The New Economy Era Of China Automotive Aftermarket

China Auto parts and accessories corporation

May 2015
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China automotive sector present situation analysis
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Chinese auto industry scale grows steadily and become an important part of the world automotive industry:

Since 2009, China auto production has been the first in the world. In 2014, China auto production and marketing are 23.723 million and 23.492 million, year-on-year growth are 7.3% and 6.9%, China market share in the global auto industry has increased from 3.5% in 2000 to 27.4% in 2014, China has become a real world car manufacturer and an important part of the world automotive industry.

### The automotive quantity of China from 2009 to 2014

<table>
<thead>
<tr>
<th>Year</th>
<th>The total of automotive</th>
<th>Passenger vehicle</th>
<th>Saloon Vehicle</th>
<th>Commercial Vehicle</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>13790994</td>
<td>10383831</td>
<td>7471194</td>
<td>3407163</td>
</tr>
<tr>
<td>2010</td>
<td>18264667</td>
<td>13897083</td>
<td>9575890</td>
<td>4367584</td>
</tr>
<tr>
<td>2011</td>
<td>18418876</td>
<td>14485326</td>
<td>10137517</td>
<td>3933550</td>
</tr>
<tr>
<td>2012</td>
<td>19271808</td>
<td>15523658</td>
<td>10767380</td>
<td>3748150</td>
</tr>
<tr>
<td>2013</td>
<td>22116825</td>
<td>18085213</td>
<td>12100772</td>
<td>4031612</td>
</tr>
<tr>
<td>2014</td>
<td>23722890</td>
<td>19919795</td>
<td>12481052</td>
<td>3803095</td>
</tr>
</tbody>
</table>

### The automotive sale quantity of China from 2009 to 2014

<table>
<thead>
<tr>
<th>Year</th>
<th>The total of automotive</th>
<th>Passenger vehicle</th>
<th>Saloon Vehicle</th>
<th>Commercial Vehicle</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>13644794</td>
<td>10331315</td>
<td>7473106</td>
<td>3313479</td>
</tr>
<tr>
<td>2010</td>
<td>18061936</td>
<td>13757794</td>
<td>9494269</td>
<td>4304142</td>
</tr>
<tr>
<td>2011</td>
<td>18505114</td>
<td>14472416</td>
<td>10122703</td>
<td>4032698</td>
</tr>
<tr>
<td>2012</td>
<td>19306435</td>
<td>15495240</td>
<td>10744740</td>
<td>3811195</td>
</tr>
<tr>
<td>2013</td>
<td>21984079</td>
<td>17928858</td>
<td>12009704</td>
<td>4055221</td>
</tr>
<tr>
<td>2014</td>
<td>23491893</td>
<td>19700569</td>
<td>12376702</td>
<td>3791324</td>
</tr>
</tbody>
</table>
China automotive sector present situation analysis

The growth of the Chinese auto industry, has intensified china market competition

The growth of China automotive market has attracted almost all multinational companies to invest in China. It promoted the status of China in the whole industry chain strategic layout. VW, GM’s sales in China market has been reached about a third of its global volume of sale, Toyota also said that China market is the most important. With increase of China automotive market status, China's auto enterprises increasingly fierce competition.
China automotive sector present situation analysis

As the status of China automotive industry in the macroeconomic, it pull function significantly

Automotive industry chain is long, wide coverage and a lot of upstream and downstream related industries. It is in the construction of Chinese economy plays a very important role and support and drive China's economy continued rapid growth. The added value of Automotive industry’s key enterprises that in the national GDP rose from 0.85% in 1996 to 1.66% in 2013, the average annual growth rate is 1.35%.

