NARSA 2017 HD Conference

NA IAM Overview as Viewed by TitanX
Engine Cooling

Background

- In 2005, Valeo completed an aftermarket study
  - Although this information was available, in 2009 when our interest in the aftermarket heightened, we deemed this information as ”too old”

- Our information was coming from customers and other industry stakeholders
  - Everyone had opinions – They changed from discussion to discussion...
    - Examples:
      - **Everybody just wants cheap!** vs **Availability is way more important than price!**
      - **The part just has to look good!** vs **It has to be WAY more durable than the OEM!** vs **It just has to not leak!**
      - **Lifetime warranty is the way to go!** vs **A warranty over 1 year is a joke!**

  - Nothing felt like a foundation from which to base sound business decisions

- In 2016, we decided to work with an an independant market research company
  - The goal: Develop a foundation from which we could base future business decisions

TITANX

Development of that Foundation

- FTR overall market (OEM Focused)
  - Focused on **future** development of freight
- Wards (OEM Focused) – Helps understand population of trucks
  - Focused on **historical** factory and retal sales
- MacKay & Company
  - Specalizes in commercial and off highway aftermarket research
- Crossroads Development Group
  - TitanX contracted independent marketing firm

Details of Survey

- Replicate a 2005 survey
  - Start a journey to do this with some regularity to identify trends
- 30 questions
  - General market understanding
  - Replacement behaviors
  - Buying behaviors
  - Importance of various factors
- Included an open ended section for general feedback

- 145 Completed Respondents
  - Fleets (51 responses)
  - Repair Shops & Installers (40 responses)
  - WD’s (28 responses)
  - Dealers / OES Service (26 responses)
  - An additional 49 respondents started the survey but did not complete – their responses are included in the results

Fleet Facts

- Estimated Cl 6-7-8 trucks in operation
  - Cl 6/7 MD ~ 1.9M
  - Cl 8 HD ~ 3.2M
- Some fleets ’dedicated’ to a specific truck brand
- Based on survey, ~ 1.17M trucks are serviced per year for cooling parts

Exhibit 1
FLEETS FACTS

- ✔ There are about 13,800 total fleets of meaningful size in the USA. Of these, 1,600 are considered to be of consequence, according to Industry Sources.
- ✔ We talked with 33 larger fleets (100+ trucks) in this study, 51 overall.
- ✔ Large fleets average over 750 tractors each.
- ✔ The average age of a fleet tractor is 5.3 years.
- ✔ Over the course of one year, on average, 23% of all tractors in service require aftermarket engine cooling parts or component replacement.

OES Dealer Facts

- FRT Avg Market Share ’04-’17
  - Cl8 ~ 36%
  - MD ~ 24%

- INT Avg Market Share ’04-’17
  - Cl8 ~ 18%
  - MD ~ 26%

- KW/PB Avg Market Share ’04-’17
  - Cl8 ~ 28%
  - MD ~ 6%

- Mack/Volvo Avg Market Share ’04-’17
  - Cl8 ~ 18%
  - MD ~ 0%

- Note: Ford MD MS ~ 33% (bal is GM, Isuzu & Hino)

Exhibit 2
OES DEALERS FACTS

✓ The four key tractor brands, Freightliner, International, Paccar/Peterbilt, and Mack/Volvo, have a little over 900 dealers across the USA.

✓ We talked with 26 OES Dealers in this study.

✓ All dealers do some engine cooling work internally, however, most outsource as well.

✓ Over the course of one year, on average, 23% of tractors they service require engine cooling parts or component replacement. (Compared to 26% in 2005.)

Repair Shops/WD Facts

- With over 3,000 Repair Shop/WD in operation, not sure if 26 responses is indicative of the whole population
- This segement vary in the functions that they fulfill. Few repair HD truck cooling systems only
- ”Pure” repair shops are a dying breed

