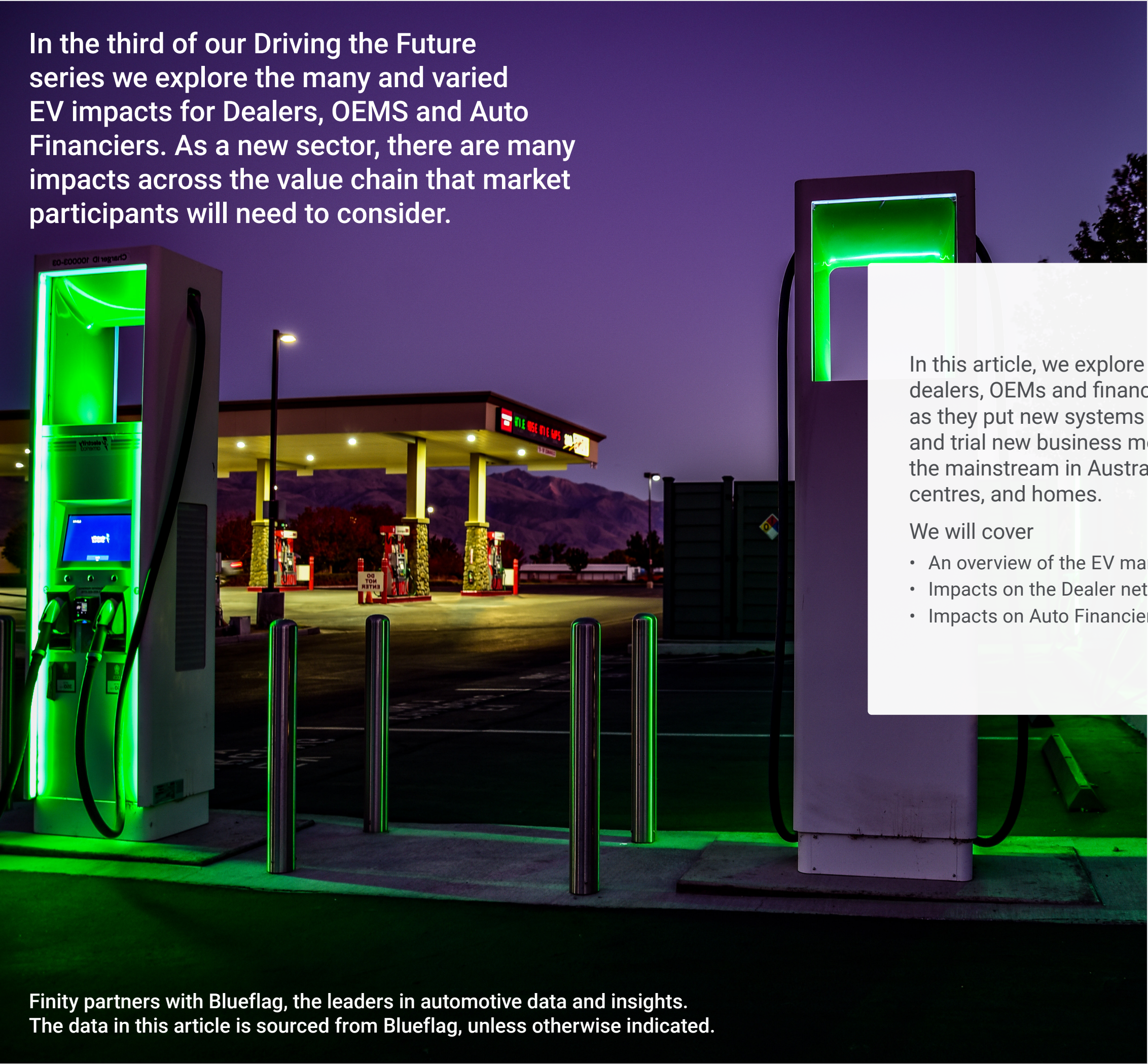


Driving the future



Gearing up for maturity – Developing an Australian electric vehicle market





In the third of our Driving the Future series we explore the many and varied EV impacts for Dealers, OEMs and Auto Financiers. As a new sector, there are many impacts across the value chain that market participants will need to consider.