By the end of 2014, China auto inventory

- The total of motor vehicle is 264 million;
- Motor vehicle drivers exceed 300 million people, more than 246 million is vehicle drivers;
- The total of small passenger cars is 117 million, including 105 million units of private cars;
- The national average per hundred households with 25 private car.
In 2014, China new energy automotive production and sales:

### China new energy automobile production and promotion in 2014

<table>
<thead>
<tr>
<th>Car production</th>
<th>2014</th>
<th>2013</th>
<th>Year-on-year growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>78.55</td>
<td>17.5</td>
<td>349</td>
</tr>
<tr>
<td>Pure electric</td>
<td>48.6</td>
<td>14.2</td>
<td>242.3</td>
</tr>
<tr>
<td>A fuel cell</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Plug-in hybrid</td>
<td>29.9</td>
<td>33</td>
<td>806.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The total of promotion</th>
<th>2014</th>
<th>2013</th>
<th>Year-on-year growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>74.8</td>
<td>17.6</td>
<td>325</td>
</tr>
<tr>
<td>Pure electric</td>
<td>45.1</td>
<td>14.6</td>
<td>208.9</td>
</tr>
<tr>
<td>A fuel cell</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Plug-in hybrid</td>
<td>29.7</td>
<td>3</td>
<td>890</td>
</tr>
</tbody>
</table>

In 2014, under the impetus of the national a series of good policy, new energy vehicles has maintained a rapid growth momentum. According to the statistical CAAM association. By the end of 2014, new energy automotive production and marketing completed 78.5 thousand and 74.8 thousand, compare the previous year growth 3.5 times and 3.3 times. Pure electric vehicle production and marketing finished 48.6 thousand and 45.1 thousand, compare the previous year growth 2.4 times and 2.1 times; Plug-in hybrid electric vehicle production and marketing finished 29.9 thousand and 29.7 thousand, compare the previous year growth 8.1 times and 8.9 times. We believe, under the impetus of the national a series of good policy, new energy vehicles will continue to maintain rapid growth momentum.
In the next few years, China automotive market will maintain steady growth, but uncertain factors increase:

**The trend of passenger vehicle:**
Favorable factors: 1. In the next 5-10 years, the market will transform popularize to late popularization stage. 2. Three or four line city become a key battleground. 3. First-line second-tier cities increase in demand is an important force in market continues to grow. 4. The official car reform is unfolding in the whole country and the domestic oil prices continue to run low. 5. New energy vehicles preferential policy gradually perfection. 
Adverse factors: 1. Sustained economic downward restricted the consumers' purchasing power. 2. Dealers profit declines and channel stability face challenges 3. The market competition is intense.

**The trend of Commercial vehicle:**
Favorable factors: 1. Light trucks: Production and business operation gradually norm, the market will be recovered. 2. Advance of urbanization, the development of electrical business logistics and new energy vehicles will lead to growth opportunities.
Adverse factors: 1. Sustained economic downward. 2. Severe overcapacity in the industry, the market competition is intense, the low level of corporate profits will increase the risk of the industry.
China automotive aftermarket sector present situation analysis
Automotive aftermarket sector definition: Automotive aftermarket sector has different definition, sum up the main principle is defined: after Oems completion, according to consumer needs then produce all expenses related to the car, it is an organic component of the automobile industry chain. Auto parts and accessories sales is the rigid demand of consumers, also is the largest part of the market.
China automotive aftermarket development space is continuously improving, It is known as the gold industry:

Within the life cycle of each car, every car use-cost is 2~3 times of its price. And automotive aftermarket is the most stable source of profits in the automobile industry chain. It is about automotive industry chain around 60-70% of the total profits. Therefore, automotive aftermarket is known as the “gold industry”. With the increase of auto sales, China automotive aftermarket sector development space is improving.
## China automotive aftermarket sector present situation analysis

### China automotive aftermarket scale:

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
</table>
| **Automotive aftermarket scale is 800 billion** | - Automotive aftermarket has 19 development direction, the scale is 600-800 billion  
- In the next five years, with the increase of car's age and ownership, the number will be more than one trillion and became the second largest market in the world |
| **Automotive aftermarket investment growth ten times** | - There were 1756 investment events in China capital market in 2014  
- 150 investment events associated with the auto industry, the total investment is 10 times than 2013 |
| **Annual repair output value** | - By the end of 2013, there are 480 thousand repair enterprise, 3 million workers, 330 million times repair and more than 500 billion output value  
- Trend predict: the inventory will be 250 million and annual repair output value more than One trillion  
- The rate of large repair plant is 15-20% |
| **More than warranty period is 67 million** | The inventory is 140 million and The average age of car is 3.23  
By the end of 2015, the cars which more than warranty period is 67 million, it accounts for 54% of the total |
The ratio of auto age and consumer changes:

The change of Chinese auto consumers’ age

The average age of Chinese Passenger car
The development of China automotive aftermarket service mode has experienced five patterns:

I-Independent repair plant: early in China, vehicle maintenance and repair of basic using this model, we often say that comprehensive repair shops.