Exhibit 3

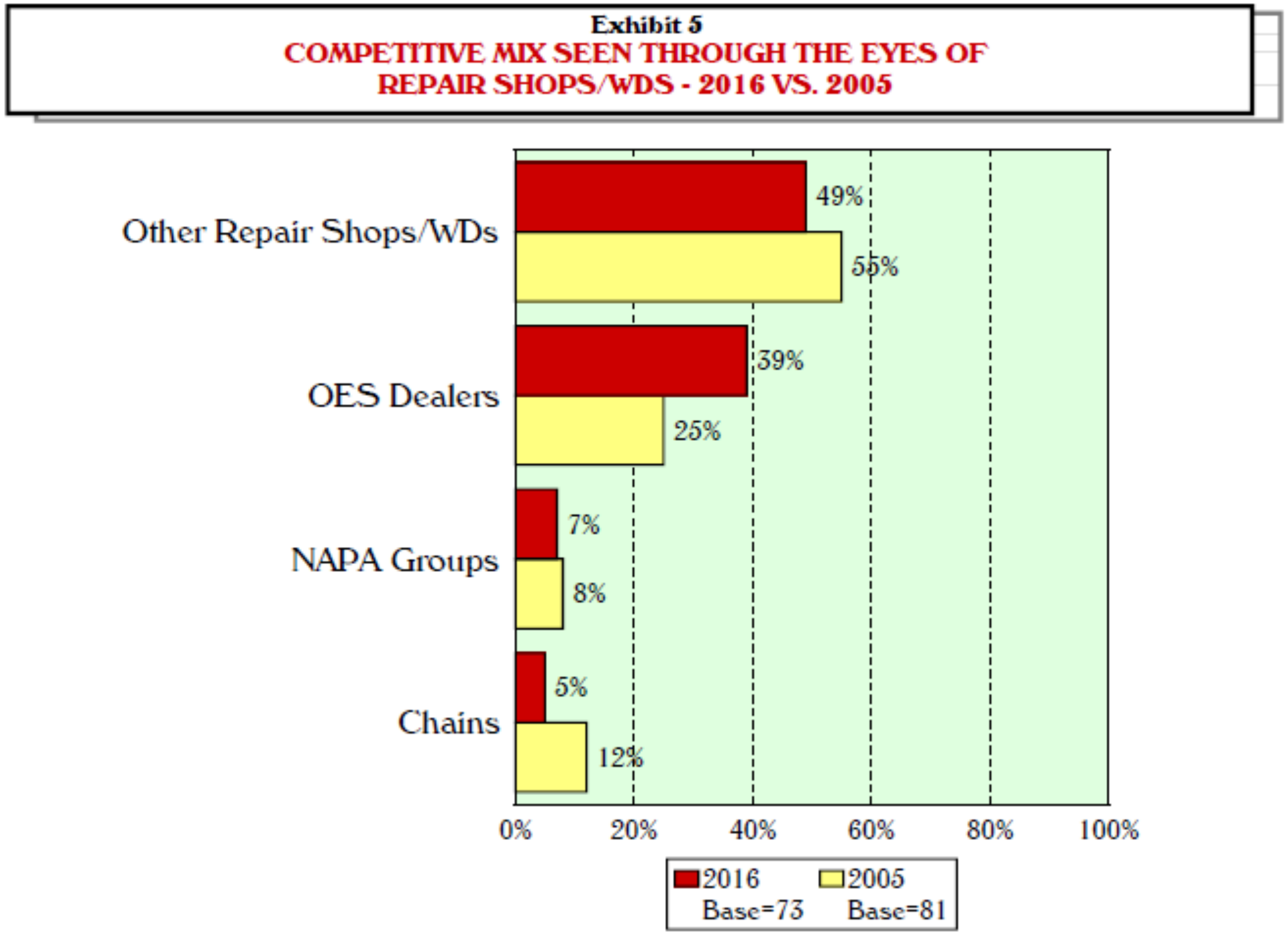
REPAIR SHOPS/WD FACTS

This segment divides into three sub-segments.

- ✓ Repair Shops with Warehouse Distribution - number slightly over 3,000 in the USA. We talked with 26 in this study.
- ✓ Warehouse Distributors (WDs Only) - number just over 300 companies. We obtained responses from 22.
- ✓ Repair Shops Only - number under 100. We identified and talked with seven in this study.

Who is your competition?

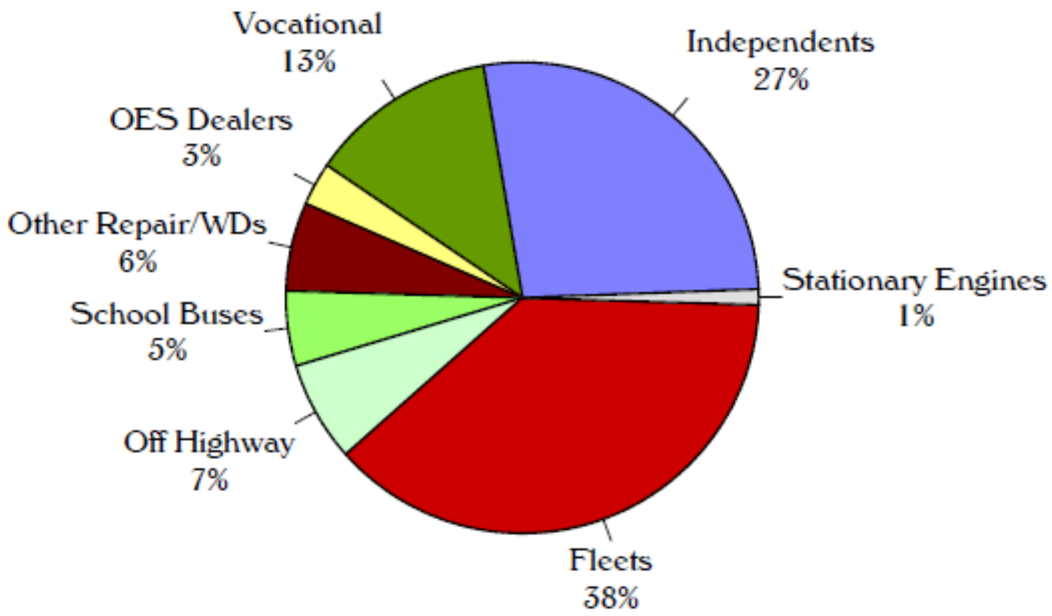
- Growth in presence of Dealers is evident throughout the survey results
- Growth of dealer penetration could be attributed to dealers also carrying non-OEM parts & offering 2 lines of product
- NAPA & Chains not seen as a credible threat by RS/WDs



