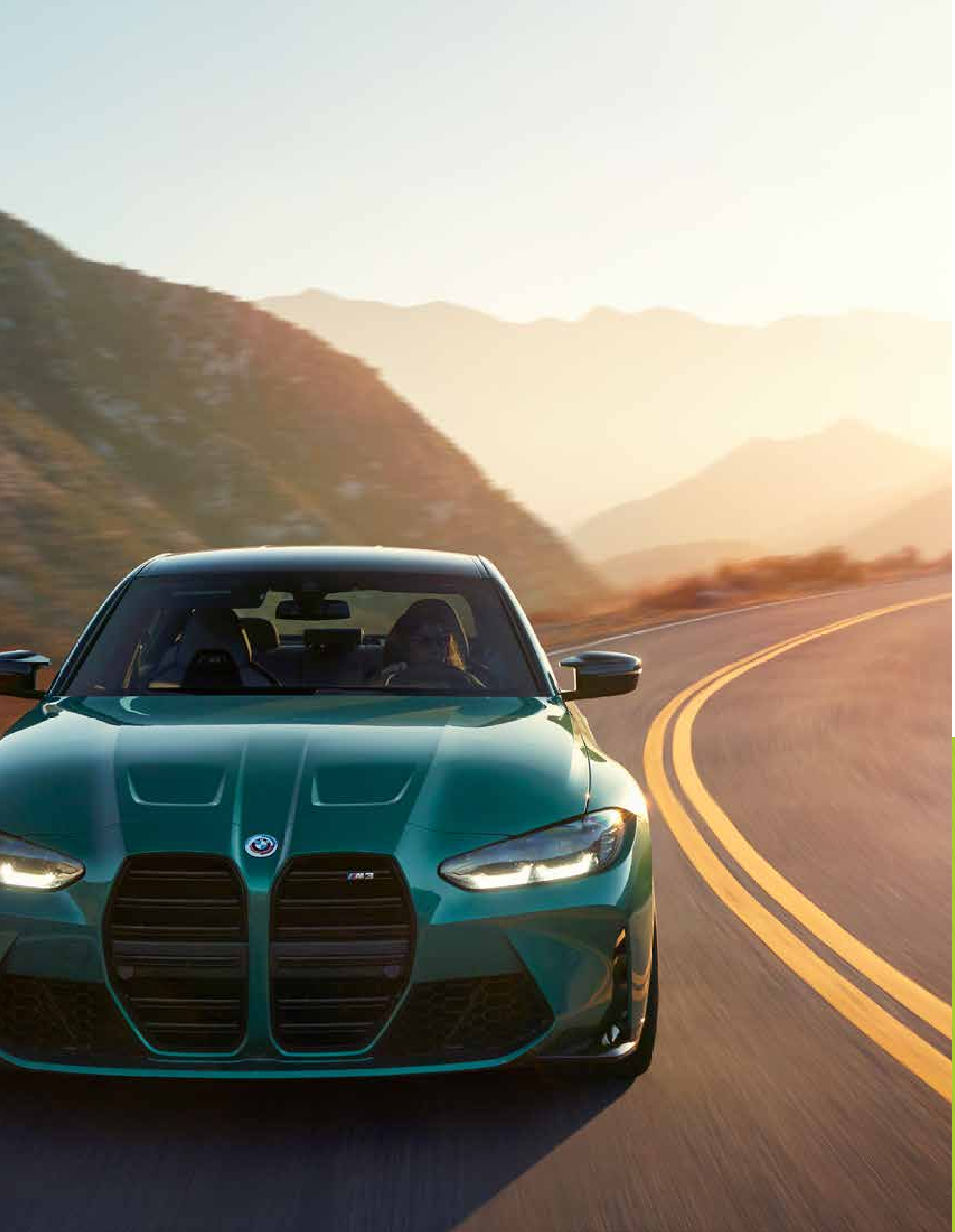
HEARST AUTOS INSIGHTS

Q1 2023

HEARST AUTOS



HEARST AUTOS

As the leading automotive media organization in the world, Hearst Autos connects

car buyers, owners, and enthusiasts to the information they need, the experiences they crave, and the stories they love—while connecting automotive marketers to this audience of unrivaled breadth and diversity.