In this article, we explore some of the variables dealers, OEMs and financiers are working through as they put new systems and processes in place, and trial new business models to bring EVs into the mainstream in Australian car yards, service centres, and homes.

We will cover

- An overview of the EV market.
- Impacts on the Dealer network and OEMs.
- Impacts on Auto Financiers.

Finity partners with Blueflag, the leaders in automotive data and insights. The data in this article is sourced from Blueflag, unless otherwise indicated.

Electric vehicles on the rise

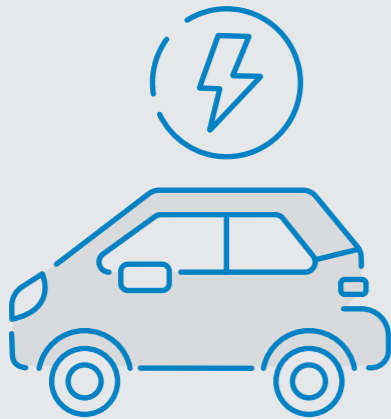
Potential for more growth

The growth of electric vehicles (EVs) remains in its nascency in Australia due to a variety of factors. These include their relatively high cost and limited consumer choice, the lack of infrastructure to support them, and the need for new business models across the automotive value chain.

From the consumer perspective, cost and limited choice aside, it still takes too long to re-charge vehicles, assuming they can find somewhere to charge their car. So, infrastructure remains a challenge for vehicle owners. While dealers are investing in infrastructure, there's a need for state and federal governments to provide more support in this area.

But the tipping point is imminent when they will be a popular vehicle choice.

While dealers are investing in infrastructure, there's an opportunity for state and federal governments to provide more support in this area.



Stats and facts

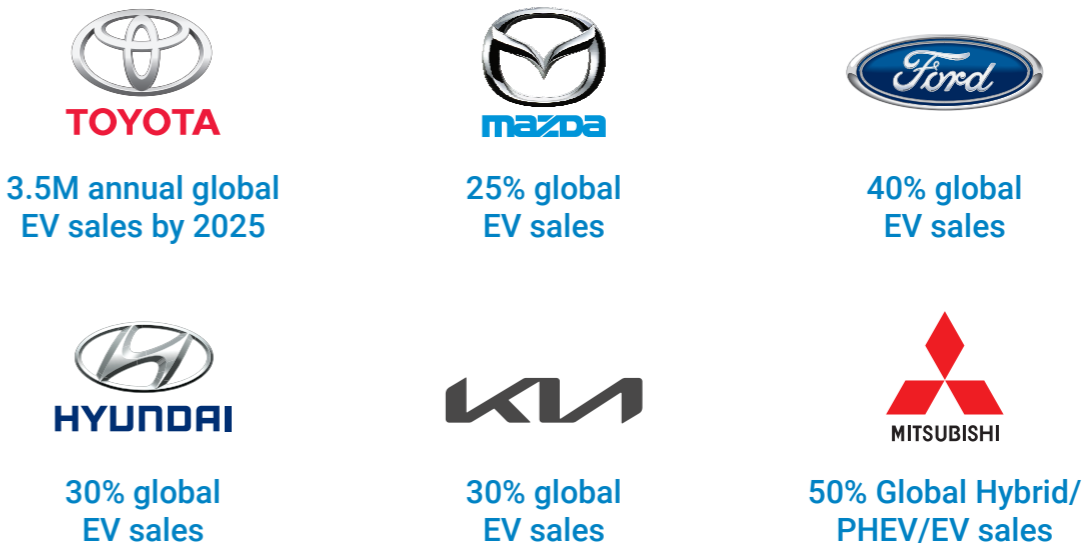
Sales of EVs are ramping up after COVID dislocations, albeit from a low base.

