

Zhongsheng Group Investor Day

Dalian

June 05, 2023



Agenda

- | | |
|---|---|
| 1 | Opening remarks |
| 2 | Market outlook and growth opportunities |
| 3 | Zhongsheng services as a brand: overview |
| 4 | Zhongsheng services as a brand: customer services |
| 5 | Zhongsheng services as a brand: collision centers |
| 6 | Zhongsheng services as a brand: used car services |

Attendees of Zhongsheng Group



Yi Huang
Chairman and
Executive Director



Guoqiang Li
President, Executive
Director and CEO



Zhicheng Zhang
Executive Director and
and Vice President



Qing Hao
Vice President and Lexus
Brand General Manager



Xin Zhou
Vice President and
General Manager of
Operation Management



Ning Yu
Vice President and
Chief Financial Officer



Daniel Zhou
Chief Strategy Officer



Yunpeng Jiang
Vice President, Mercedes-Benz
Brand General Manager and
Head of Used Car BU

Zhongsheng Group is the largest auto service provider in China with full coverage of auto service value chain

Footprints in 32 core cities



1. 2022 full year
2. Total customers serviced and new sales customers by vehicle in the past 12 months as of December 31, 2022
3. CADA auto dealer ranking
4. Higher-tier cities include 4 tier-1 cities, 15 new tier-1 cities and 30 tier-2 cities



417
dealer stores¹



318
dealer stores in
higher-tier cities⁴



7.65mn
customer
serviced



520k units
new car sales¹



140k units
used car sales¹



6.72mn units
serviced¹



RMB 179.9bn
revenue¹



RMB 19.8bn
aggregate profit²



No. 1
2022 top 100
automobile dealers in
China³



**Investment
grade**
by all the Top-3
rating agencies

Despite the adverse external environment in 2022, Zhongsheng upheld “customer first” philosophy and showed great resilience in operations

Industry-leading performance



~3.54mn

customers
serviced per
year¹



15%

2019-22
customers
serviced CAGR



59%

share of luxury
brands by sales
volume in 2022



27%



49%



19%



21%



21%

Average market share in 32 core cities²

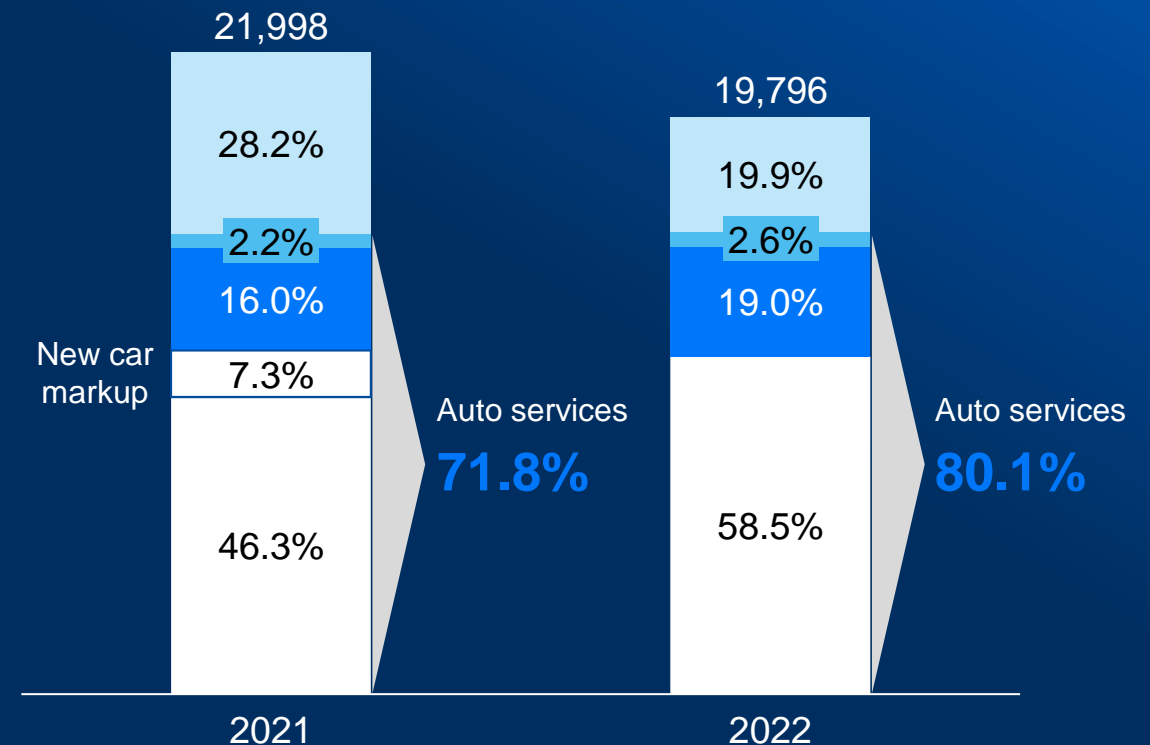
1. Calculate # of revisit customers and new car buyers based on VIN within 12 months; data as of Dec. 31, 2022
2. By new car sales units in Tier-1 and tier-2 cities in China

■ New car ■ Value-added service ■ Used car ■ Aftersales & accessories

Significant increase in auto services profit



Profit mix, RMB million



Zhongsheng Group Strategic Transformation



From single-store
management to
**platform-based
operations**



From new car sales
to **providing full life-
cycle auto services**



From OEM brand-
oriented dealership
to **Zhongsheng
branded auto
services**



**The most trusted auto
service brand among
premium Chinese
consumers**





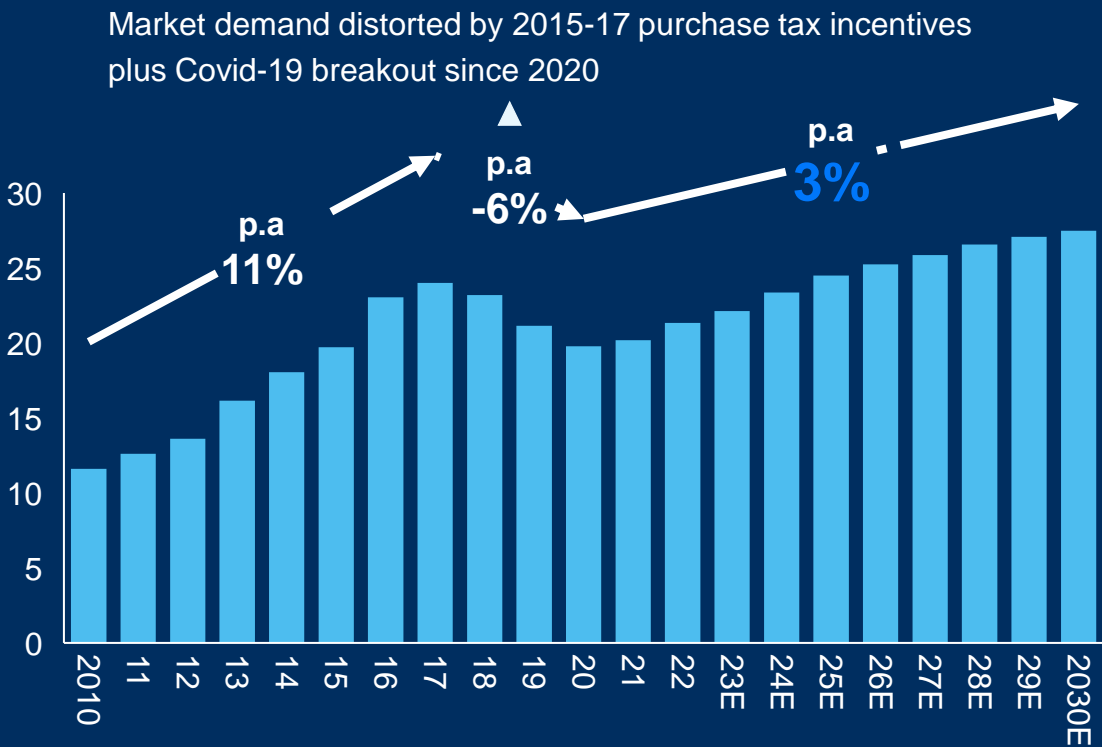
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- 1 Opening remarks
- 2 Market outlook and growth opportunities**
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- 5 Zhongsheng services as a brand: collision centers
- 6 Zhongsheng services as a brand: used car services