With insight into the shopping activity of more than **22 million monthly visitors**,[1] Hearst Autos has a unique view into emerging trends in consumer interest. We are thrilled to share a quarterly view on this ever-changing industry—from the top segments, brands, and models, to an unrivaled understanding of what car-shoppers really want.

[1] comScore Media Metrix, January - March, 2023

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NEW CAR MARKET

New vehicle sales rose nearly **6%** in the first quarter to **3.6 million** units, with March's year-over-year growth (8.6%) helping to push volume beyond all initial projections. The first quarter selling rate (SAAR) of 15.3 million vehicles was well ahead of last year's 14 million, and is now leading analysts to make small upward adjustments to their full-year 2023 projections, ranging from 14.2 million to 15 million. Earlier forecasts were more conservative or skeptical, with a lower range at roughly 13.7 million for the year.

Of course, high interest rates and inflation continue to challenge the affordability of a new car purchase, but the first quarter proved that the market was buoyed by those with higher credit and a stronger financial position. The industry closed the quarter with its highest share of luxury sales ever at **17%** (for reference, 2022 closed at 14%), marking a **23% increase** over the same period last year and beating the market's overall growth by a factor of nearly three. At the same time, limited availability of vehicles at lower price points and fewer subprime buyers contributed to the ongoing struggle of affordability.

Q1 2023 BY THE NUMBERS

14.2 - 15.0

PROJECTED SALES VOLUME (M)

Analysts ended 2022 with very cautious optimism for the year ahead. Starting with forecasts of **13.7 million** units for 2023, Q1's strong results shifted expectations to a minimum of **14.2 million** in unit sales. While inventory, affordability, and the general stability of our economy will drive these numbers for the year, Q1 at least delivered us an optimistic start.

$45,818[1]

AVERAGE RETAIL TRANSACTION PRICES

Despite inventory improvements, transaction prices grew **3.5%** over the same period last year. While most of this is driven by high demand for luxury brands and large SUVs and trucks, supply constraints also still play a role in pricing. For the first time in almost two years, the industry is now seeing rates sitting at or slightly below MSRP, instead of above.

$1,558[1]

INCENTIVE SPEND per VEHICLE

Incentives are coming back with marked improvements over last year (+45%), but remain at historically low levels. As a percentage of MSRP, we're currently seeing incentive spending at **3.3%**, down from roughly **10.5%** pre-pandemic. The low lease mix of **20%** (vs. 30%+ in years prior to the pandemic), is also holding incentive spending back right now.

[1]J.D. Power and LMC Automotive, March 2023

Fleet sales also contributed to the strength of the first quarter. With pent-up demand from the past two years, and inventory improvements for most manufacturers, fleet represented **16%** of total sales in Q1, and analysts are expecting year-over-year increases of 30% or more. This caused a slight downward shift in the Truck and SUV mix to **77.5%**, compared to **79%** at the end of last year. The fulfillment of fleet orders also allowed manufacturer pricing to remain high and discounting relatively low. Although inventory has improved, much of it went to commercial sales instead of retail, keeping dealer supplies somewhat tight.

Retail vs. fleet, luxury vs. mainstream, cars vs. trucks. Whatever the mix, March closed with higher inventory levels than we've seen in two years, and sales increases that put most manufacturers back in the green when it comes to year-over-year growth.

INVENTORY AND DAYS' SUPPLY

Inventory has been steadily improving across the country since the end of 2022. When looking at days' supply, a measure of how long given inventory would last at the current rate of sales, manufacturers are now holding an average of 60 days on national level. Roughly two-thirds of manufacturers are even maintaining inventory above the average, with one-third returning to pre-pandemic levels of 80 days or more.