The Federal Chamber of Automotive figures¹ shows heightened consumer interest in electric vehicles. During September 2022, 7,247 battery electric vehicles (BEVs) were sold, more than hybrid and plug-in hybrid combined.

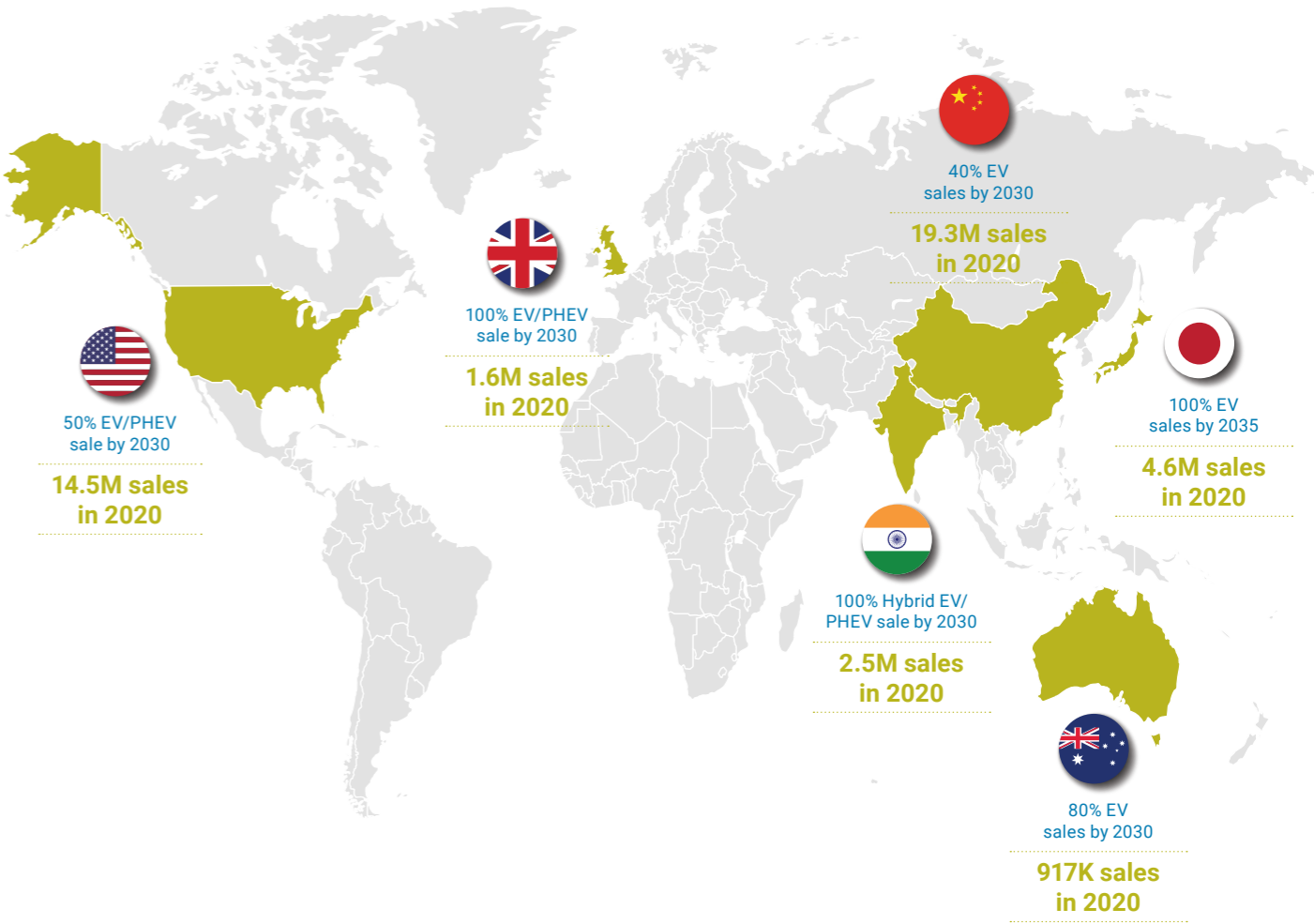
According to federal government data, in 2021, EVs made up just under two percent of new light vehicle sales in Australia (compared to nine percent globally). Even the addition of hybrid cars only brings this figure to 10 percent; although we note that currently around 35 percent of new vehicle orders are hybrid vehicles. In the US and Canada, new BEVs make up more than five percent of the market. But the standout performers are our Kiwi neighbours. In the past year in New Zealand², EV numbers have risen from 2.5 percent of new registrations to more than 11 percent of new registrations. So there's work to be done in Australia to encourage take-up of EVs.