Sales growth in China's PV market has slowed down, but its car parc keeps increasing with China overtaking the US in 2022

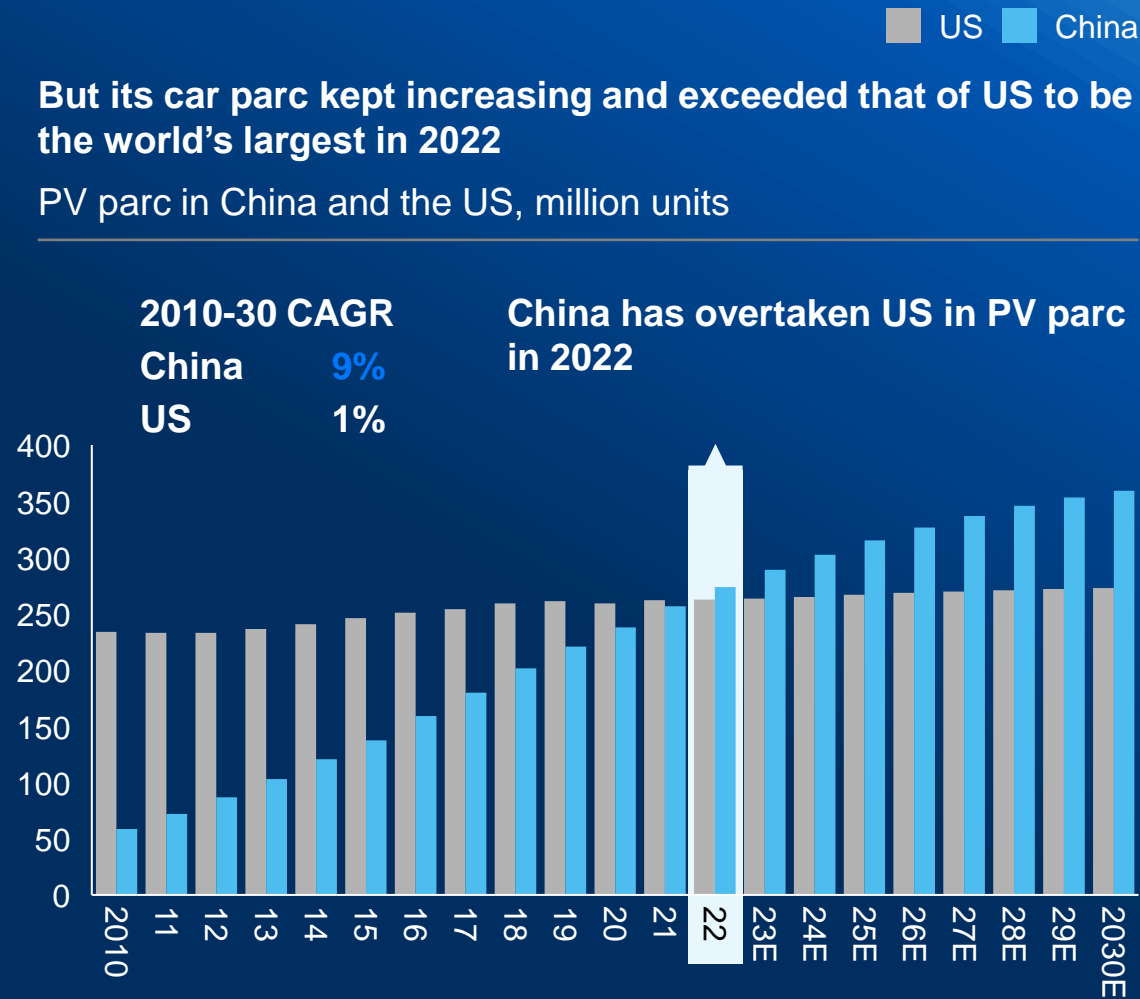
New car sales growth in China's PV market is expected to slow down

New PV sales in China, million units



But its car parc kept increasing and exceeded that of US to be the world's largest in 2022

PV parc in China and the US, million units



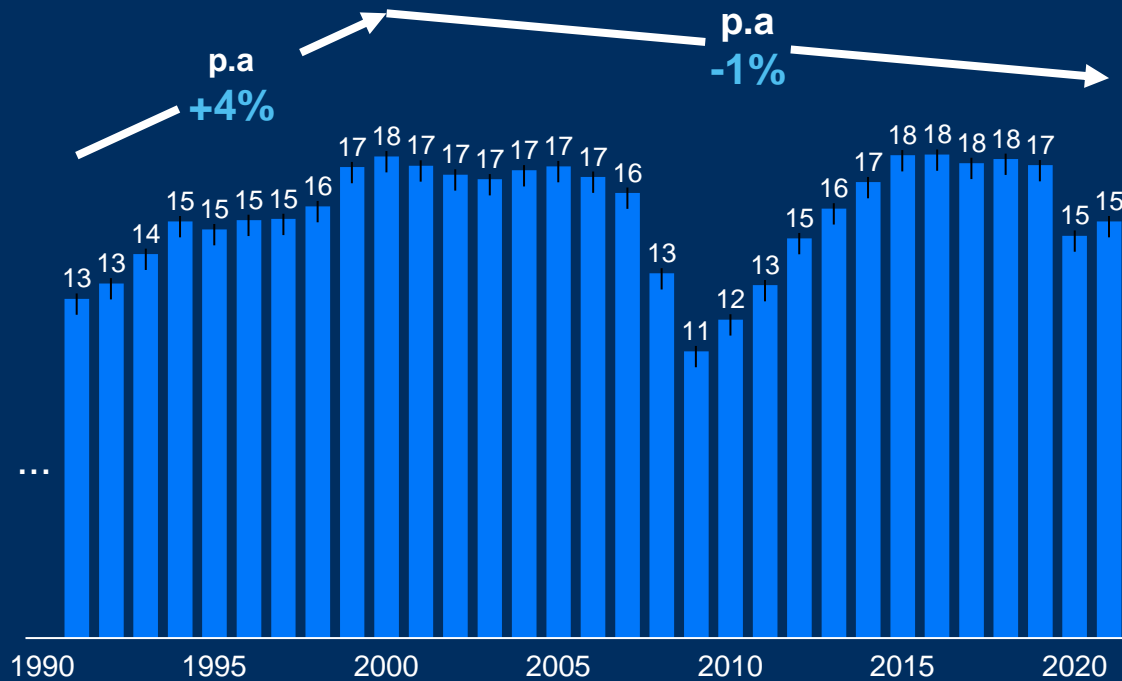
1. Data of the US market includes sedan, SUV, MPV and pick-ups

Source: IHS Markit

Based on long term market evolvement in the US, aftersales/used car markets will drive structural transformation in the auto industry once new car sales plateaued