Who is your customer?

- A trend we see is willingness of fleets to look outside of traditional proprietary/OEM parts
- Based on this data it is infered that over half are for HD trucks/tractors
- Both fleets & independents have seen significant growth since 2005

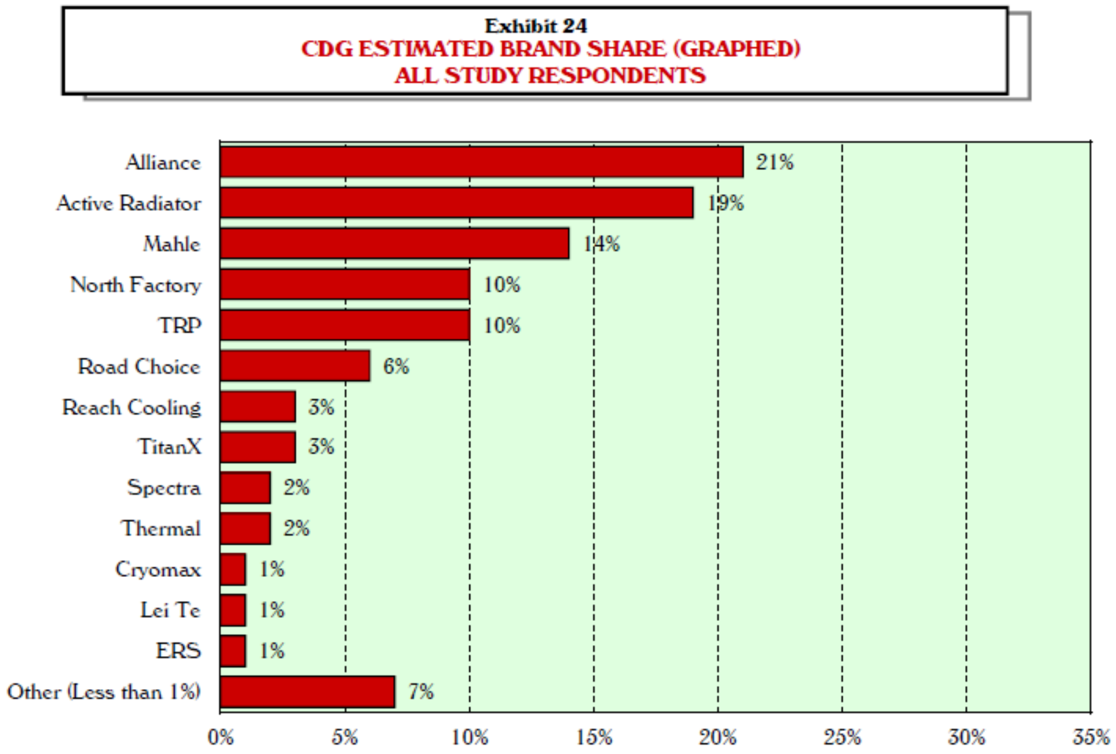
Exhibit 6
USER MIX SEEN THROUGH THE EYES OF REPAIR SHOPS/WDS