¹ <https://www.fcai.com.au/news/index/view/news/779>
² <https://www.trade.gov/market-intelligence/new-zealands-electric-vehicle-opportunities>

2030 EV Targets by OEM



EV Targets by Country



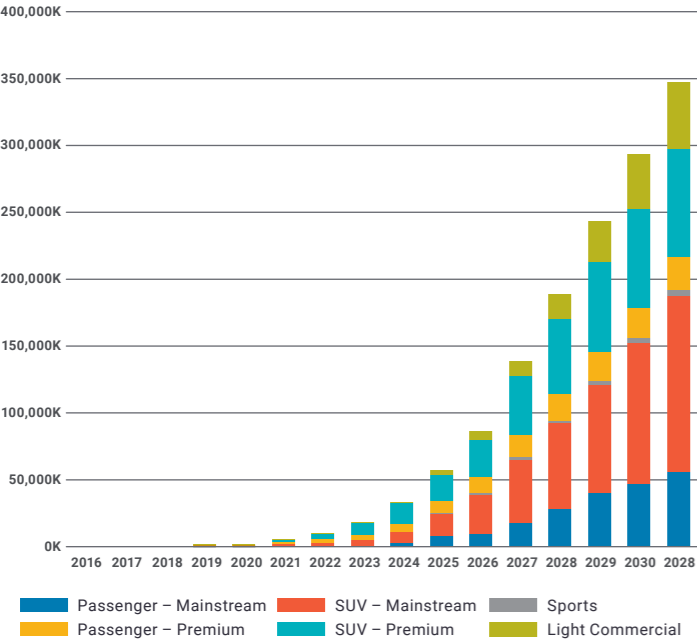
In a document³ outlining a new inquiry into EVs, the federal government acknowledges, “current policy settings have failed to secure supply of affordable EVs for Australians.” It also concedes, “state and territory governments around Australia have implemented policies to encourage EV take-up, but coordination and alignment at the national level has been lacking³.”

Looking ahead, in Australia, it is forecast 90 percent of Australian new car sales will be some form of EV by 2030. This compares to 2030 forecasts of 40 percent for China, 50 percent for the US, and 100 percent for Japan, India and the UK.

Percentage figures do, however, tell a very different story compared to absolute numbers, which vary greatly from country to country. In Australia, fewer than 300,000 new EVs are forecast to be sold in 2030, based on 2020 projections. In China, this figure is expected to be circa 7.7 million EV sales (based on 2020 sales) and the US is expecting to sell 7.2 million electric cars in the same year. Sales in other jurisdictions are much more modest. For instance, by 2030, Japan is expecting sales of 4.6 million vehicles, whereas this figure is expected to be 2.5 million in India and just 1.6 million in the UK (based on 2020 sales).

³ National Electric Vehicle Strategy Consultation Paper, Sept 20-22, accessed 10/10/22, https://storage.googleapis.com/converlens-au-industry/industry/p/21fdd56b6514260f47fcd/public_assets/National%20Electric%20Vehicle%20Strategy%20Consultation%20Paper.pdf

New Australian BEV Sales Units by Category – Conservative Outlook



Turning to the popularity of different BEV models, while initially premium SUVs attracted the highest interest, there is currently a mass marketisation of SUVs taking place. While the premium SUV segment has seen the highest growth in EV sales in 2022, with a 176 percent increase, this is set to change. It’s expected the SUV – Mainstream portion of the market will soon start to dominate, with annual sales set to grow to more than 347,000 vehicles and sales to spike by 43 times versus 2020 figures over the next six years.