New car sales in US market plateaued around 2000

New car sales in US¹, million units



1. Both PV and truck sales

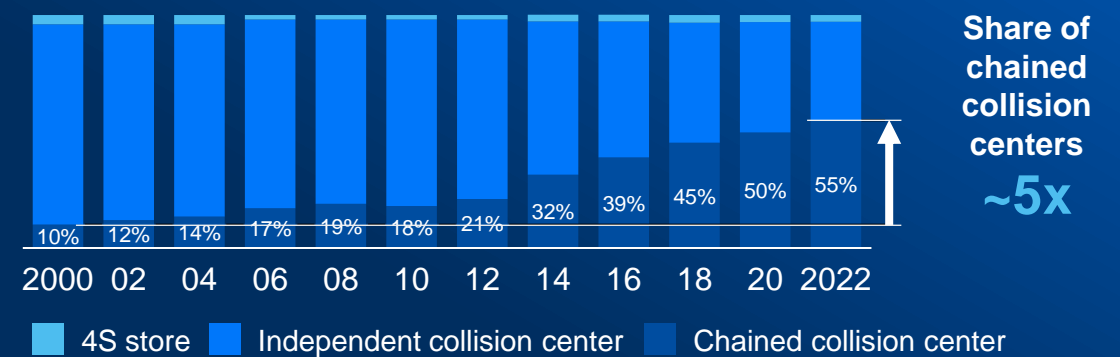
2. National and regional chain repair shops

3. CR5 - the total market share of the top 5 service providers in used car sales; CR10 - the total market share of the top 10 service providers in used car sales

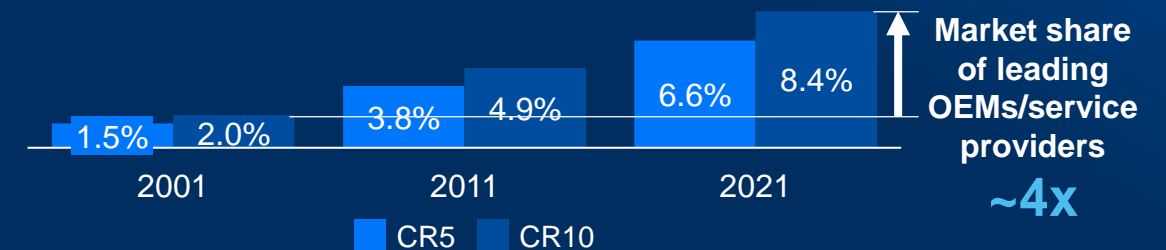
Sources: United States Department of Transportation; CCC Intelligent Solutions; Automotive News Top Dealership groups in the United States

... followed by structural consolidation in aftersales and used car markets

Share of accident car insurance payment, by channel²



Used car market concentration, by sales of leading players³

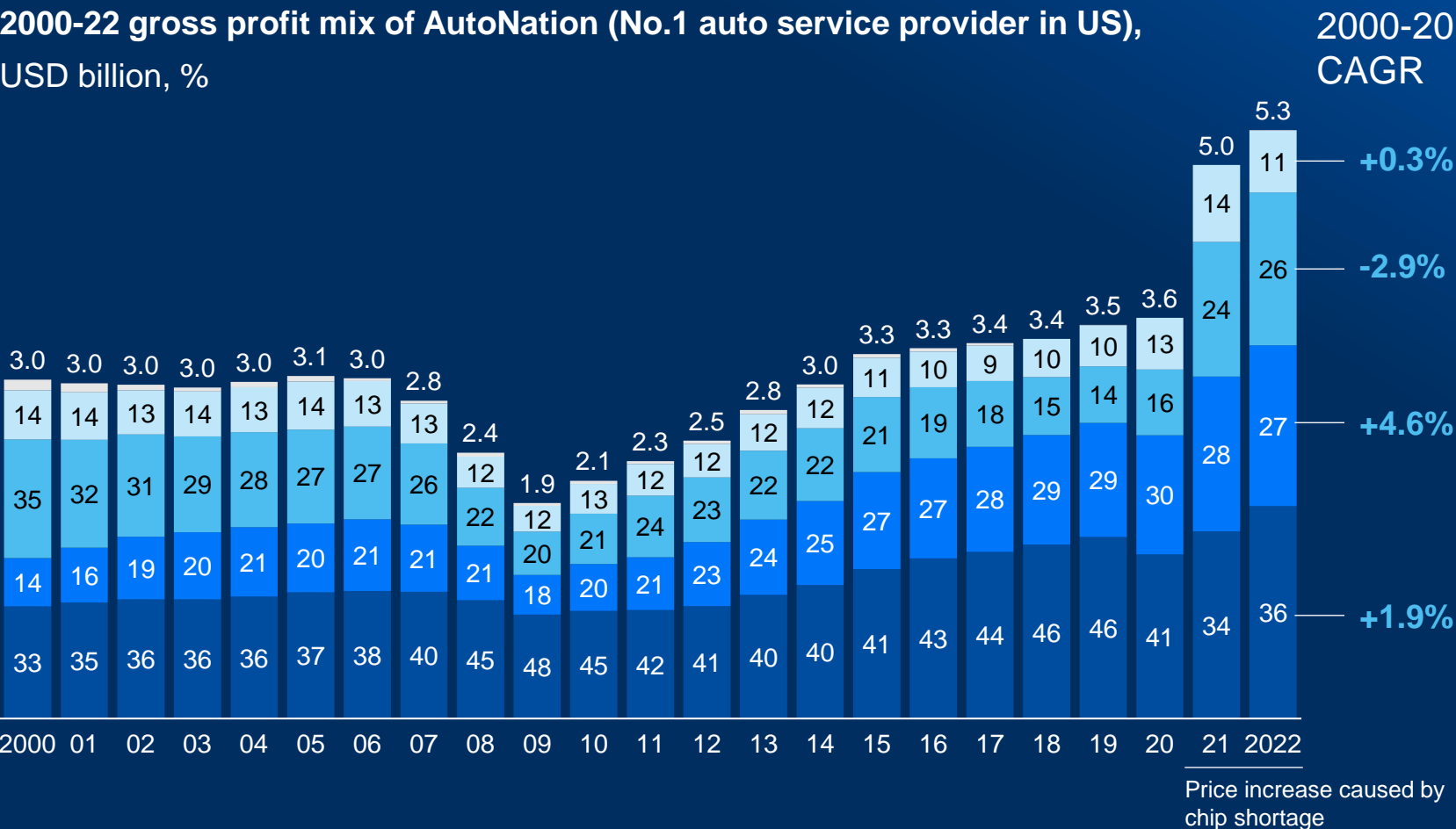


...which will drive the change of auto service providers' business models



Part & service Finance & insurance New car sales Used car sales Others

2000-22 gross profit mix of AutoNation (No.1 auto service provider in US),
USD billion, %



AutoNation strategic transformation

Shift towards aftersales and used car businesses
Since 2000, AutoNation has built **53** collision centers, **15** used car centers and **4** used car auction centers

Regional consolidation
After the financial crisis in 2008, AutoNation achieved **rapid growth through M&A activities**, and now operates the largest chain of stores