II-Authorized service shop: As Shanghai Volkswagen and other car joint venture came to China, domestic appeared "authorized service shop", they just provided services for some specific brands of car.

III-4S store: “4S model”, at present, Chinese main car production enterprises generally adopt this way. This model originated in Europe, that is the whole car sales, parts supply, accessories services and information feedback.

IV-Fast repair services shop: aftermarket chain shop model represented by America,. In recent years, this model development fast in China, it’s on the basis of the standardization service price transparency to provide car maintenance, repair and auto beauty.

V-Brand maintenance and beauty shop: This model came into China, these shops provide car maintenance, repair and other services.
All modes coexist in the automotive aftermarket:
Aftermarket service system is mainly composed of 4s shops, large and medium-sized maintenance companies, small car repair shops, repair shops, chain repair shops, professional repair shops and salons.

<table>
<thead>
<tr>
<th>Category</th>
<th>Representative</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>4S shops</td>
<td></td>
<td>Authorized by the manufacturer, it includes sales, aftermarket and accessories supply.</td>
</tr>
<tr>
<td>large and medium-sized maintenance companies</td>
<td></td>
<td>Main business is car maintenance, but it's not authorized.</td>
</tr>
<tr>
<td>Small car repair shops</td>
<td></td>
<td>Main business is selling auto parts and provide installation, the shops are small.</td>
</tr>
<tr>
<td>Chain repair shops</td>
<td></td>
<td>Using a unified enterprise logo, implement unified procurement and distribution system, using the same service standards up in whole or in part.</td>
</tr>
<tr>
<td>Professional repair shops</td>
<td></td>
<td>A accessories brand specialty chain shop, only provide your own products.</td>
</tr>
<tr>
<td>Auto beauty shops</td>
<td></td>
<td>Traditional auto beauty chain shop, its main business is maintenance and quick repair.</td>
</tr>
</tbody>
</table>
### Different shape to adapt to different customer types:

<table>
<thead>
<tr>
<th>Category</th>
<th>Advantage</th>
<th>Disadvantaged</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>4S shop</strong></td>
<td>Brand Professional technology and equipment</td>
<td>Price is high</td>
</tr>
<tr>
<td></td>
<td>Reliable</td>
<td>Only a specific brand service</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Shops less and long distance</td>
</tr>
<tr>
<td><strong>large and medium-sized maintenance companies</strong></td>
<td>More professional Maintenance models widely Agility management</td>
<td>Concept and image are shortcomings</td>
</tr>
<tr>
<td><strong>Small car repair shops</strong></td>
<td>The price is low</td>
<td>Low professional</td>
</tr>
<tr>
<td></td>
<td>Convenience</td>
<td>Poor quality of accessories</td>
</tr>
<tr>
<td><strong>Chain repair shop</strong></td>
<td>More professional service</td>
<td>Single service project</td>
</tr>
<tr>
<td></td>
<td>Main business is universality service project</td>
<td>No original accessories</td>
</tr>
<tr>
<td></td>
<td>The price is reasonable</td>
<td></td>
</tr>
<tr>
<td><strong>Professional repair shops</strong></td>
<td>Large scale</td>
<td>Business products</td>
</tr>
<tr>
<td></td>
<td>The price is reasonable</td>
<td>Just enter the market, it is accepted degree is low</td>
</tr>
<tr>
<td></td>
<td>Unified management</td>
<td></td>
</tr>
<tr>
<td><strong>Auto beauty</strong></td>
<td>Large scale</td>
<td>Single ability</td>
</tr>
<tr>
<td></td>
<td>The price is reasonable</td>
<td>Just enter the market, it is accepted degree is low</td>
</tr>
<tr>
<td></td>
<td>Unified management</td>
<td></td>
</tr>
</tbody>
</table>
China automotive aftermarket sector present situation analysis

The maintenance enterprise survival status:

**4S shop**
- The upstream resources are rich
- Great hardware investment, good environment, new equipment
- Special ability strong and can continue to ascend
- Maintenance accessories are from supply system
- Quality assurance, supply rate is high, the high cost
- Customer easier to adopt

Vehicle sales profits is falling, customer loss, operating costs increase. These lead to the 4s shop profit decline.

