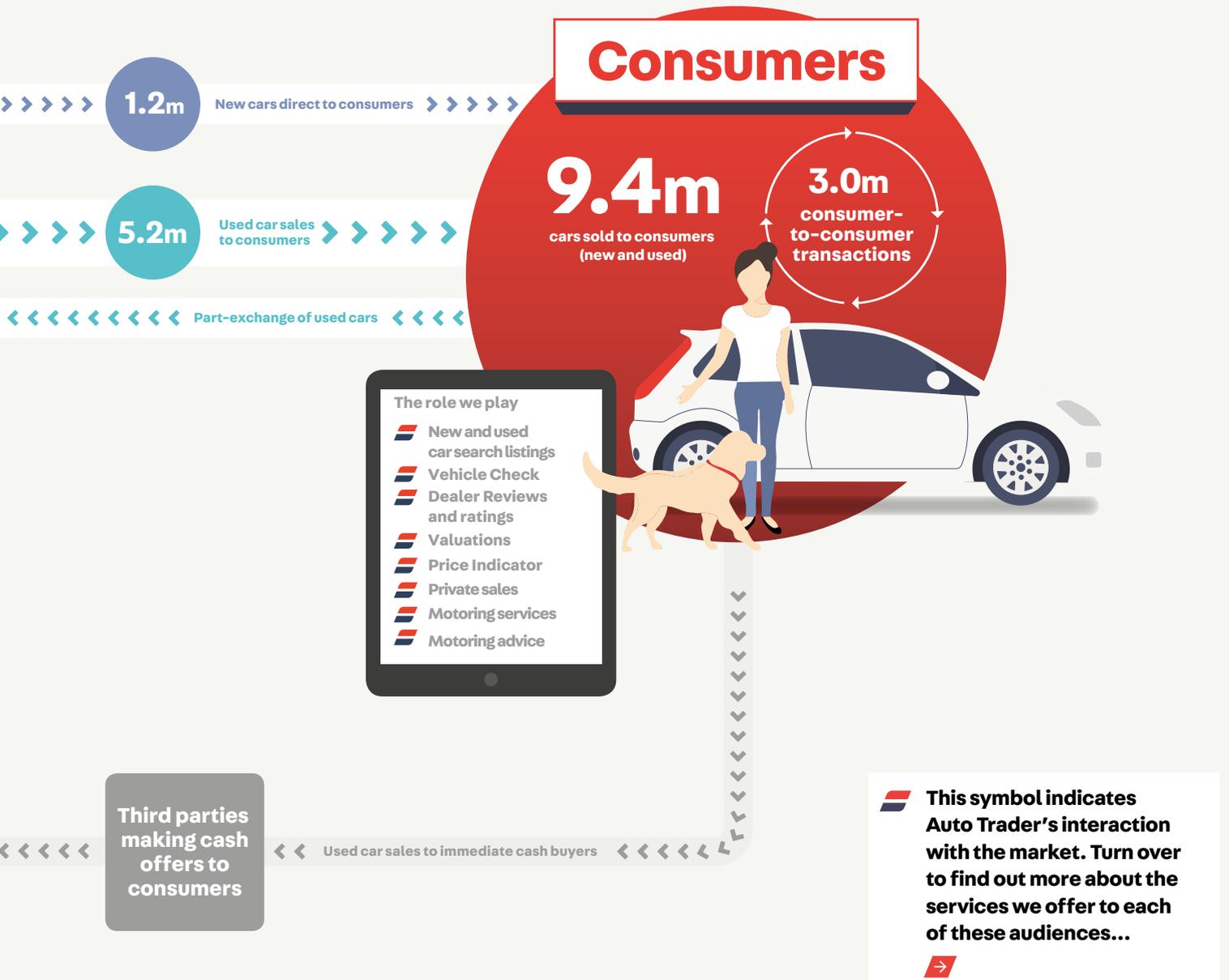
Owners of the 34 million cars in the UK involved in the purchase and sale of both new and used cars through the ecosystem.