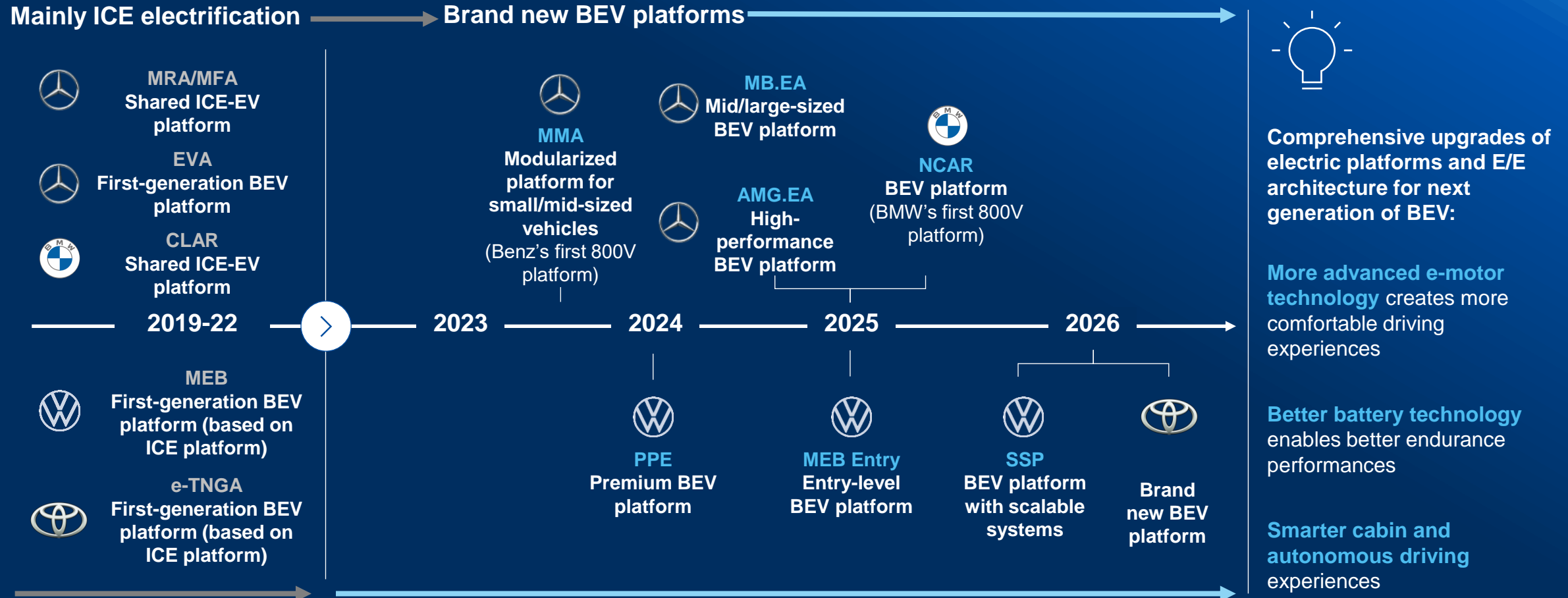
AutoNation brand building
All stores have been required to **operate under AutoNation brand name**, e.g., AutoNation USA for used cars, AutoNation collision center for accident car repair

1. 2021/22 data is excluded due to unusual market volatility

Sources: United States Department of Transportation; AutoNation Investor Presentation 2023Q1

Competition between leading global OEMs and local Chinese OEMs in EV has intensified

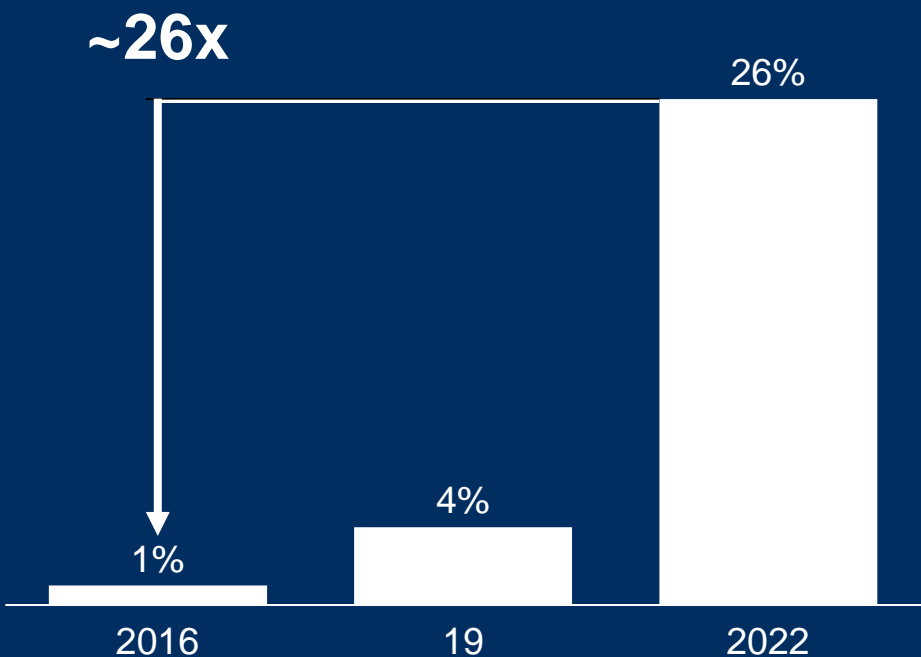
Global OEMs address the challenges posed by local Chinese OEMs through accelerated electrification and smartification development



Electrification brings new opportunities for the auto service market

EV penetration in China has been growing rapidly¹...

EV penetration in China



1. Include BEV, PHEV and REEV

2. Net satisfaction value of repair and maintenance service experience: % of consumers giving 9 points and above minus % of consumers giving 2 points and below; on a scale of 1-10 (10 - most satisfied, 1 - least satisfied)

3. Include 4 premium local EV manufacturers

Sources: China New Vehicle Insurance Registration Database; China Automobile Dealers Association; McKinsey China Auto Consumer Insights 2023



Car-aging trend and car parc increase drive the growth of auto service demand

~2 years

vs.

~7 years

Average EV age

Average PV age

~13mn units

vs.

~100mn units

2022 EV parc

2030 EV parc



Consumers demand better-quality customer experiences

Net satisfaction value of collision center experience²

50%

vs.