Among some of the highest, we continue to see Stellantis brands, Chrysler and Jeep at 100 days plus, Volvo above 120 days, and Buick averaging around 115 days. Toyota and Lexus continue to struggle and are below 30 days worth of inventory across the first quarter, and Toyota experienced a sales decline of 11%. Despite seeing sales growth in the first quarter, both Kia and Honda also fell way below the national average with around 30 days worth of inventory.

WHAT HIGHER INVENTORY LEVELS MEAN:

- **More options, more deals for consumers, and prices getting back to MSRP**
- **Lease options returning, and growing as a percentage of total sales**
- **Fleet sales rebound due to pent-up demand**

OEM SHAKE UPS

General Motors reclaimed the #1 rank in U.S. vehicle sales in 2022 that it lost to Toyota the year prior, and Q1 2023 proved that they're not letting go of that position. GM now leads both Ford and Toyota with a strong margin, and is also holding the #2 rank in electric vehicle sales (behind Tesla). Despite aggressive growth in production against its three EVs (Mustang Mach-e, F-150 Lighting, and E-Transit Van), Ford's electric sales fell short of GM's by nearly half.

MANUFACTURER	Q1 2023 U.S. SALES	% CHANGE vs. Q1 2022
General Motors	603,208	18%
Ford Motor Co.	475,906	10%
Toyota Motor N.A.	469,558	-9%
Stellantis`	370,130	-9%
American Honda	284,507	7%

Dealerships are still pre-selling a large portion of their inventory allocation, but increased supply means more buyers are purchasing vehicles that are in inventory at a dealership. This month, 44% of vehicles will be sold within 10 days of arriving at a dealership, down from a high of 57% in March 2022.

— Thomas King, president of the data and analytics division at J.D. Power

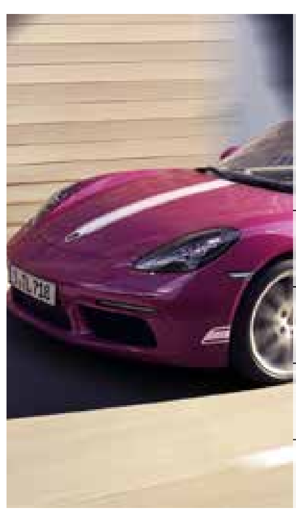
GM	Ford	Toyota	Stellantis	Honda
TOP SELLERS: Silverado, Sierra, Equinox, Malibu, Traverse	**TOP SELLERS:** F-Series, Explorer, Bronco, Transit Van	**TOP SELLERS:** RAV4, Camry, Highlander, Tacoma	**TOP SELLERS:** RAM 1500, Grand Cherokee, Wrangler, Compass, Pacifica	**TOP SELLERS:** CR-V, Civic, Accord, MDX
MOST GROWTH: Bolt EUV, Malibu, XT4, Trailblazer, Envision, Encore GX	**MOST GROWTH:** Transit Wagon and Van, Expedition, Navigator, Econoline	**MOST GROWTH:** Sequoia, Tundra, LX600, RX450, NX	**MOST GROWTH:** Voyager, Cherokee, Promaster and City, Charger	**MOST GROWTH:** Odyssey, TLX, Integra, MDX

Across the mainstream brands, GM had some of the most notable mentions across the board. All four of its divisions saw year-over-year gains, with Buick most significant at **99%**. This jump in sales helped Buick to outsell Cadillac for the first time since late 2021. Additionally, GM's EV sales were strong with more than **20,000 vehicle deliveries**, accounting for **3.4% of its total sales in the U.S.**. With a 27% increase in fleet sales, **GM is also touting the #1 rank** in fleet registrations across its 2023 model-year vehicles.

