The evolution of customers in the automotive lubricants market ..... 

.... what is going on, why is it happening and how can you best face the challenges ahead!!

Presented at the Benelux Technical Lubricants seminar – June 2015

Who are RPS?

- FTSE 250 company with a turnover of $700m+ employing over 4,000 employees
- RPS Energy operates globally and is one of the world’s leading suppliers of independent commercial advisory services for the energy sector
- RPS E&P and Downstream have a team of 200+ sector specialists who have extensive practical business experience across all elements of the oil value chain
- Clients include Governments, National Oil Companies, Integrated Majors, Independents, Financial Institutions
The Downstream Offer

SPECIALIST PRACTISES

- Refining, Trading & Supply
- Commercial Fuels & Specialties
- Lubricants
- Retail

OPERATIONAL OPTIMISATION

- Offer & Pricing Development
- Brand & Marketing
- Organisation & Capability
- Supply Chain
- HSSE

STRATEGY DELIVERY

- Market & Competitor Analysis
- Strategic Planning & Option Generation
- M&A and Business Integration Support
- Strategy Implementation
- Market Entry Support

RPS Energy

Agenda

- Understand what’s driving change
- Understand your Universe
- Understand you Customer

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Understand what’s driving change

Regional economic prospects and vehicle ownership will drive lubricants growth ......

North America 2012-2023
- GDP Growth (avg): 2.4%
- Per Capita (avg): 1.6%
- Lubes Growth: (1%) – 1%

Europe 2012-2023
- GDP Growth (avg): 1.7%
- Per Capita (avg): 1.5%
- Lubes Growth: (1%) – 0.5%

Mid East & Africa 2012 - 2023
- GDP Growth (avg): 4.0%
- Per Capita (avg): 2.3%
- Lubes Growth: 0.5% - 2%

Asia Pacific 2012-2023
- GDP Growth (avg): 4.0%
- Per Capita (avg): 3.6%
- Lubes Growth: 1% - 2%

Source: RPS, EIU, World Bank – Estimates range from Low to High with global avg (0.1%) to 1.5%
... but also how a number of megatrends will impact the market

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Megatrends

East Up – West Down
Living for the City
Resources re-sourced
A New Disorder

Grey is the new Black
Share generates 'spare'
Industrial Revolution #3
Green – from Hero to Zero

RPS Energy

Driving Channel Evolution - Customer Expectations (B2B)

• Product quality assumed through specification and brand
• Evidence that traditional added services are now only a 'license to operate'

Source: RPS Research project in a major European market
**Driving Channel Evolution - Commoditisation**

**R&D Budgets 'dictated' by OEM agendas**

- Driven by:
  - Specification-led product development with technology accessible for all
  - Dampening effect on demand due to technology shifts
  - Easy Access to higher quality base oils and additives

**Announced capacity increases 2012 - 2015**

Source: RPS Research Client Project, EIU, World Bank

**Driving Channel Evolution - Distributors increasingly ‘own’ the customer**

- Direct models expensive
- Distributors demand multi-brand offer
- It is all about the margin opportunity

Source: RPS Research project in a developed market
Three key drivers therefor underpin Lubesco’s strategies today

**MINIMISE COST**
- Additives
- Base Oil
- Packaging

**OPTIMISE OPERATIONS**
- Finished Lubricant
- Sales & Distribution
- Marketing

**MAXIMISE IMPACT**
- Customers & Channels

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... but it starts with understanding Customers & Channels

- Forecourts
- Auto Shops
- Large Retailer
- OEM Workshops
- Independent Workshops
- Quick Service
- Heavy Duty (Off Road)
- Heavy Duty (Transport)
Understand your Universe

Creating a ‘Market Map’ helps focus strategy development

Example: 2012 Mature European Geography

Source: RPS Research Client Project

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Creating a ‘Market Map’ helps focus strategy development

Example: 2012 Mature European Geography

Source: RPS Research Client Project
Creating a ‘Market Map’ helps focus strategy development

Example: 2012 Mature European Geography

Source: RPS Research Client Project

driving Channel Evolution – The Market Impact

CAGR based upon 2012 – 2020

Source: RPS Research Client Project
Understand your Customer

Getting under the skin of the channel is challenging ......