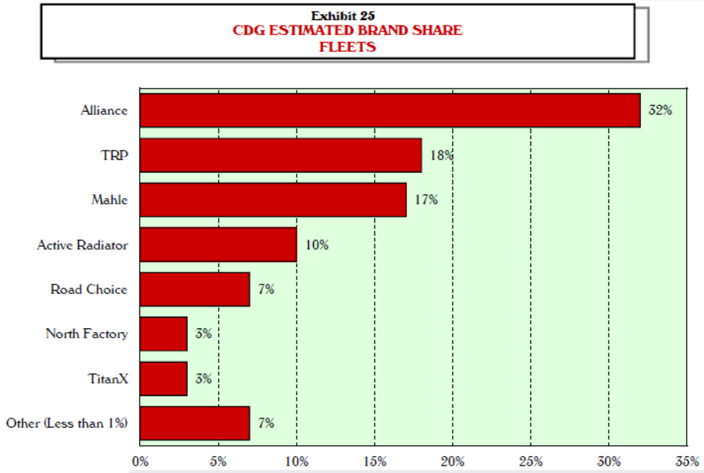


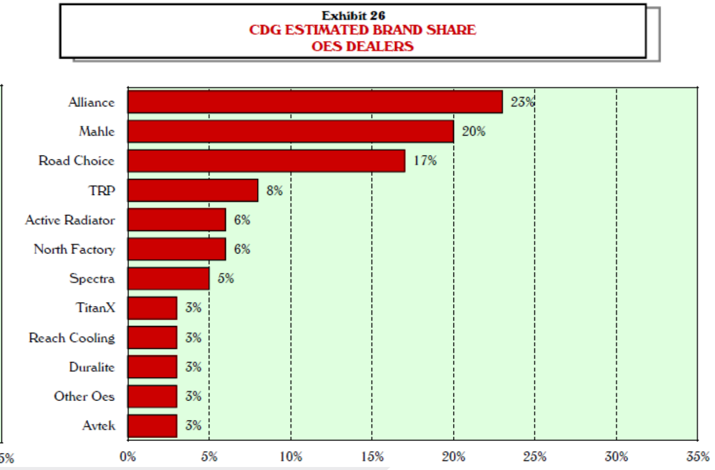
2005:
Fleets 24%
Other Repair/WDs 18%,
Independents 12%
(Reference Ex. 2C4)

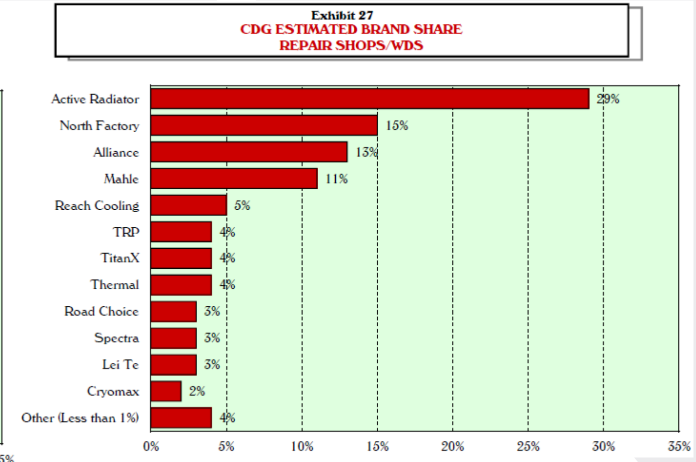
Estimated Brand Share

- Fleets & Dealers see the OEM Private Label products as market leaders (Alliance, TRP, Road Choice make up ~50%)
- MacKay & Company estimate that the OES + OEM Private Label capture 52% of parts sales
  - Leaving 48% for the independent after market