The Nissan Group also saw **17% growth** in Q1 sales, ending a streak of six consecutive quarters of year-over-year declines in sales. The Nissan division was up a solid **16%,** while its luxury brand, Infiniti, gained **40%** year-over-year. Most growth is attributed to its SUV/CUV lineups, however Nissan Versa also saw an uptick of **67%.**

LUXURY LEADERS

Tesla continues its lead in both luxury and EV sales. Ending the year with more than 100,000 unit lead over BMW, Tesla now closed the first quarter of 2023 already ahead of them by nearly 60,000 units. Meanwhile, Lexus bumped Mercedes-Benz down one spot, while Audi had the most growth among the Top 5 luxury brands.



LUXURY MANUFACTURER	Q1 2023 U.S. SALES	% CHANGE vs. Q1 2022
Tesla	140,700	34%
BMW	81,972	9%
Lexus	68,252	6%
Mercedes-Benz	59,198	-1%
Audi	51,707	38%

Newcomers Rivian and Lucid showed strong Q1 growth (640% and 491%) as they were in their infancy early last year. Porsche and Infiniti also reported commendable gains of 44% and 40%, respectively. Infiniti's QX60 and QX80 were responsible for both volume and growth, while Porsche saw 40% increases or more across every vehicle in its lineup, except for Taycan.

HEARST AUTOS SHOPPING ACTIVITY

With a view into a highly-engaged audience of **22M+ in-market shoppers**, Hearst Autos measures shopper interest based on sessions, visitors, and pages viewed for every vehicle on the market in the U.S.

Aligning with industry sales, we continue to see market demand still favors SUVs/CUVs and trucks, with family-sized SUVs/CUVs and Midsize and Electric Trucks seeing double-digit growth. In fact, electric trucks have pushed the standard full-size truck category down significantly (-40%), showing incredibly strong interest in converting to an electric among truck shoppers and owners.

When looking at some of our fastest-growing categories, there's undeniable interest around launches, mainly electrics, but hybrid and luxury cars, even a good amount of high-end performance cars, are grabbing the attention of both car shoppers and enthusiasts.

TOP 10 SEGMENTS IN CONSUMER INTEREST	% Share Q1 2023	% Change vs. Q1 2022
Compact SUV/CUV	7.8%	0%
Full-Size SUV/CUV	7.3%	18%
Midsize SUV/CUV	4.5%	-8%
Full-Size Luxury SUV/CUV	4.4%	14%
Electric Truck	4.2%	27%
Midsize Pickup Truck	4.1%	17%
Subcompact Plus Crossover	3.7%	2%
Midsize Sedan	3.5%	19%
Luxury EV Car	3.5%	-12%
Midsize Luxury SUV/CUV	3.4%	-6%

VEHICLE SEGMENTS THAT ARE TAKING OFF, Q1 2023 VS. Q1 2022

Among 47 segments that we measure at Hearst Autos, we've identified some of the fastest growing segments. What's new this year? We have expanded our segments to account for all the product introductions in the EV space, as well as separating some of the mainstream consumer segments from those that are more enthusiast or high-performance in nature. Here are the fastest-growing categories:

Mainstream Segment	% Change in Share	+ / - Rank
Hybrid Car	103%	+10
EV Car	92%	+9
Electric SUV	67%	+1
Electric Truck	27%	+8
Midsize Sedan	19%	+6

ENTHUSIAST SEGMENT	% Change in Share	+ / - Rank
High Performance Muscle	52%	+4
Muscle Car	37%	+3
Premium Luxury Performance Car	23%	+5
Luxury Performance Car	22%	+4
Luxury Performance SUV/CUV	5%	+1

KEY VEHICLES DRIVING GROWTH IN SHOPPER INTEREST

Among the fastest-growing segments, most of which are EVs, the following new and future models are driving up consumer interest for the entire category:

HYBRID CAR

TOYOTA PRIUS
- 39% share, reclaimed interest lost to Hyundai Ioniq last year
- 47% growth and back to #1 in the segment

TOYOTA CROWN (new entrant)
- Ranks #2 and holds 34% share

EV CAR

HYUNDAI IONIQ 6
- Rapidly grabbed nearly 60% share
- Jumped to #1 rank from #4 last year, 376% growth

