The Beauty in Auto Care

Women in Auto Care 2017 Winter Conference

Karen Grant
Senior Vice President, Global Beauty Industry Analyst
If the economy had a sex

The insight beauty provides for Automotive
If the economy had a sex...

“If the consumer economy had a sex, it would be female.

Women drive 70-80% of all consumer purchasing, through a combination of their **buying power and influence**. Influence means that even when a woman isn’t paying for something herself, she is often the influence or veto vote behind someone else’s purchase.”

Source: forbes.com/sites/bridgetbrennan/2015/01/21/top-10-things-everyone-should-know-about-women-consumers
Beauty and the female shopper

In 2016, 87% of U.S. shoppers were women. 9 out of 10 women shopped for beauty products.

Consumer Mindset

The what and The why

Review of the 2016 automotive trends and factors impacting results
Binge Behavior
Beauty again leads growth across U.S. industries

12ME December 2016 % change vs. prior – Total U.S. Markets (All Channels) -

Source: The NPD Group/Retail and Consumer Tracking Service 12ME Dec ’16
*Nielsen Answers, 52 weeks ending Dec 31 ’16

**Note: Video Entertainment reflects 12ME Sep’16
2016: another prestige beauty milestone

Yes! “Another year, another Billion!”

Total Prestige Beauty Sales, 12ME December U.S.

Source: The NPD Group/U.S. BeautyTrends®/Total Measured Market
The look of U.S. prestige beauty 2016

U.S. makeup advances

In 2016, 83% of 4 out of 5 dollars gained in prestige beauty was from makeup.

Makeup almost doubled annual incremental dollars generated (from $455M in 2013 to $822M in 2016).

In 2015, Makeup accounted for 74% of total U.S. prestige beauty gains.

Source: The NPD Group/U.S. BeautyTrends®/Total Measured Market
Almost 90% of U.S. consumers use scented products, including home scent products like candles or air fresheners and/or body fragrance like perfume or body spray.

Makeup surpassed $1 Billion in December... Capturing 42% of December women’s sales and 98% of incremental gains for the month. Fragrance dropped to 32% share of December.
Feel good Experiences
NPD industries see: shifting choices

Apparel

Biggest winner in Apparel Q4:
Sleepwear and Underwear

Retail

Direct Mail/Pure Plays biggest Winner in Apparel retail in Q4:
Apparel Specialty like Old Navy and H&M driving footwear gains

Food Service

48% of dinner meals purchased from a restaurant were eaten at home as take-out.

Source: The NPD Group/Annual Report on Eating Patterns in America

Footwear

Dress Slips-Ons/Loafers are finding growth with both fashion brands... and more traditional comfort brands

Source: The NPD Group / Tracking Service - 2016
I buy beauty because...

78% Look and Feel My Best

62% Treat for Myself

53% Feel Confident

Today, confidence is a lesser motivator

Source: The NPD Group, HOP Survey, January 2017
Women in beauty: 2017 hierarchy of “needs”

“I will not cut...”

Products, Services, and Experiences on equal levels

- Beauty Products
- Clothing/Apparel
- Footwear
- Dining Out
- Beauty Treatments
- Home Entertainment
- Vacations
- Entertainment Out
- Personal Electronics
- Accessories
- Home Decor
- Jewelry, Watches
- Gym/Personal Trainer
- Video Games

Source: The NPD Group, HOP Survey, January 2017
Trends impacting retail DIY auto parts sales

Miles Driven  Gasoline Price  New Car Sales
The most recent published 12 month period showed a growth rate of +3.0%, equating to an increase of almost 100 Billion miles.
Gasoline Price Trend: 2016 lowest in 5 years

Gasoline prices averaged $0.27 per gallon cheaper in 2016 compared to 2015. Overall, 2016 had the lowest gasoline prices out of the last five years.

Source: U.S. Energy Information Administration
The number of new cars sold in 2016 unexpectedly set a record by outperforming 2015.

New Car Sales Trend – sets new record!

Source: Auto Care Association Industry Indicators Report
Total Industry: $15B, but slower growth rate

Dollar volume growth rate slowed from +4.0% in 2015 to +2.9% in 2016.

December caused a shift in annual results - from +2.2% (YTD November) to +2.9% for the total year.
Total Industry Unit/Quart Sales improve

While dollar growth rate slowed, unit/quart growth rate continues to improve

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Industry Unit/Quart Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>CY 2013</td>
<td>1.89B</td>
</tr>
<tr>
<td>CY 2014</td>
<td>1.86B, -1.6%</td>
</tr>
<tr>
<td>CY 2015</td>
<td>1.89B, +1.6%</td>
</tr>
<tr>
<td>CY 2016</td>
<td>1.92B, +1.8%</td>
</tr>
</tbody>
</table>

The NPD Group / Retail Tracking Service
2016 retail prices: seldom much above 2015

Half of the months in 2016 had retail prices below prior year

Average Price Trend – All Tracked Categories

Source: The NPD Group / Retail Tracking Service
Lower price alternatives: good enough

Additional Factors Influencing Average Price

BATTERIES
The unit share of “good” grade batteries grew over four points in 2016 as consumers, incentivized by lower price points, chose to trade down.