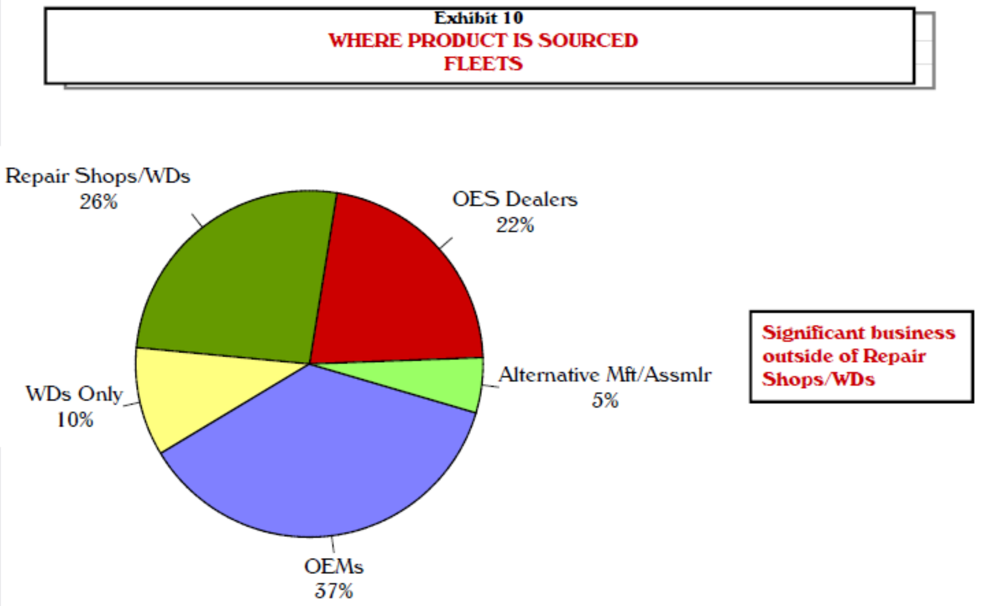


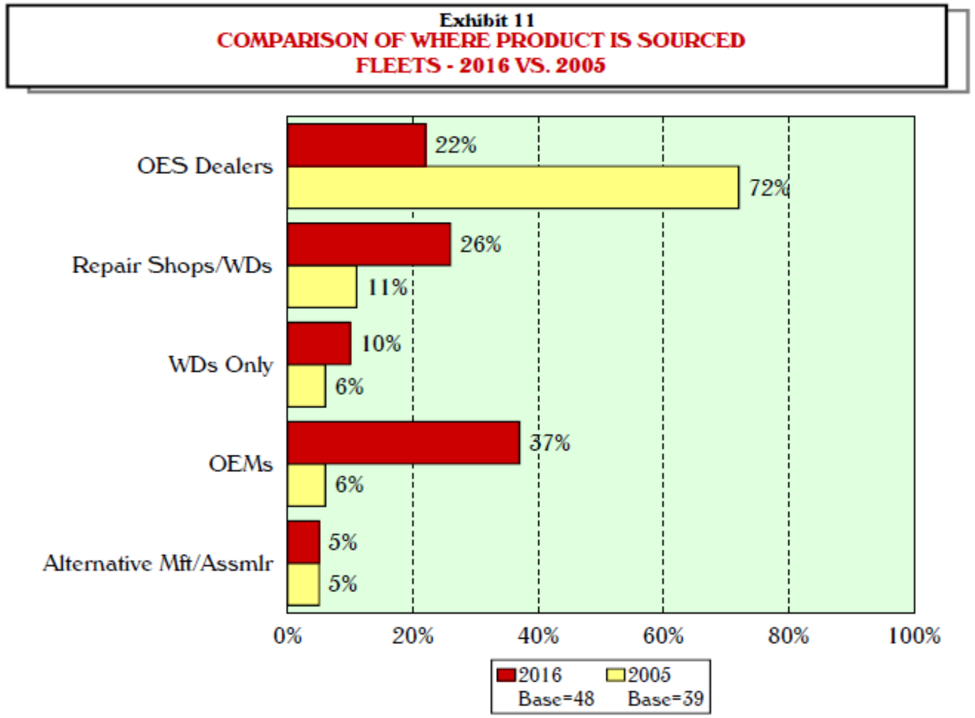




Where do the fleets source parts?

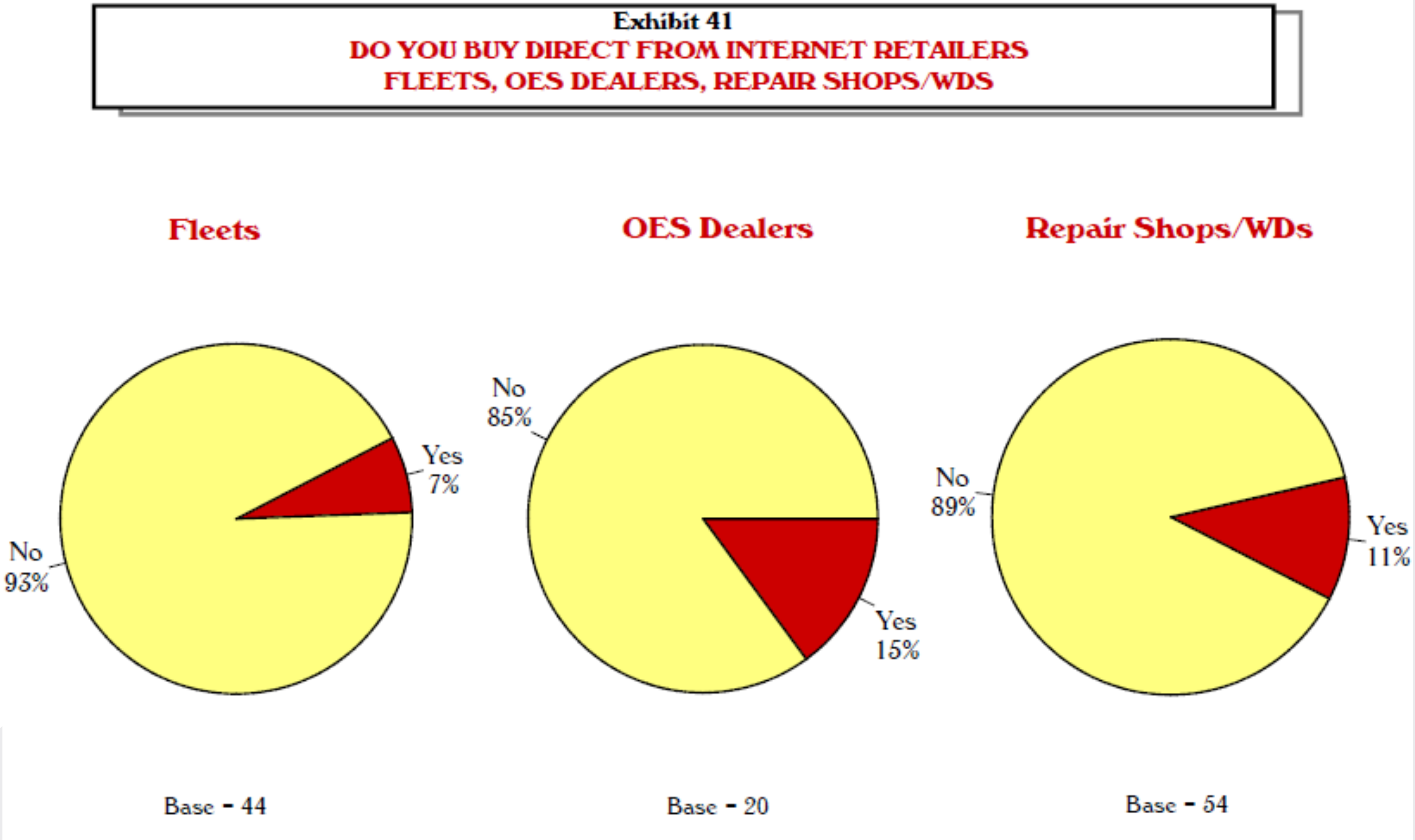
- Interesting absence of internet retailers/sources?
- Major shift in parts sourced from OES dealers since 2005
- ”OEM’s = OE manufacturers of heat exchangers