ELECTRIC SUV

- Five new entrants out of 9 in the segment, which include: Jeep Recon EV, Toyota Compact Cruiser, Jeep Wagoneer EV, Scout SUV, and Vinfast VF9

KIA EV9
- Gained the #1 spot in the segment
- 33% growth over last year, now holding 34% share

GMC HUMMER EV SUV
- Moved up one spot to rank 4th in the segment
- Grew 17% over Q1 2022, and now holds 13% share

MIDSIZE SEDAN

HONDA ACCORD AND ACCORD HYBRID
- Rank #1 and 2, with collective share over 50% of the segment
- Accord grew 70%, while its hybrid variation grew 209% year-over-year

ELECTRIC TRUCK

FORD F-150 LIGHTNING
- With 139% growth, regained the #1 rank in the segment
- Jumped ahead of Silverado EV, RAM 1500 REV and Rivan R1T

RAM 1500 REV
- Ranks #2 and holds 33% share of the segment
- New entrant this year, jumping ahead of 7 others in the segment

LORDSTOWN ENDURANCE
- Hold 4% of segment share after a 326% increase
- Ranks #6, moving up two spots from last year

"Retail demand — though muted — reflects "consumers are willing, ready and able" to buy a new vehicle, even in light of rising interest rates and high price levels."

— Chris Hopson, principal analyst at S&P Global Mobility via Automotive News

EV TAX CREDITS:

WHAT'S THE DEAL?

April 18th marked the beginning of a new era for tax credits. Specifically, the $7,500 EV tax credits that were formed under the Inflation Reduction Act (IRA). New qualifications have been added with the intent of lowering the cost of EVs for consumers, while also bolstering sales and securing the EV supply chain in the U.S.. However, the new battery component and mineral requirements have limited the number of vehicles that qualify for these credits, troubling both consumers and manufacturers.

Two New Qualifications:
- To qualify for the first $3,750 of the $7,500 EV tax credits, a vehicle must have half of its battery components made in North America.
- In order to get the other $3,750, at least 40% of the minerals in the battery must be extracted or processed in the United States, or come from a country the United States shares a free trade agreement with. The 40% minimum will increase to 80% by the end of 2026, in order to incentivize more EV supply chain development in the U.S., or North America.

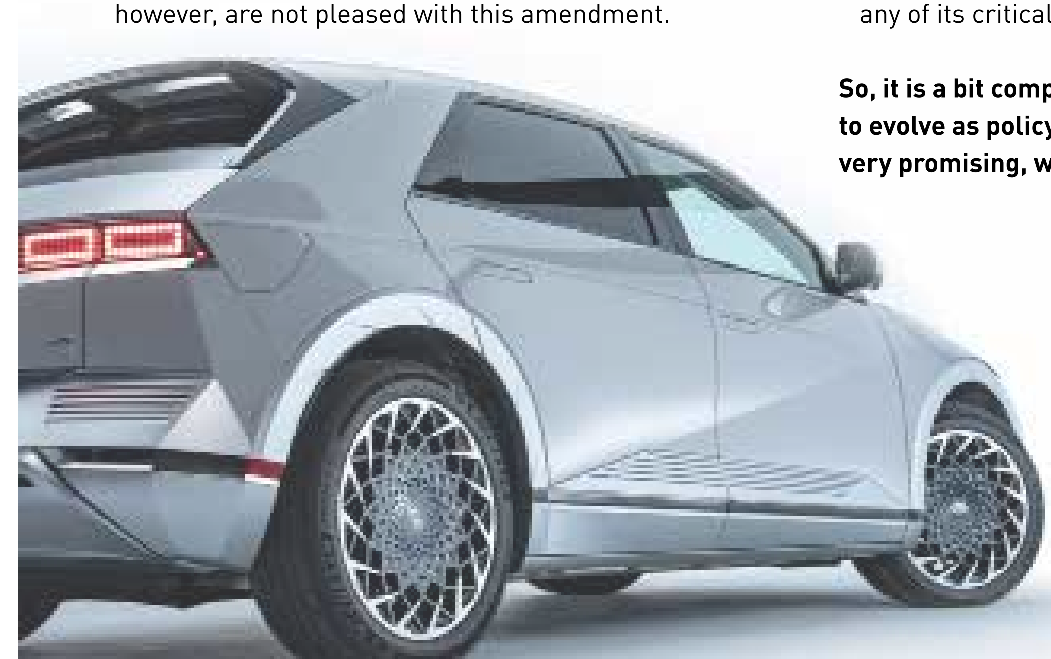
MSRP Qualifications:

The vehicle's (MSRP) can't exceed:
- $80,000 for vans, sport utility vehicles and pickup trucks
- $55,000 for other vehicles

Keep in mind that if the vehicle is loaded with options that take it past these price caps, it will no longer qualify for the credit. Not to worry though, there's a loophole that manufacturers and consumers may like. Policymakers however, are not pleased with this amendment.

Here's why it's all so complicated:
- The credit also carries stipulations around who qualifies for it, based on its intended use and your adjusted gross income (AGI) and how you file your taxes.
- There are also a few hotly-debated loopholes:
  + The IRA approved this $7,500 tax credit for commercial electric vehicles that don't include any of those requirements.
  + Additionally, the U.S. Treasury added that vehicles leased by consumers would qualify for the technically more lenient commercial credit.
    - This could allow a consumer to load up a qualifying EV with all the bells and whistles and potentially receive the credit as a lessee despite the price caps on purchases.
    - It also leaves it unclear as to whether the credit will be passed on to the consumer, or be given to the financier, who technically owns the vehicle. It can be passed to the consumer through lower lease terms, but there's no saying that it couldn't be pocketed by the owner/financier either.
- The U.S. is negotiating trade deals with Japan and the E.U. that would extend the credit to vehicles and battery components outside of the U.S. and existing trade partners. This has rattled members of Congress.
- What else? In 2024, a vehicle can be disqualified if any of its battery components come from a "foreign entity of concern" like China or Russia. In 2025, that extends to any of its critical minerals.

So, it is a bit complicated and messy, and it will continue to evolve as policy often does. The outlook for EVs is still very promising, with or without the tax credits.



LUXURY:

IT'S WHAT CONSUMERS ~~DESIRE~~ DESERVE

Despite the ups and downs we've faced over the past few years, we've continued to see luxury markets grow beyond our own belief. Perhaps younger generations really value the notion of living in the now more than older ones, or maybe the pop culture phrases and hashtags of today have really resonated, regardless of age or life stage.

#CarpeDiem
#TreatYoSelf
#SelfLove
#YOLO
#WorkHardPlayHard

In the car industry, we've seen this play out in sales and consumer sentiment. Here's some of the evidence:

Luxury brand sales reached their highest share of total vehicle sales in Q1 2023 at 17%, after steadily climbing for the past two years

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Average monthly payments for those financing in Q1 climbed to **$730**, with a record number of Americans paying **$1,000** (17%)[1]

And for those looking to lower the monthly cost, down payments are even at a record high with an average just shy of **$7k**[1]

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4 out of the top 5 brands with sales growth are luxury brands. Expand that list to the top **10, and 7 of those brands are luxury.** Which ones saw the highest growth?

Rivian	+640%
Lucid	+491%
Porsche	+44%
Infiniti	+40%
Audi	+38%
Tesla	+34%
Cadillac	+29%

In 2022, Hearst Autos conducted a study among shoppers that were in-market to purchase a car within the next year. Here are some key findings around their desire for luxury:[2]

29% are open to both luxury and non-luxury brands, while **32%** are just looking at luxury brands for their next purchase. In total, roughly two-thirds of shoppers are considering a luxury brand.

50% of those who are only looking at luxury brands, are also only consider a new vehicle, which means they're willing to pay MSRP or above

40% identified they're in-market because they're looking to "upgrade" their vehicle and another **28%** are experiencing a lifestyle change (family, job, life stage, etc.)