Indeed, strong growth in the number of BEV models is expected to take place in coming years with more affordable options set to become commonplace. At the time of writing there are 28 BEV models available for sale in Australia, with only five of these in the more affordable bracket of between \$40,000 and \$60,000. More than double this number (11) cost between \$60,000 and \$80,000 and the remaining 12 models all cost more than \$100,000. This skew towards higher-priced models will abate over time. Although, only one EV model is scheduled to be released in the Australian market that costs less than \$40,000 in 2023.

Nevertheless, data suggests more than 105 new EV models across multiple price points are expected to be launched in the local market over the next three years, a 375 percent lift versus today.

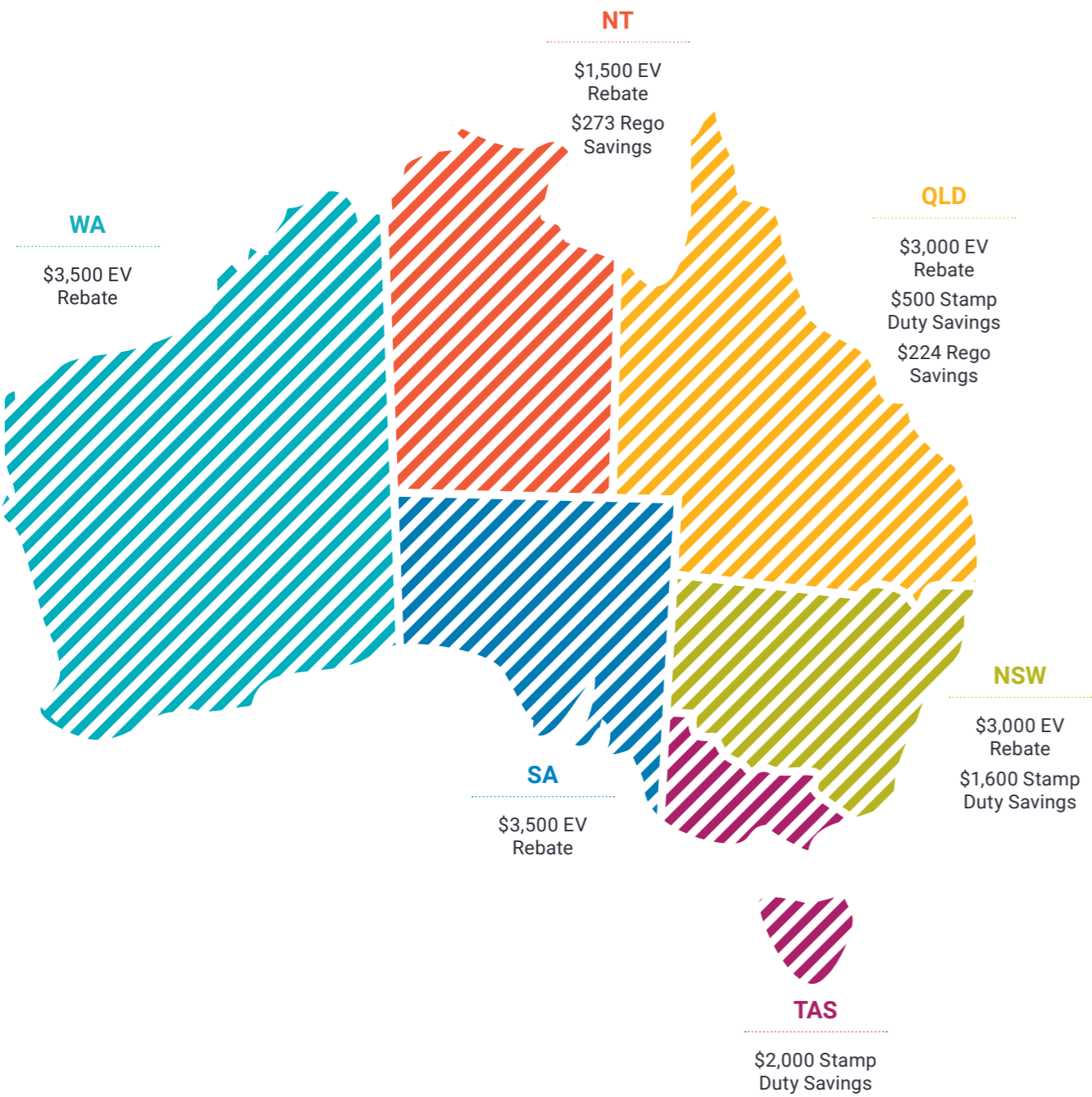
Number of EV Model Ranges in the AU Market