**Maintenance enterprise**
- The upstream resources are scarce
- Low hardware investment, good environment and limited conditions
- Comprehensive maintenance ability is strong, but the continued ascent of special technology is restricted
- Repair parts purchasing channels is difficult, difficult to guarantee quality, low supply rate, low cost
- Customer harder to adopt

Rising labor costs, rent cost, capital cost, they are become a threat to the development of the enterprise
China automotive aftermarket sector present situation analysis

Maintenance enterprise profit model:

Maintenance enterprises including I, II, III category repair shop, quick fix, auto beauty shop, profit is not rely on technical service ability, they depend on parts of premium, insurance business commission and the sale of scrap parts.
China automotive aftermarket sector present situation analysis

The point of Maintenance enterprises focus on parts supply:

- **Rapid response**
- **Quality assurance**
- **Parts supply fast** (The shipping service)
- **Accessories product quality assurance**
- **Accessories supply channel price**
- **Thoughtful and convenient aftermarket service**
China automotive aftermarket sector present situation analysis

China automotive aftermarket existing problems:

- **Market concentration is not high**
  - There are not large enterprises on the aftermarket, it is a good opportunity for investors.

- **Industry statistics is incomplete**
  - Because aftermarket has just been developed in recent years, their mainly involves the car after market related organizations focus on cultivating and standardize the market, there is no official statistics on automotive aftermarket.

- **The foreign capital enterprise expanding fast**
  - Domestic enterprises have not yet formed the scale, the international famous brands have to speed up the expansion in China, mainly include: AC deco, Bosch, yellow hat, 3 m, Nielsen, etc.

- **Policies and regulations and standard system is imperfect**
  - Compared with foreign mature aftermarket, China automotive aftermarket service mode is not sound, standards, laws and regulations system is not perfect.

- **Supply chain is not norm**
  - Influenced by current supply system, China automotive aftermarket still exists profiteering, grey zone; accessories intensive procurement difficulties; fake and inferior products etc. Bad phenomenon.
The future trends and change of China automotive aftermarket
The future trends and change of China automotive aftermarket

Change I: Consumers in the automotive aftermarket are more matured and reasonable. The selection of maintenance agency is gradually decentralized:

According to recent study, 4S stores are losing more customers comparing to previous year, which means maintenance companies, chain stores, as well as new professional maintenance & Beauty stores are occupying more and more market shares. The main reason for them to leave 4S system is the high price. When choosing where to maintain their cars, the customers care the most about the technique and price, while the added services and personal relationship are comparatively less important.
The future trends and change of China automotive aftermarket

Change II: Automotive aftermarket is attracting more attention from government recently. Dramatic changes could be expected in the policy environment:

September 3rd 2014, 10 government institutions, including Ministry of Transport, National Development and Reform Commission, announced an official documents ‘No.186 Transport Development (2014)’ – Instruction of transforming automotive maintenance industry and upgrading service quality. The instruction clearly demonstrates, that with the help of 5-year attempt, automotive maintenance industry will be basically transformed from expansion-of-scale model to quality-benefit model. The market will be more matured, better distributed and structured, and ordered more fairly. The main participants of the market will be more honest so that the distribution of resources will be more reasonable and efficient, leading significant development of automotive aftermarket. The instruction pointed that after 5 years, the industry should also complete the transforming from extensive service to quality service, providing the citizens with a more transparent, economic, convenient and satisfactory automotive maintenance and consuming service.
The future trends and change of China automotive aftermarket

Change III: Information technology is merging into China automotive aftermarket, allowing the service to have higher efficiency, intelligence and integration:

Internet, mobile internet, social fragmentation and Internet of Vehicles are rapidly transforming the consuming and operating pattern of the car owners, car service providers, auto parts manufacturers:

- E-commerce of auto parts;
- O2O maintenance service;
- Remote diagnostic service;
- O2O consuming pattern;
- B2B platform integrates supply chain and establish the purchasing platform with large scale, high efficiency and standard.
The future trends and change of China automotive aftermarket:

The future trends of China automotive aftermarket:
The future trends and change of China automotive aftermarket

The maintenance market is entering an era of fierce competitiveness:

Automotive after-sales market, which is represented by chained automotive maintenance and normal maintenance, is the main competitor and supplement of the current 4S system conducted by the automotive manufacturers.

- Aftermarket becomes the new, important, potential ‘Blue Ocean’ of profit incrementality, attracting wide attention
- Comprehensive development of after-sales market is appearing nation-wide
- Brands of international after-sales service is entering
- User experiences of automotive becomes various; consuming focus is changing

- New industrial mode makes after-sales market more diverse
- The compete between different industrial modes produce the changes of old pattern and creation of new pattern
- After-sales market is segmented deeply. Different industrial modes focus on different consumers based on their own features
CAPAC “chain+circle” aftermarket service system
CAPAC: “chain+circle” aftermarket service system

Established in 1983, CAPAC is a wholly owned subsidiary of SINOMACH, headquartered in Beijing. CAPAC is the core enterprise of China’s auto parts integrated service providers.

Based on the long-time accumulated technology and industry influence, CAPAC aim to build up seven platforms of auto parts trade, manufacturing, testing, R&D, industry services, industrial park and investment, and form a complete auto parts integrated service system.

With an excellent professional team, based on the mission of “serve the auto manufacturer, serve the auto user”, insisting on the value of win-win, with continuous innovation, CAPAC aim to become the connection bridge of China’s auto parts enterprises and the direction sign of the global auto parts industry.

**CAPAC Positioning:** China’s Leading Auto Parts Integrated Service Provider

**CAPAC Mission:** Serve the auto manufacturers, serve the auto users

**CAPAC Culture:** Harmonious, United, Hard-working, Innovative
CAPAC “chain+circle” aftermarket service system

Business Model
Surrounding the core upstream and downstream manufacturer, build a comprehensive service platform

According to the local city industry and the economic basis to build different characteristics automotive aftermarket comprehensive business cluster.

To build a platform for distributors and suppliers which is efficient and convenient, low cost, become a order service center for upstream and downstream products procurement center, financial service center, warehousing and distribution center, etc

Mainly based on local regional economic center, the nationwide building covers auto aftermarket, service, entertainment, commercial, residential, cultural, public class subdivision formats such as integrated in the integration of business cluster.
Ecommerce platform and the modern automobile industry chain operational shop, which are called ‘cement + mouse’ business model, will build the comprehensive service platform for the after-auto market industry. The comprehensive service platform will include ordering service center, products procurement center, financial service center, warehousing and distribution center.
The circle of service:

The circle of service system will improve the concentration of after-automotive market and develop the local economy. The six service platforms are complementary, which will realize the function upgrade.

Six Major Functional Platforms
Seven Class Subdivision Formats

Sourcing Platform
- Imported Car Show
- New car sale
- Spare parts procurement
- Automotive trim procurement

Trade & Service Platform
- Rental service
- Auto rental
- Car hire
- Insurance
- RGL 400 service center...

Logistics & Storage Platform
- Lofistics
- Storage
- ....."

Exhibition Platform
- Car culture park
- Drive experience area
- Karting club
- Auto salon
- Outdoor Movies

Training Platform
- RGL car mechanic professional base.....

Business & Accommodation Platform
- Auto quick hotel
- Hotel apartment
- Entertainment
- Retail
- Business
- .....
Direction of cooperation between CAPAC and Turkey
Surrounding the China’s “One Belt and One Road” strategic thinking and taking shape the trend of Eurasian economic integration. CAPAC with Turkish automotive industry can be further cooperation in the following respects:
Cooperation Innovation, Win-win

Harmonious  United  Hard-working  Innovative