MOTOR OIL
The number of PCMO promotions grew 14% in 2016 compared to 2015. They grew 36% compared to 2013.

WIPER BLADES
While beam blades continue to steal share from conventional, the premium segment within beam lost four points to standard beam blades – a cheaper alternative for consumers.
Industry Performance: pricing helped units

The acceleration of unit volume growth closely correlates to the lower increase in overall average selling price.
Accessories and Appearance: highest unit lift

Accessories and appearance have highest unit growth correlating to biggest average price decline. Although, the maintenance & repair super-category posted an increase in average price, batteries, filters, plugs, and wipers posted a decline in average price.

Super-Category Performance

- Accessories & Appearance: highest unit lift
- Grand Total
- Chemicals, Additives & Fluids
- Maintenance & Repair

The NPD Group / Retail Tracking Service
CY 2016 vs. Prior
Lower price increases in biggest categories

The four largest tracked categories have experienced a dramatic slow-down in average retail price increases.

**Average Price % Change – Top Dollar Categories**

- **Batteries**
  - 2014: 6.2%
  - 2015: 1.2%
  - 2016: -1.9%
  - Change: -4.3%

- **Motor Oil**
  - 2014: 4.3%
  - 2015: 1.6%
  - 2016: -0.3%
  - Change: -3.0%

- **Performance Chemicals**
  - 2014: 3.8%
  - 2015: 2.2%
  - 2016: 0.3%
  - Change: -3.5%

- **Wipers**
  - 2014: 6.6%
  - 2015: 4.9%
  - 2016: 1.4%
  - Change: -5.2%

The NPD Group / Retail Tracking Service
Batteries ended the year as the top performing category in spite of a decline in the average selling price due to high increase in unit sales.
Private label acceleration

Private label dollars grew over 2x faster than the market

Private Label Performance - % Change vs. YAG

- Dollars
- Units
- ASP

Grand Total

- 2.9%
- 1.8%
- 1.0%

Total Private Label

- 7.2%
- 5.8%
- 0.1%

The NPD Group / Retail Tracking Service
CY 2016
Private Label gains in top categories

Private Label grew over 10% in two of the top categories. It also gained over a share point in each category. Private label share of Motor Oil is now 13.8%; Performance Chemicals 14.7%

Private Label Dollar % Change

Motor Oil
-1.8%  11.5%  2.0%

Performance Chemicals
-0.8%  11.4%  2.9%

The NPD Group / Retail Tracking Service
Looking forward

Outlook and forecast for 2017
Less growth in miles driven in recent months

The miles driven growth rate, on a 12 month rolling basis, has slowed in recent months

Miles Driven Annual Growth Rate Trend

2017 Miles Driven Growth Forecast = 1.6%

Source: U.S. Department of Transportation
2017 forecast: price trends much like 2016

Calendar year 2017 forecast assumes retail prices will grow/decline similar to how 2016 prices performed

Source: The NPD Group / Retail Tracking Service
Gasoline Prices: starting higher than 2016

Gasoline prices for the first four weeks of 2017 were 20% higher than the same four week period in 2016

Source: U.S. Energy Information Administration
Retail dollar sales: decline in the forecast

The 2017 forecast assumes retail pricing in 2017 moves similar to 2016

2016 & 2017 Dollar Sales Forecast

- CY 2014: 2.6%
- CU 2015: 4.0%
- CY 2016: 2.9%
- Forecast: 2017 -1.9%
Where do we go from here?

Going outside for inspiration...
Declining **retail prices** coupled with a slowdown in **miles driven** growth point to a **decline** in retail dollar sales in 2017

... **but also much new to consider**
Core automotive consumer is transforming

The millennial generation is entering their peak driving years as boomers begin to slow down. 20-34 year olds today drive twice as much, on average, when compared to a driver over 65.

Average Annual Miles Driven by Age

- 16-19: 7,624
- 20-34: 15,098
- 35-54: 15,291
- 55-64: 11,974
- 65+: 7,646

Source: Federal Highway Administration
The challenge: next Gen car ownership

Millennials are more likely to state that they don’t currently own a car.