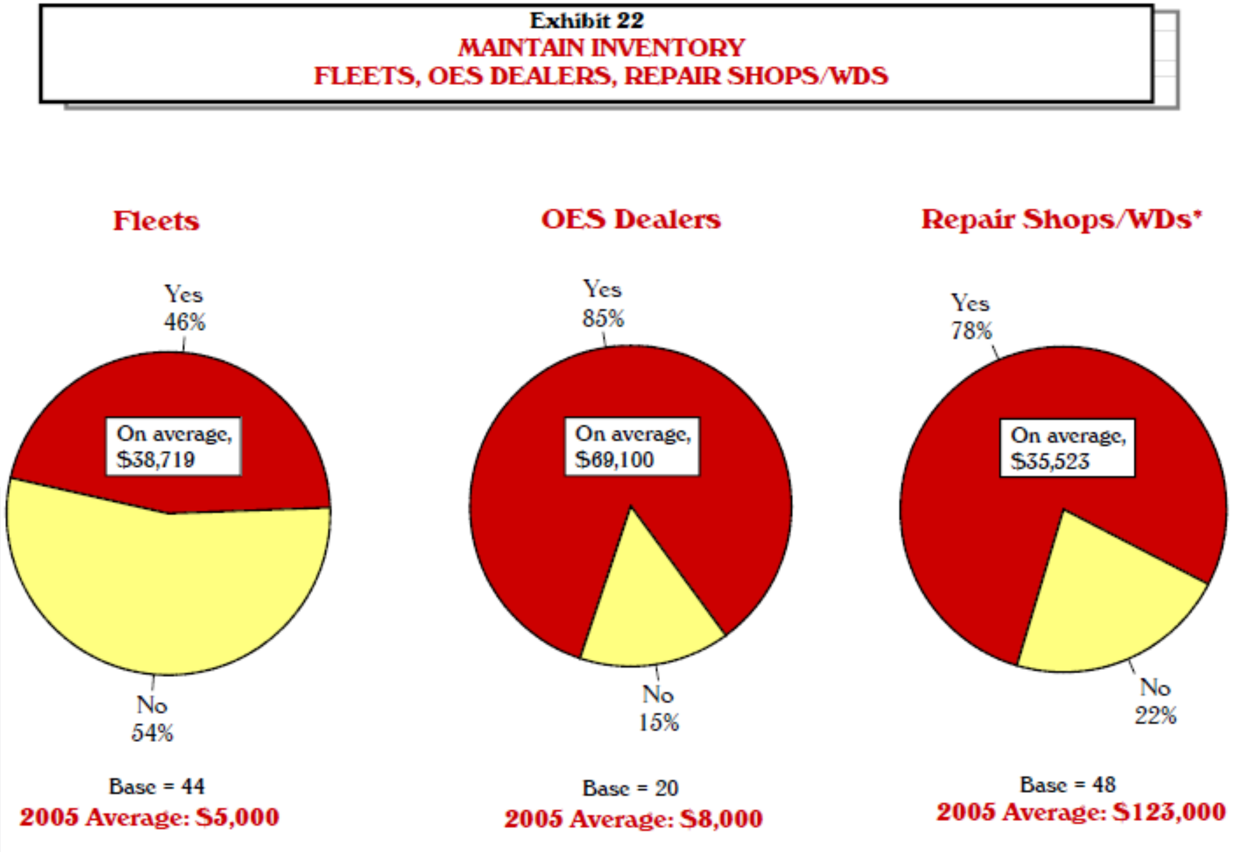
Who buys from internet retailers?