Additionally, Mintel, a leading market intelligence agency, conducted a deep-dive study into Luxury Cars and found the following:[3]

41% of consumers consider a luxury brand to be a self-indulgent purchase. Consumers interested in purchasing a luxury car brand are motivated by this, and these sentiments were especially strong amongst Millennials and GenZ age groups.

They prioritize the emotional and rewarding aspects of a luxury car purchase. This is identified in their preference of nicer things **(44%)** and the belief they deserve it **(38%)** – factors that differentiated them from the traditional car buyer.

They hold luxury brands in high regard, identifying at least one luxury brand as **stylish (91%)**, **safe (88%)**, and **cutting edge (88%)**. Mercedes-Benz was ranked the highest in both Style and Safety, while Tesla ranked the highest in Cutting Edge.

> "Despite economic challenges and overall conditions in the automotive market, consumers still crave self-indulgence and see luxury brands as a reward for their hard work and something they deserve, and they are drawn to them by their desire for finer things."
>
> — Gabe Sanchez, Automotive Analyst, MINTEL

Sources:
[1] Edmunds, April 2023
[2] Hearst Autos, Marketplace Study: In-Market Shoppers, April 2022
[3] Mintel, Luxury Cars, U.S., 2023

FAMILY CARS FOR THIS GENERATION

According to the U.S. Census Bureau, the average number of people per family and household have been steadily declining since the sixties. Yet our houses, cars, and generally all the 'stuff' we carry with us, are constantly growing.

This can be seen in the myriad of wants and needs that consumers look for when purchasing a family vehicle. Yes, the average household has 3.13 people living in it, but we need passenger seating for 6 or 7! And cargo space, well, we need enough for 5 suitcases, 2 coolers, a dog kennel, 2 folding chairs, and all the sports equipment we can carry.

- ✔ Comfortable to ride in, for adults and children
- ✔ Must be AWD or 4WD capable
- ✔ Roof rails and racks
- ✔ A hard-top carrier
- ✔ Towing package
- ✔ All the best safety technology
- ✔ Entertainment galore
- ✔ Fuel-efficient
- ✔ Fits in my garage
- ✔ Can haul everything from plants to bikes, skis, kayaks, and more!

So where is the sweet spot to meet many of these requirements? It seems to be in the full-size SUV and Crossover (CUV) segments, whether luxury or not, but most often offering a third row of passenger seating. Sure, minivans are still one of the most practical options for families, but the segment has diminished to 1.3% share of shopper interest, and only has a handful of models to choose from. And what about the Large SUVs like Suburbans, Tahoes, Sequoias, etc.? They're still popular enough, but there's no comparing 10 options in this segment to the 40+ options in the full-size SUV/CUV segments.

So, which among these are the most sought after right now on Hearst Autos' sites?

FULL-SIZE SUV/CUV SEGMENT (non-luxury):

- Kia Telluride
- Honda Pilot
- Toyota Highlander
- Hyundai Palisade
- Mazda CX-90
- Nissan Pathfinder
- Ford Explorer
- Mazda CX-9
- Chevrolet Traverse
- Volkswagen Atlas