Trade

Retailers involved in the sale of new and used cars to consumers. They are also typically involved in part-exchanging cars as well as sourcing and disposing of them, usually at auction.

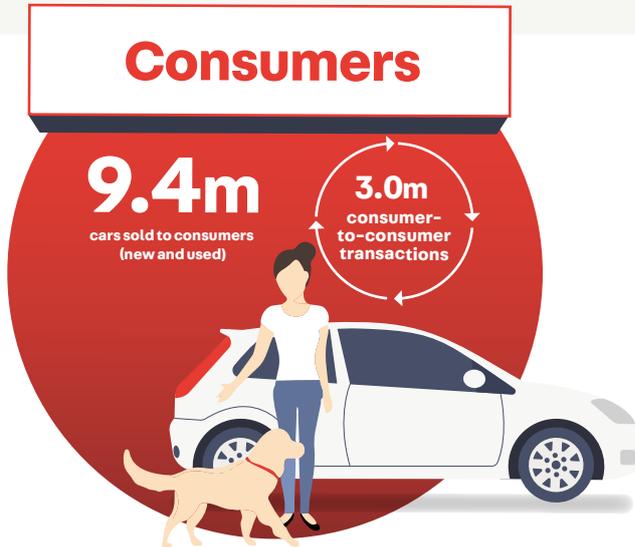
Manufacturers

New cars are delivered into the market from manufacturers into fleet and lease (direct to businesses) and sold to consumers via a franchise network.



How we make the market simpler and more efficient

Consumers

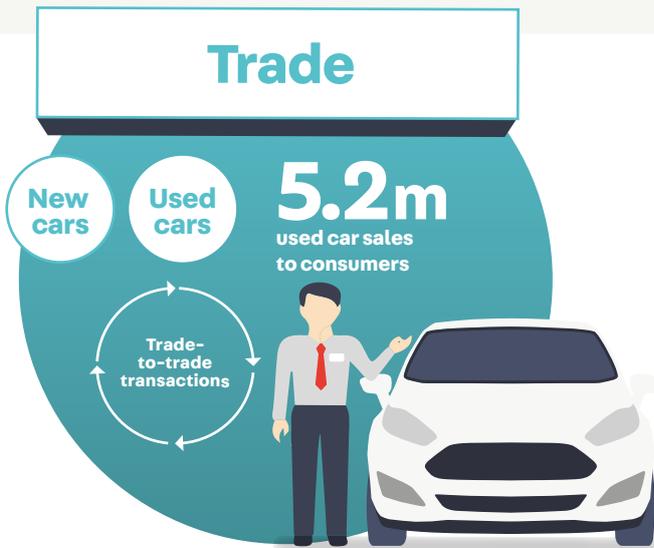


Consumers buy from trade retailers or buy and sell to each other using an automotive platform such as Auto Trader, or through other means.

“Reviews are very helpful, very insightful; something I always look at to get a good understanding of what I’m buying. I know how important online reputation is and how much it lends towards the credibility of a business.”

Car buyer January 2017

Trade

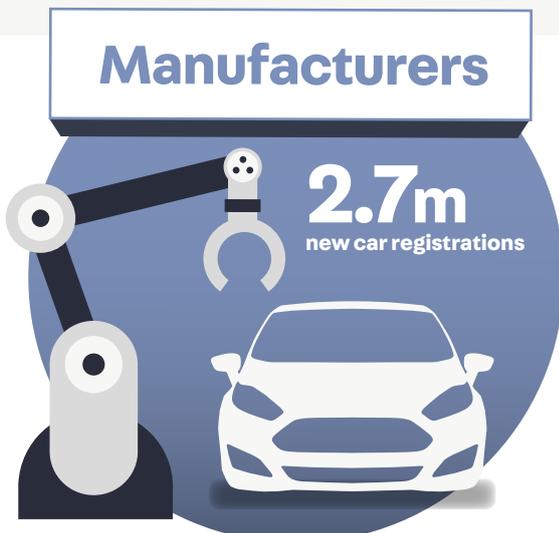


Trade retailers buy new cars directly from manufacturers, and used cars from auction houses, other retailers or directly from the consumer.