44%

ICE owners

Car owners of new local brands³

We believe there are 3 major opportunities for auto service market in China



A Auto aftermarket with RMB 1 tn potential¹



B Breakthrough in used car institutionalization

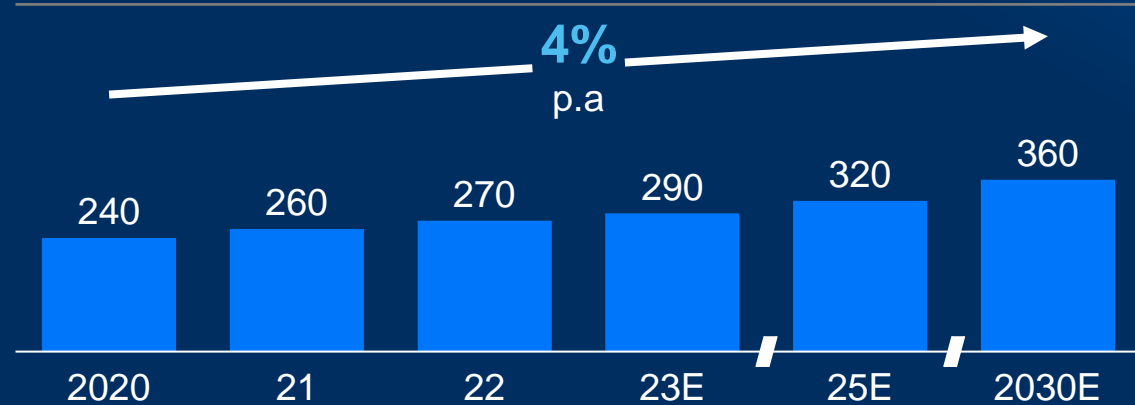


C Branded auto services and industry consolidation

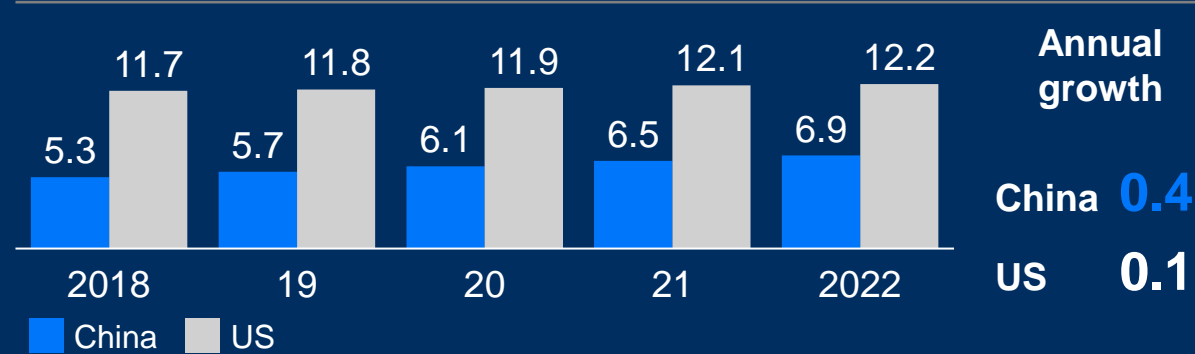
1. Expected 2020-30 market size growth

A. Aftermarket: increasing car-aging and car parc drive the rapid growth of China's aftermarket, which is expected to reach a market size of RMB 2.6 tn in 2030 with around 6% of CAGR

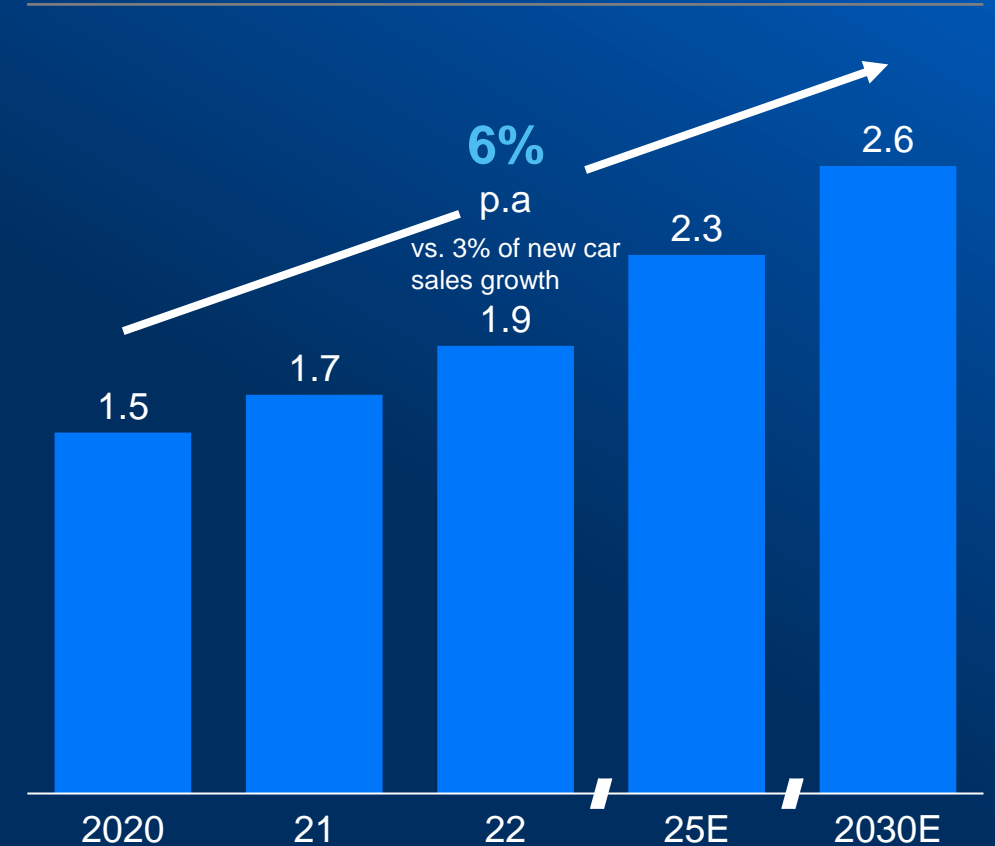
PV parc in China, million units



Average car age in China and the US, years



China's PV aftermarket size¹, RMB trillion

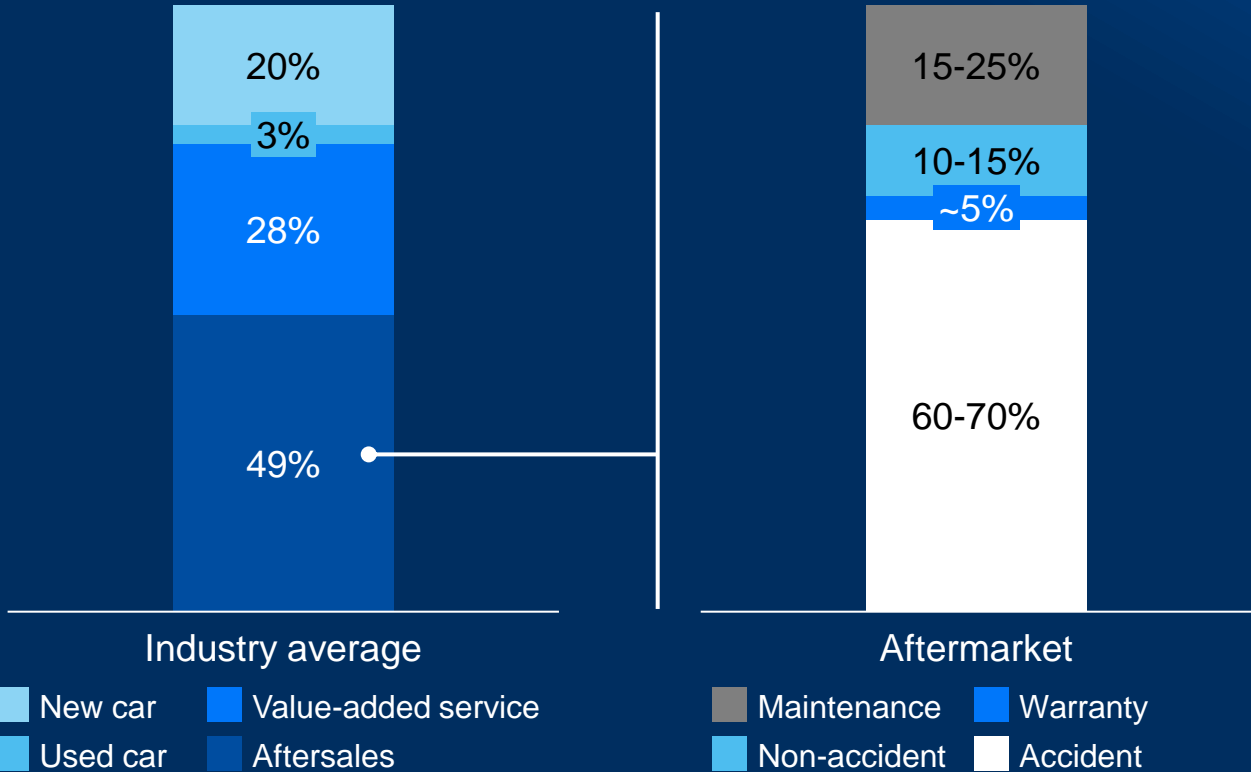


1. OEM-authorized channels and independent aftersales service providers, including maintenance and repair, spare parts for accident cars and labor expense; inflation impact excluded