<table>
<thead>
<tr>
<th></th>
<th>Total Passenger Car Lubricants Market</th>
<th>563 ml</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto Specialist</td>
<td></td>
<td>71 ml</td>
</tr>
<tr>
<td>Forecourts</td>
<td></td>
<td>25 ml</td>
</tr>
<tr>
<td>Independent Workshops</td>
<td></td>
<td>126 ml</td>
</tr>
<tr>
<td>Auto Centres</td>
<td></td>
<td>39 ml</td>
</tr>
<tr>
<td>Retail</td>
<td></td>
<td>87 ml</td>
</tr>
<tr>
<td>OEM Workshops</td>
<td></td>
<td>215 ml</td>
</tr>
</tbody>
</table>

63% 37%

% Sales of Passenger Car Lubricants

<table>
<thead>
<tr>
<th>Other : OEM</th>
<th>UK</th>
<th>France</th>
<th>Germany</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>66% : 34%</td>
<td>59% : 41%</td>
<td>58% : 42%</td>
<td>76% : 24%</td>
<td></td>
</tr>
</tbody>
</table>

*Source : RPS analysis of France, Germany, UK, Spain
You need to delve deeper to get real insight – e.g. Car Aftermarket

- European Aftermarket Sales estimated at €165bn+ per annum

... and you will need to understand how multiple elements interact

- Maintenance
- Consumables
- Accident repairs
- Repairs

Services Bought

- Individual owners
- (0-3 yrs old)*
- Individual owners (4yrs+)
- Fleets

Services Suppliers

- OEM Franchised Workshops
- Automotive Service Groups
- Independent Workshops
- Retail outlets

Customers

- Insurance Co’s

Legislation

Influencers

OEMs

Leasing Co’s

Influencers

Sources: RPS, AT Kearney, Cap Gemini Consulting
Aftermarket activities are absolutely critical to profitability ....

... especially as published returns posted by dealer groups are

GUESS?

This creates an ‘interesting’ landscape for Lubesco's

<table>
<thead>
<tr>
<th>% of new car sales in EU27</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>11% - Large Groups</td>
<td>89% - Smaller Groups, Individual Dealerships</td>
</tr>
<tr>
<td>20 large groups needing growth through scale in order to generate returns</td>
<td>Combination of smaller groups and individual dealerships</td>
</tr>
<tr>
<td>Held Privately or Publicly with associated management behaviours and practices</td>
<td>Privately held with associated management behaviours and practices</td>
</tr>
<tr>
<td>Position of strength with OEM given scale</td>
<td>OEM able to exert more influence dependant upon the level of control they have over the network</td>
</tr>
<tr>
<td>At global level only targetable by majors</td>
<td>Acquisition targets for groups</td>
</tr>
<tr>
<td>Inorganic growth led</td>
<td>Targetable by local / regional players directly</td>
</tr>
<tr>
<td>12% - Public PLCs</td>
<td>Targetable by majors directly or through distributors dependant upon business model</td>
</tr>
</tbody>
</table>
| 88% - Privately held businesses |}

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... and continued consolidation is expected given the low industry returns

- Dealer groups now encompass multi-brand and multi-OEM
- Dealer groups at different stages of evolution – but centralisation an obvious efficiency they can chase
- Lubesco’s need to address power shifts towards mega-dealers / mega distributors

* A T Kearney Aftermarket Participants 2020 Trends Survey

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**Example Group Profile - Emil Frey**

**Emil Frey**

- Family-run Swiss company with a large presence in Germany.
- Dealerships: 363 - Switzerland, Germany, France, Czech Republic, Hungary and Poland
- Brands: 27
Lubesco’s strategy must be based on:
- customer/channel understanding
- relevant customer/channel needs
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