Percentage of Consumers that Don’t Own a Car

- Total: 24.7%
- 18-24: 53.2%
- 25-34: 42.6%
- 35-54: 20.0%
- 55+: 10.4%

Source: The NPD Group / 2017 Consumer Outlook Survey
The difference with the next Gen

Older millennials (25-34) are twice as likely to have **leased** their current vehicle

Younger (18-24) expect to spend over $2K on **repairs** in 2017 – double the average

50% more likely to watch an **online video** to learn about repairs in 2017

Sources: The NPD Group / 2017 Consumer Outlook Survey; Civic Science
More likely switch between DIY and DIFM

Millennials are more likely to DIY or switch between both compared to older generations

- **Total**: 20% DIY, 19% Switch
- **18-24**: 27% DIY, 17% Switch
- **25-34**: 32% DIY, 9% Switch
- **35-54**: 24% DIY, 13% Switch
- **55+**: 13% DIY, 6% Switch

Source: The NPD Group / 2017 Consumer Outlook Survey
More opportunities in DIY and DIFM

Plan to Increase DIY in 2017

A record number of cars will see their original factory warranty expire over the coming years

- I save money by doing the work myself: 68%
- I enjoy the work: 26%
- My vehicle is no longer under warranty: 26%
- It is just more convenient to do the work myself: 24%
- I now have the time to do them myself: 19%
- I now have a place to do them myself: 13%
- I had a bad service experience and only trust myself...: 9%

Reasons for Increasing DIFM in 2017

Convenience and complexity are sited as the top two reasons for consumers to shift more work to the DIFM market

- More convenient: 41%
- Don't have the right tools: 31%
- Maintenance has become too complex: 27%
- I no longer have the time: 22%
- I am too old: 16%

Source: The NPD Group / 2017 Consumer Outlook Survey
Can automotive gain from looking at outside trends?
The issue: proliferation of trends

Beauty TRENDS

Which consumer trends will reign around the world in 2017?

Lifestyle TRENDS

NEED-BASED products

Retail rationalization

MASS customization

RAVE reviews

customer as CREATOR

1. Ageing: A changing narrative
2. Consumers in training
3. Extraordinary
4. Faster shopping
5. Get real: The allure of authenticity
6. Identity in flux
7. Personalise it
8. Post-purchase
9. Privacy and security
10. Wellness as status symbol

12 PERSONAS
1. The socially obsessed
2. The creator
3. The adventurer
4. The fitness junkie
5. The beauty buff
6. The sleep hero
7. The foodie
8. The trendsetter
9. The trendsetter
10. The sentimental
11. The pet person
12. The good samaritan

12 META-TRENDS

AMATEUR-EXPERT
INTERNET OF THINGS
VIRTUAL REALITY
3D PRINTING
PERSONAL NIRMAYA
WEARABLES
COMMUNITY CONSUMPTION
COLLABORATIVE CONSUMPTION

rule BREAKERS & TROUBLEMAKERS

DELIVERY on-demand
immaculate to AUTHENTIC

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Distillery: “that one shot of pure whiskey”

“It isn't that hard to get a ton of corn into a gallon of sour mash, but to get that gallon of sour mash down to that one shot of pure whiskey...

So much of it is a hewing process... Really, it's that last couple of drops you're distilling that makes all the difference."

- Michael Stipes, R.E.M.
The Consumer Trends: Distilled

The what and The why

The Preferences

- Personal Brand
- Healthy-ish Lifestyle
- Past Rediscovered

Binge Behavior
Feel good Experiences
Personal Brand
Puma leapt into **the top footwear ranks** in 2016 due to its continued **collaboration** with Rihanna.

Source: NPD Footwear Holiday 2016 Review
Desiring to have “a treat for myself”

Designer and Artisanal Options

SheHeMe – Gender Neutral Options

76% Buy to “have a treat for myself”…
of women age 18+ who shopped for fragrance in the past year

Source: The NPD Group, HOP Survey, January 2017

Up +37% to +54%...
in fragrance market that grew +1% in 2016

Source: The NPD Group/U.S. BeautyTrends®/Total Measured Market
“While many people think of a vehicle as a simple mode of transportation, others share a lot of things in common with the car they drive. It doesn’t matter whether you purchase a Beetle or a red convertible, a pickup truck or a big minivan, the vehicle you choose automatically states a lot about you as a person. In fact, your vehicle is a reflection of who you are.”