- Internet retail for cooling parts is relatively low
- In 2005, this was not a consideration
- How will the next survey look?



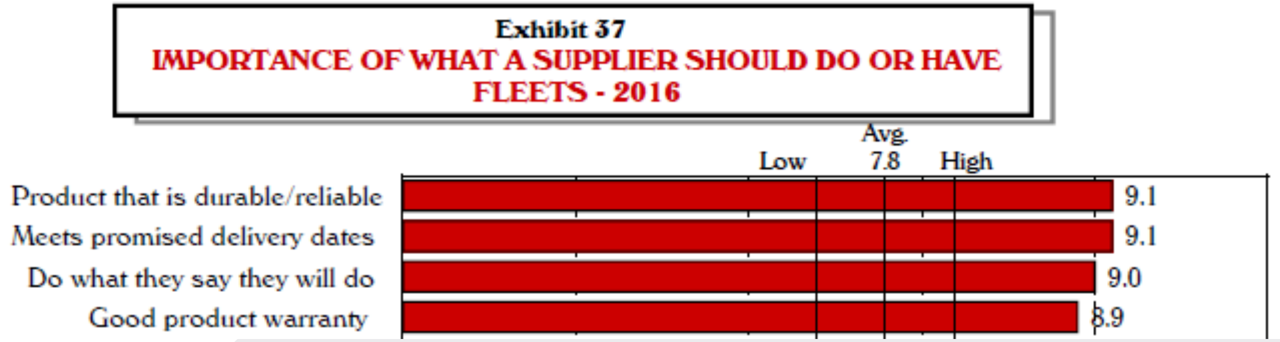
Who maintains inventory?

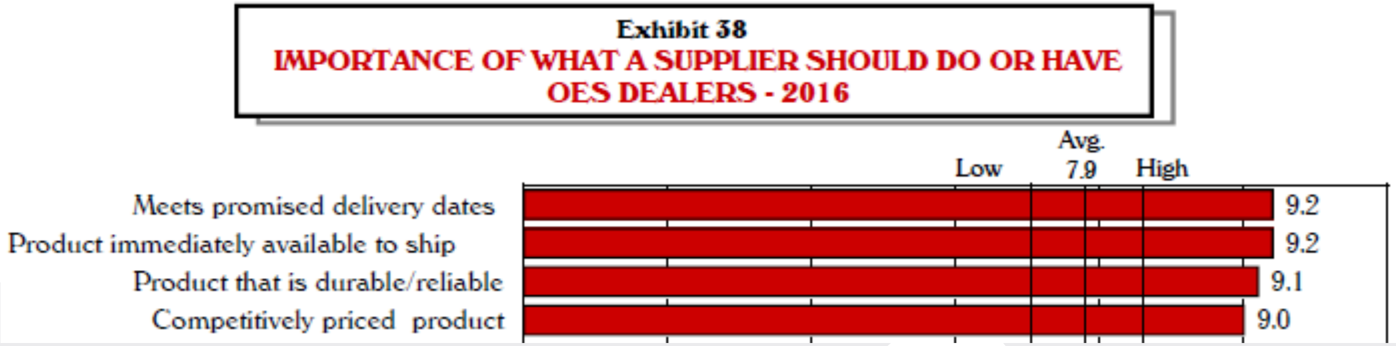
- In 2016, Fleets are carrying 6x the inventory they were in 2005
  - Potentially because they are buying from Manufacturers?
  - Potentially because of bulk buying?
  - Potentially to ensure uptime?
- Similar trend for OES dealers
  - Customers demanding that parts are available and delivery schedules reliable



What factors are most important?