Est. MSRP	Current	2022	2023	2024	2025
<\$20k	–	–	–	–	–
\$20k – <\$40k	–	–	1	1	2
\$40k – <\$60k	5	6	13	16	18
\$60k – <\$80k	11	15	29	36	47
\$80k – <100k	–	3	8	12	20
\$100k – <\$150k	6	10	13	20	24
\$150k+	6	6	10	15	22
Total	28	40	74	100	133

Disclaimer – The Incentives & Taxes shown are for a \$50,000 new EV vehicle purchase over the initial 3 years, driven 10,000kms per year.

Data suggests more than 105 new EV models across multiple price points are expected to be launched in the local market over the next three years, a 375 percent lift versus today.

Government Rebates & Incentives



Access to government funding

There is a range of state, territory and federal grants to support the EV sector, although no consistency across each jurisdiction in the level of each benefit.

Western Australia has the most generous EV rebate at \$3,500, followed by SA, NSW, Qld and Vic at \$3,000. NT follows the pack with a \$1,500 rebate. States and territories also have various stamp duty concessions, Tasmania offers a \$2,000 stamp duty concession, NSW also has a \$1,600 stamp duty concession and for Queensland, this figure is \$500. A number of states also offer registration savings for EVs, including South Australia (\$2,055), Victoria (\$300), the Northern Territory (\$273) and Queensland (\$224).

There's discussion of an EV tax although the rhetoric is more about encouraging take-up rather than new taxes.

Impact on the supply chain

Bringing EVs into dealerships will have complex consequences for every part of the automotive supply chain.

Dealers

With sales numbers still so low, it's tough for dealer groups to model how more widespread uptake of EVs will impact their business. Battery-powered cars are a very different beast to ICE vehicles for everything from servicing to the secondary market to finance.

Servicing: When it comes to servicing, ICE-powered vehicle drivetrains have more than 2,000 moving parts in comparison to an EV's mere 20 moving parts. This makes EV's more reliable, easier to fix and simpler to service, especially seeing that EV's have the potential to have software updates being pushed to vehicles remotely, in the same way smart-phones do. This is likely to lead to reduced revenue for dealerships from servicing and parts.

Evidence of this servicing impact can be seen with the recent price changes that needed to be made by Chinese EV OEM, BYD, who initially launched vehicle servicing using the traditional cost model of ICE vehicles. This service launch cost model resulted in BYD losing new vehicle orders, leading them to cut the pricing of their service plans by 20 percent.

BEV lifecycle: BEVs also have a longer lifespan than an ICE vehicle. While the lifecycle of a standard ICE vehicle is around five years, BEVs last much longer and their life span is also impacted by the nature of their componentry. Aside from their simpler design and less frequent need for servicing, their batteries also determine their longevity. Batteries are being designed to be increasingly long-lasting, so BEVs will live longer useful lives. This means customers will keep their vehicles for longer periods, which will have ripple effects across the value chain.

Changes happening in the operating environment that are concurrent with the introduction of BEVs are also affecting the outlook for dealer groups. "Australian consumers are sophisticated users of technology and welcome innovation. Electrification means franchised dealers will need to adapt our business model over time to meet the ever changing demands of consumers, vehicle technologies and OEMs. This may include moving towards new operating models and bringing on alternative revenue streams which offer consumers choice and the added convenience to transact online, instore or anywhere in between." Nick Pappas Group Managing Director Servco Australia.