A. Aftermarket: accident car repair is the most imperative segment, which is expected to be more relevant given the trend of electrification

In the auto service industry, nearly 50% of profit comes from aftermarket, whose profit is 60-70% contributed by accident car repair business

2020 dealer gross profit mix




Gross margin
~40%
~40%
~20%

~60%


Increasing EV parc will further bolster accident car business

EV vs. ICE specifics in accident car businesses




Average claim propability¹ ↑ ~10pp

2016-22 data from China Banking and Insurance Information Technology Management Company



Average revenue per unit ↑ ~20-30%

Expert estimate



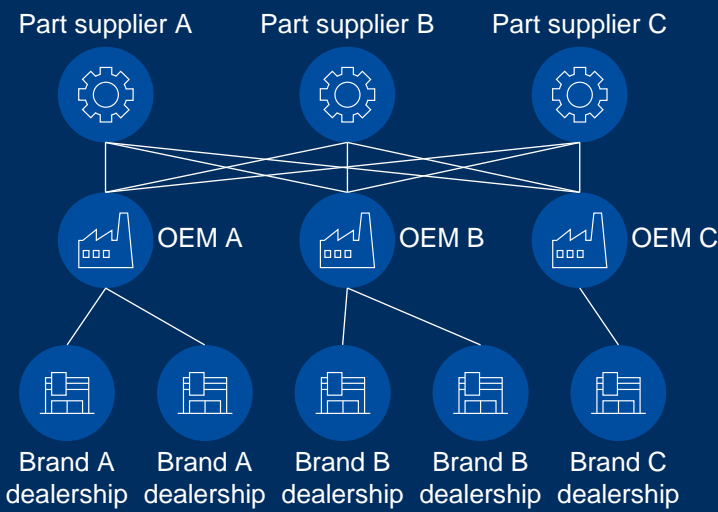
Average premium difference per policy ↑ 21%

China Banking and Insurance Information Technology Management Company 2021

1. Claim rate refers to the ratio of vehicles paid to the total number of vehicles insured within a fixed period
Sources: China Automobile Dealers Association; China Banking and Insurance Information Technology Management Company

A. Aftermarket: direct parts procurement can further improve profitability of aftersales services

Traditional procurement model



- OEM-parts are **sourced from OEMs of each brand independently**, and OEMs will add a **20-30%** of markup as the intermediary, leading to high retail prices
- Dealers of each brand purchase separately and **cannot create scale**, hence lack bargaining power over part suppliers

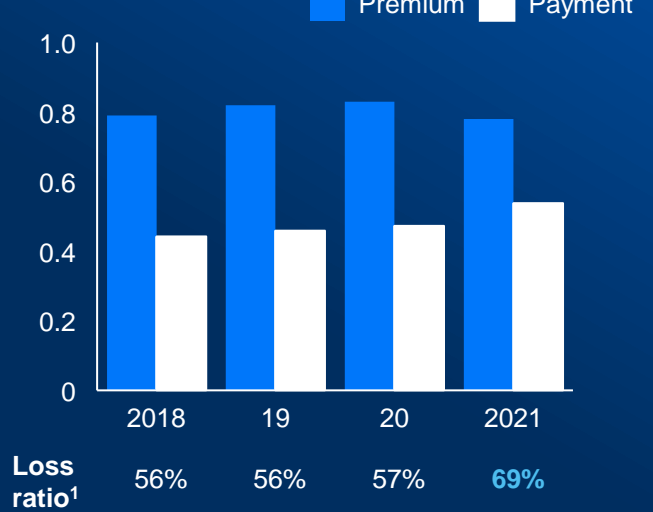
Centralized direct sourcing



- **Procure parts straight from suppliers to streamline process and reduce cost**
- Centralize procurement needs to realize **economy of scale** and improve bargaining power over part suppliers

New auto insurance pricing policies were launched in Sep. 2020, leading to lower auto insurance premium brokered yet higher loss ratio, thus insurers are more than willing to use non-OEM sourced parts to reduce cost

2018-21 auto insurance premium brokered RMB trillion

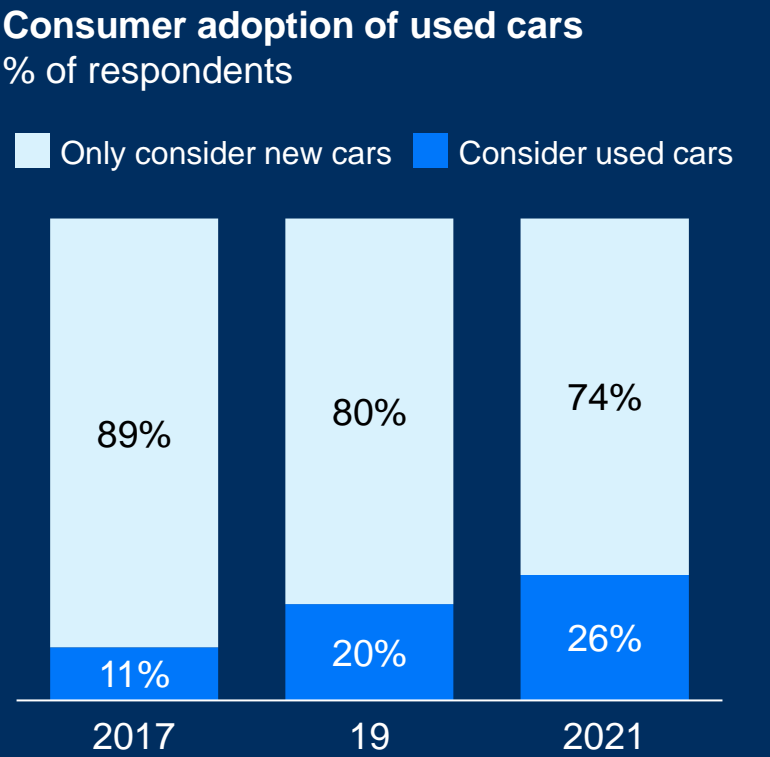


1. Share of car insurance payment amount in total auto insurance premium brokered

B. Used car: longstanding structural problems which handicapped the development of used car business are being resolved, market potential will be released from a long-term perspective



1 Consumer adoption
Chinese consumers are more and more willing to accept used cars



2 Policy and regulation support
Remove restrictions on ownership transfer¹ and implement tax reform to facilitate used car circulation

- **2016-20:** the removal of restrictions on ownership transfer continued but progressed slowly; over 95% prefecture-level cities had restrictions of varied degrees remaining
- **2020:** VAT rate at 0.5% (4% in 2009 and 2% in 2014)
- **2021-22:** the restrictions on ownership transfer has been fully lifted, first in 20 pilot cities, and scaled up nationwide in 2022

Significant sales growth after the removal of ownership transfer restrictions
Sales growth, %

Province	Sales growth, %
Henan	+57%
Shandong	+51%

3 Transparent vehicle information
Third parties may help to remove information asymmetry

Mature markets such as the US have credible third-party valuation systems



KBB was established in 1926 as a dealership company who would release its own data, and later transformed into the most influential used-car valuation service provider in the US