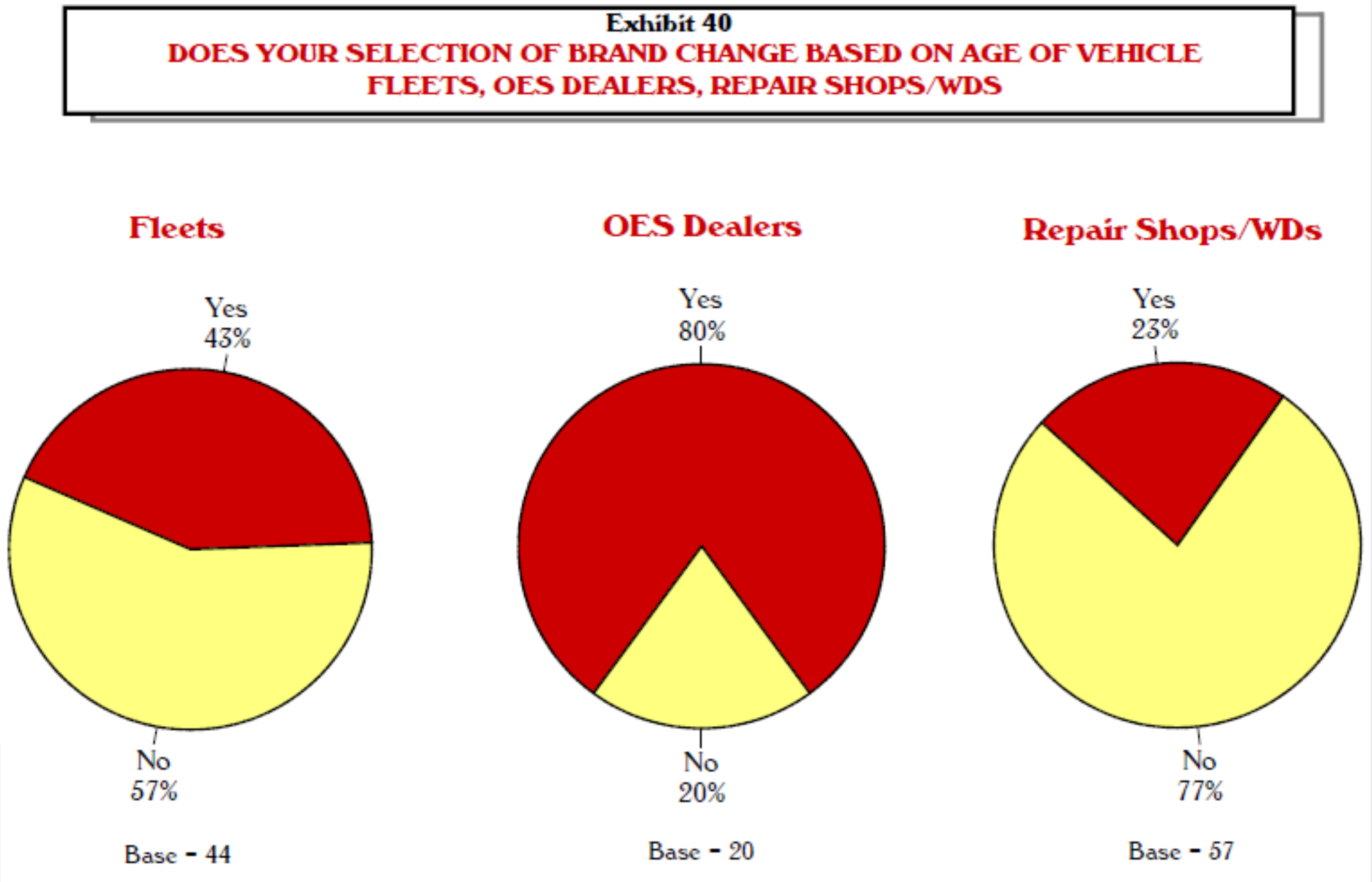
- Fleets were given 18 supplier factors & were asked to rate their importance where a rating of 10 is 'most important'
- OES dealers were given the same factors to rate; 3 of these factors were deemed siginificantly more important then in 2005
  - Competitive pricing
  - Good technical support
  - Good inventory programs
- RS/WDs were given the same factors to rate; 2 of these factors were deemed siginificantly more important then in 2005
  - Complete line of parts
  - Good inventory programs (9.0)





Does the age of the truck matter?

- Based on the survey results, OES dealers (@ 80%) indicated a significant willingness to buy substitute brands
- For fleets there was not a significant bias
- To be expected, the RS/WDs did not think the age of the truck was a significant factor



Conclusions

- Major market disruption in 2008-2009
  - Dealers started to buy more from the independent aftermarket
  - OEMs introduced their aftermarket private labels (Alliance, Road Choice, TRP)
- This study corroborates MacKay & Company's view that 52% of aftermarket demand is captured by the OEM
- This study confirms that buying from the internet hasn't happened... yet?
  - The "Amazon Effect" is changing trucking in many ways, will it touch the aftermarket?

Future considerations?

- Connected Vehicle
  - Will this enable the OEMs to increase their share?
- OBD II / Emissions
  - Will this impact manufacturers not focused on quality?
  - Will this impact the warranty of other components in the truck?
- Internet / Direct Buy
  - ”Amazon Effect” that disrupted automotive – will it happen in the HD market(s)?
- Education
  - More informed buyers/decision makers