Source: globalcarsbrands.com/how-a-car-defines-your-personality
Healthy-ish Lifestyle
Across NPD industries: ‘healthy’ choices

Apparel
Double-digit growth in activewear sectors

Food

Handbags
Fashion/Lifestyle Backpacks best performing. Double-digit growth

Toys
Double-digit growth in outdoor and sports toys

Athletic Footwear
Continued growth in sneakers greater than +40%

Source: The NPD Group / Tracking Service - 2016
Automotive opting more ‘conscious living’

Industry disruptors: emergent sharing economy and changing technology

- Ride Sharing
- Connected Car
- Car Sharing
- Autonomous Vehicles
Since 2014, niche segments added over:

$240M

Source: The NPD Group/U.S. BeautyTrends®/Total Measured Market

Almost 90% of U.S. consumers use...
scented products, including home scent products like candles or air fresheners and/or body fragrance like perfume or body spray

Scentiments
Scented Mind: Topline Report, 2016 (consumers age 13+)
Increase in automotive air freshener buyers

Product Buyer Category Age Distribution: Automotive Air Fresheners

- **2016**
  - 18-24: 12%
  - 25-34: 29%
  - 35-44: 30%
  - 45-54: 14%
  - 55+: 16%

- **2015**
  - 18-24: 14%
  - 25-34: 28%
  - 35-44: 23%
  - 45-54: 17%
  - 55+: 17%

- **2014**
  - 18-24: 15%
  - 25-34: 27%
  - 35-44: 19%
  - 45-54: 18%
  - 55+: 20%

Over 7 million more air freshener buyers...
Growing from 9% (2014) of population to 12% (2016), automotive air fresheners added approximately 7.26 million more buyers. – expanding with 25-44 year olds.

Source: The NPD Group Automotive Market Summary Metrics Projected Product Buyers
U.S. Census Bureau 2013, *Based on U.S. population 18+ ~242MM*
Past Rediscovered
Past treasures rediscovered across ages

Classic brands enjoy double to triple digit growth

Games and Puzzles for children and adults post double-digit growth

Pokémon was the top growth property of the year in toys.

Star Wars retains rank as top property, based on dollar sales.

Source: The NPD Group / Tracking Service - 2016
Past categories come to the fore

The return of masculine beauty?

Eyebrows

Lip Color

Liquid Eyeliner

Legendary categories post growth as high as +74%
Past appeals with Next Gen in auto...

(Age 18-34)

50% More Likely... purchased current vehicle used

(Age 18-24)

10 yrs Average Age of cars driven is 10.1 years

Sources: The NPD Group; 2017 Consumer Outlook Survey; Civic Science
Appearance matters more... again

Women using 5+ makeup products in a typical day

<table>
<thead>
<tr>
<th>Age of users</th>
<th>2014</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-24</td>
<td>25</td>
<td>36</td>
</tr>
<tr>
<td>25-34</td>
<td>30</td>
<td>39</td>
</tr>
<tr>
<td>35-44</td>
<td>34</td>
<td>39</td>
</tr>
<tr>
<td>45-54</td>
<td>34</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: The NPD Group/ Makeup In-Depth Consumer Reports 2016, 2014

Appearance related beauty categories post highest growth as high as +51%

Source: The NPD Group/U.S. BeautyTrends®/ Total Measured Market
Automotive online: more likely to opt for appearance/accessories

Distressed and impulse purchase categories fall in the low likelihood bucket

Online Purchase Consideration in 2017

<table>
<thead>
<tr>
<th>Highest Likelihood</th>
<th>Some Likelihood</th>
<th>Low likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accessories (floor mats, sun shades)</td>
<td>Wheels</td>
<td>Batteries</td>
</tr>
<tr>
<td>Parts (brake pads, shocks)</td>
<td>Wiper blades</td>
<td>Fuel additives</td>
</tr>
<tr>
<td>Tires</td>
<td>Air fresheners</td>
<td>Motor oil</td>
</tr>
<tr>
<td></td>
<td>Appearance chemicals</td>
<td>Antifreeze</td>
</tr>
</tbody>
</table>

Source: The NPD Group / 2017 Consumer Outlook Survey
Automotive appearance/accessories increasing buyers, especially among young

Product Buyers of Automotive Super-Category: Appearance/Accessories

- 2014: 23%
- 2015: 25%
- 2016: 29%

14.5 Million more buyers of Automotive Appearance/Accessories since 2014

Young 50% more likely to buy ...

Over-indexing on buying appearance/accessories compared to Total, consumers age 18-24: 150%; 25-34: 139%; 35-44: 130%

Source: The NPD Group Automotive Market Summary Metrics Projected Product Buyers U.S. Census Bureau 2013, Based on U.S. population 18+ ~242MM
From 2017, watch...

RESTRUCTURE
More opportunity to adapt with emerging

Trends are Accelerating Converging ...and Diverging
More opportunity in tapping local needs

One Nation Different Preferences
More opportunity in cross-gen synergies

Next Gen Influence
Other Gen Relevance
Thank you