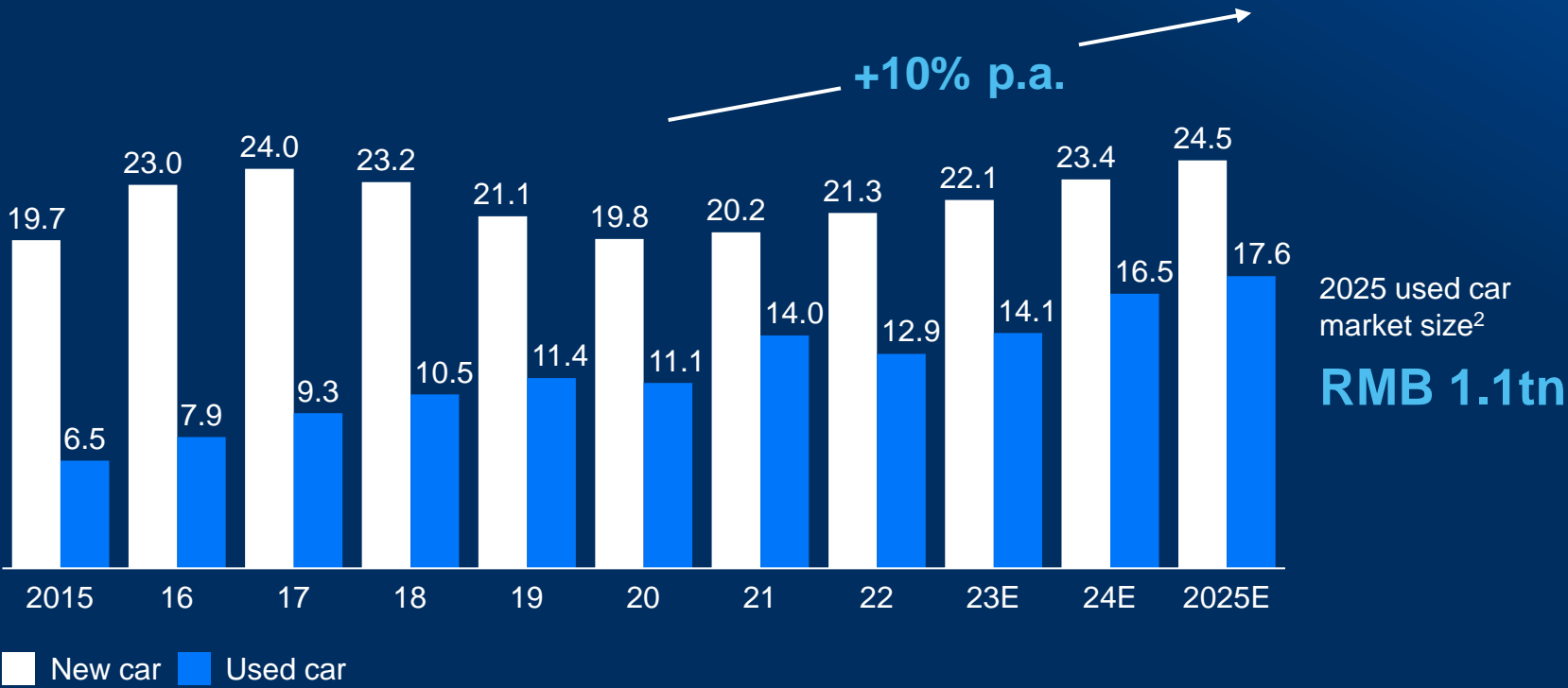


As the largest used car service provider in the US, CarMax provides 30-min testing and valuation services (7 day/300 miles warranty at its early days), and customers will refer to CarMax valuation results even though they don't transact with CarMax

1. MOFCOM notice to facilitate cross-province used car registration and circulation in 2021
Sources: McKinsey China Auto Consumer Insights 2021; China Automobile Dealers Association; public information

B. Used car: China's used car market size is expected to exceed RMB 1.1 tn in 2025 with average growth rate of 10%, indicating great potential

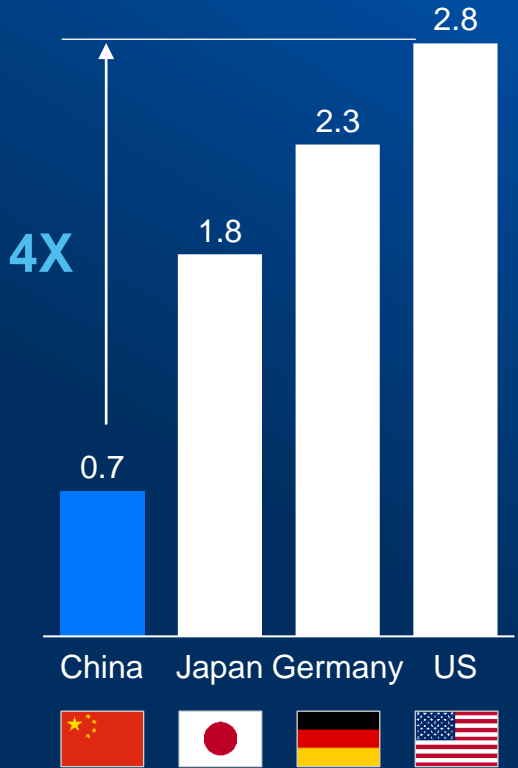
2015-2025 new and used passenger car¹ sales in China
million units



1. Include sedan, SUV and MPV; exclude bus, truck, motorcycle, etc.
2. According to China Automobile Dealers Association, the average unit transaction price of used cars is RMB 65k in China

Sources: China Automobile Dealers Association; IHS Markit; United States Department of Transportation; Statista; Japan Automobile Dealers Association

Used-to-new vehicle sales ratio
2021 used car sales/new car sales

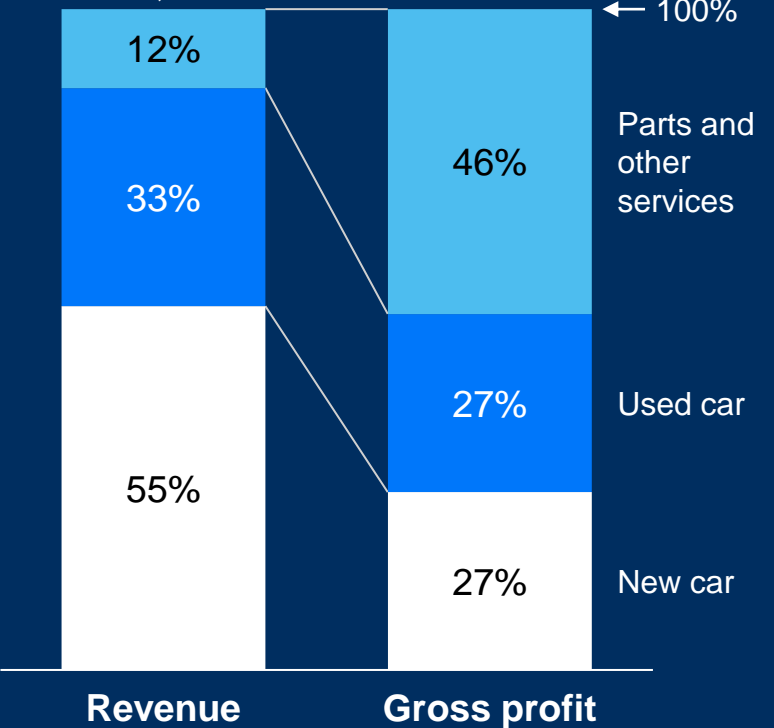


B: Used car: the development of mature markets indicates that used car business will be key profit driver for auto service providers in the future