7.3% SHARE

18% GROWTH

18 VEHICLES IN SEGMENT

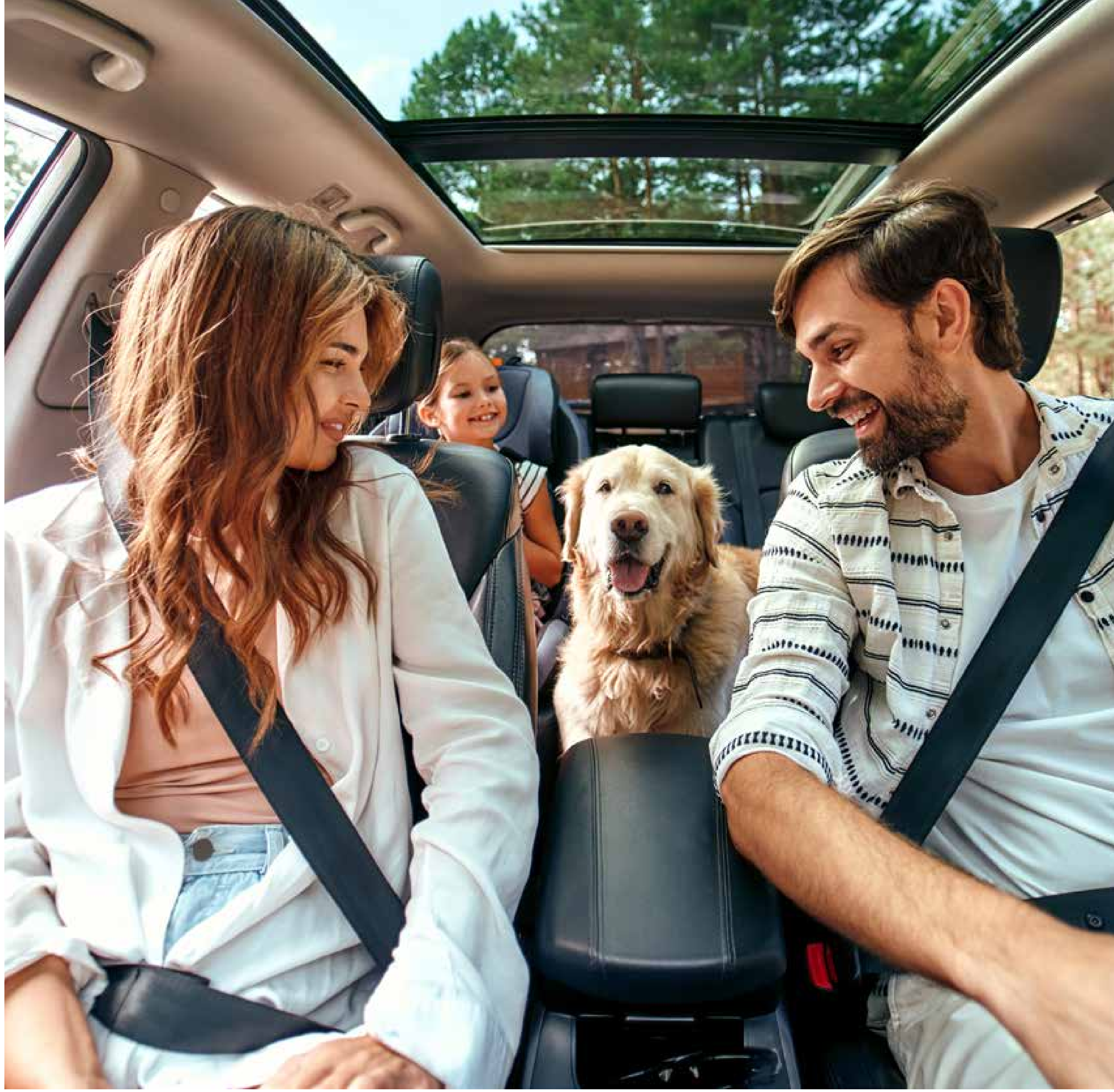
FULL-SIZE LUXURY SUV/CUV SEGMENT:

- Acura MDX
- Porsche Cayenne
- BMW X5
- Genesis GV80
- Mercedes-Benz GLE-Class
- Volvo XC90
- Infiniti QX60
- Audi Q7
- Land Rover Range Rover Sport
- Lexus GX

4.4% SHARE

14% GROWTH

24 VEHICLES IN SEGMENT



So, whether it's a growing family, a two-person household, or anything in between, the full-size segment seems to meet most of the demands of today's family vehicles. Not to mention the luxury options are even more substantial for those who are seeking it.

For those traditionalists who still want to roll in a minivan or own the road in a behemoth SUV, there's still solid products on the market to haul your crew and all your gear.

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