“Part-Exchange Guide allows customers to get a valuation from an independent, trusted source, prior to contacting us. It manages the customer’s expectations and puts us and the customer on the same page.”

Shelbourne Motors October 2016

Manufacturers



New cars are delivered into the market into fleet and lease (direct to businesses) and sold to consumers via a franchise.

“The content partnership with Auto Trader provided a trusted and credible platform on which to highlight all the ways in which the Tipo gives you more for less on any car journey.”

Fiat Brand Communications Manager
January 2017



The role we play

-  **New and used car search listings**
Consumers can search from around 450,000 used cars and 6,000 new cars on the marketplace each month, using a standard make/model search or via discovery search if they aren't sure of the exact vehicle they want.
-  **Vehicle Check**
A free standard five point vehicle check so consumers can quickly assess the provenance of a vehicle.
-  **Dealer Reviews and ratings**
Over 5,000 retailers feature in over 325,000 reviews, helping consumers make an informed and trusted decision about who they want to buy from.

-  **Valuations**
We provide free vehicle valuations offering both a private sale price as well as a part-exchange price.
-  **Price Indicator**
Powered by our valuations, these good, great or low price indicators give consumers full price transparency so they can understand the price they are paying compared to the market value.
-  **Private sales**
Consumers can list their vehicles for sale directly to other consumers.

-  **Motoring services**
We offer consumers a variety of services to help them make an informed decision about the car they are looking to buy, these include: vehicle check, finance, and insurance.
-  **Motoring advice**
We feature over 48,000 expert and owner reviews, as well as regularly updated editorial and advice articles to help both confident and unconfident car buyers in their car buying journey.

The role we play

-  **Classified advertising**
Our core classified platform reaches the UK's largest automotive audience. Our product packages enable retailers to compete effectively on the marketplace. Our 'starter' retailer package now includes products such as 100 images, Live Chat, Dealer Reviews, and the Part-Exchange Guide. We offer progressively higher levels giving retailers the opportunity to pay for greater prominence and stand out in a search.
-  **Finance solutions**
After gaining FCA authorisation, we can now enable retailers to display their own finance calculator as standard on their full page adverts on Auto Trader.

-  **Forecourt management tools**
Powered by both our own and third-party data, we offer data intelligence solutions (i-Control and Retail Check) enabling retailers to buy the right stock, at the right price.
-  **Valuations**
An improvement in the underlying data that powers our valuations has allowed us to launch spec-adjusted valuations which power price indicators consumers see on the marketplace. Our valuations also power our part-exchange tool.
-  **Creating a trusted marketplace**
We invest in technology and a team that is focused on creating a safe and

secure marketplace. We remove misleading adverts and also operate two-factor verification on our platforms to protect our customers.

-  **Dealer websites**
We provide mobile-optimised websites for our retailers which feature many of our core tools, i.e. Part-Exchange Guide, finance calculator and Dealer Reviews.
-  **Retailer brand advertising**
We offer retailers a range of display advertising packages so they can promote their business as well as individual vehicles.

The role we play

-  **New car editorial and reviews**
Make/model pages for all new cars improve the buying journey, and the extra content enhances Auto Trader's position in the new car market.

-  **New cars**
We extended our discovery search to include over 6,000 brand new car make/model variants. These new cars are unregistered and do not physically exist, and are called 'virtual stock'. The change was designed to allow manufacturers to advertise their stock in front of buyers earlier in the car buying journey.

-  **Display advertising**
Our platforms enable manufacturers to promote their brands to the largest and most engaged automotive classified audience.