All of these elements combined means dealers are considering their role in the future and their choice of OEM partners will determine their response. There is, however, a move towards dealerships shifting into a service centre role and being a delivery point for customers. This means that focusing on delivering exceptional service to secure customer retention is vital.





Original Equipment Manufacturers (OEMs)

Like dealers, OEMs are working through how EVs will impact their ranges and businesses, with different OEMs testing different business models.

- **Audi:** launched an OEM-owned dealership as opposed to a franchised model.
- **Volkswagen’s Cupra:** a new market entrant targeting younger buyers is understood to be testing an agency model.
- **Tesla:** has rolled out a successful, fully-owned Apple-style store model.
- **New Chinese OEM entrants:** rolling out importer and dealer networks.

Case study

Following an existing model: forklifts

EVs’ entry into the local market does not necessarily mean reinventing the wheel. There are a number of other models to follow using existing vehicles. Forklifts being one.

Finance for most forklifts is arranged on the basis of fully maintained operating leases. This encourages changeover of forklifts within the structure of the finance contract.

Once forklifts are returned to the dealership after the end of the operating lease, they are re-sold to short-term renters, giving them an additional five years in terms of their useful life.

EVs could follow a similar path if OEMs and financiers work together to develop new financial products for retail and business customers. The idea is to switch to a usership focus for EVs versus the current ownership model for ICE vehicles.

Impacts on Auto Financiers

Auto financiers are still working through different financing models. With so few EVs on the road, financiers are still collecting data to inform their business models. Lack of data about the market extends to working out residual value prices in the second-hand market. For instance, EVs appear to hold their value more so the ICE vehicles. But this could be due to the imbalance of supply and demand in the market at the moment and may change as more EV OEMs enter the Australian marketplace, especially from China.

“At this point in time, although the percentage of new EV purchases is increasing dramatically, EV sales are very small. From a pricing perspective, direct-to-customer OEMs often compete in regards to pricing for finance.” says Jon Moodie from Allied Credit, which is Polestar’s financier.

The two major online EV competitors in the market, Tesla and Polestar, offer finance although only Polestar’s offering is branded and includes a Guaranteed Future Value.

Polestar operates a direct-to-market business model, with no commissions paid to dealers. Polestar customers’ credit quality tends to be very good, with vehicles costing north of \$80,000. Without a dealer network, some Polestar customers say they struggle to connect with sales assistants. Plus, they can’t always test drive vehicles from a dealership. Meanwhile, other dealers are also nervous about spending too much on infrastructure given the minimal EV take up at this point in time.

It’s understood Tesla ships EVs to Australia on a quarterly basis. Plenti is the main financier for Tesla and provides finance at extremely competitive rates.

“Overseas, some OEMs continue to leverage their dealer networks when it comes to financing. Ford is an example,” says Moodie. After forecasting it will sell more than two million EVs by 2025, Ford is rolling out a semi fixed price model. A blend between the agency and franchise models, Ford will allow dealers to sell vehicles for the price for which they are publicly advertised.

“One issue to work through is the difference in the interest rate between the time a vehicle is ordered and when it is delivered, which can take up to nine months or more,” he adds. Additionally, the customer’s financial profile may have changed during that time, which also requires re-checking the borrower’s creditworthiness. These challenges are being worked through by financiers and OEMs. Of course, this is a problem across the market and not specific to EV’s.

At the moment, it’s understood financiers’ strategic focus is on building capability and products in novated leasing. FBT legislation changes will deliver a \$6,000 to \$10,000 benefit for a novated lease on an EV. This will make them more attractive and help drive the market.

Overall, the entire EV value chain needs to work together to develop products and services that make commercial sense for everyone.





We look forward to further exploring the impacts, challenges and opportunities of the EV market in Australia and the key considerations for players across the automotive ecosystem – in future blogs of our Driving the Future series. In the meantime, if you would like to know more about our thoughts on the Automotive industry, please contact Finity Automotive specialists.



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