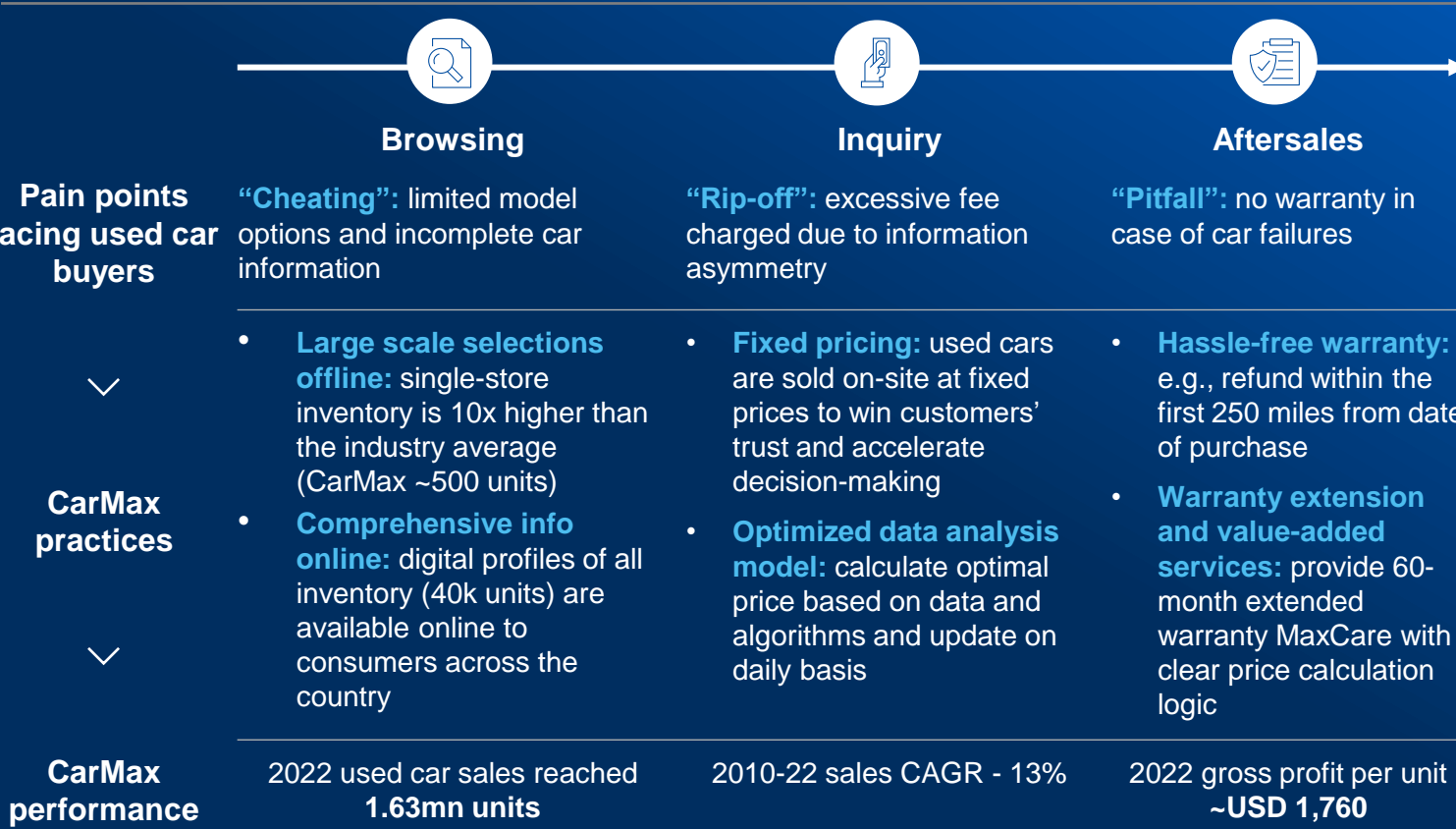


For auto service providers in mature markets, profit of used car business is on par with new car sales

Revenue per store and gross profit mix of auto service providers in the US¹
million USD, %



Case study: CarMax managed to address pain points of brand credibility for used car buyers, and became the largest used car service provider in US



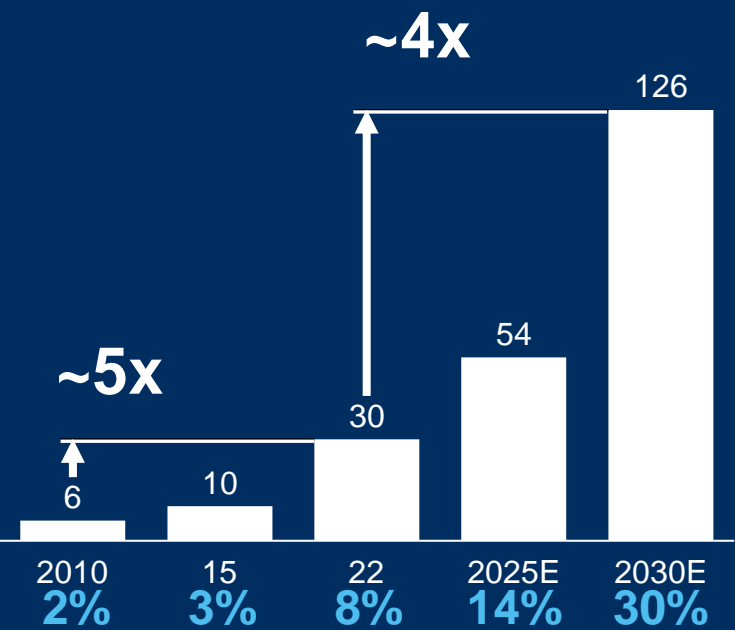
1. Based on FY2020 performance
Sources: NADA Dealership Financial Profile Report 2020; CarMax annual reports; Manheim Consulting Release Annual Used Car Market Report

C: Branded services and industry consolidation: # of high-income urban households in China will triple in 2030, generating strong demand for premium auto services

of high-income urban households in China has been growing rapidly¹

of high-income urban households in China, million households

Share of high-income households in total urban households, xx%

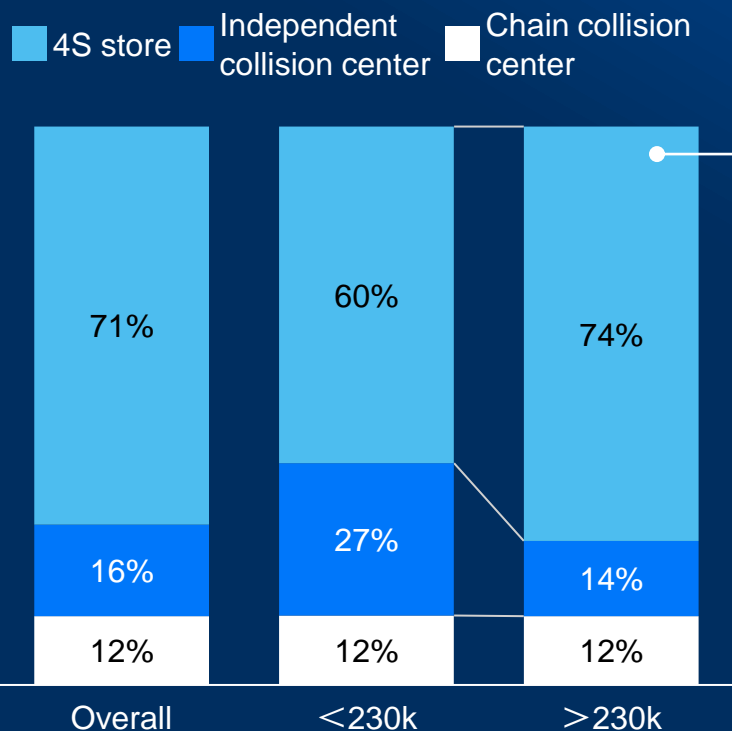


1. High-income urban households - after-tax household income over RMB 230k (calculated based on 2020)

Sources: McKinsey Global Institute; McKinsey China auto consumer insights 2021

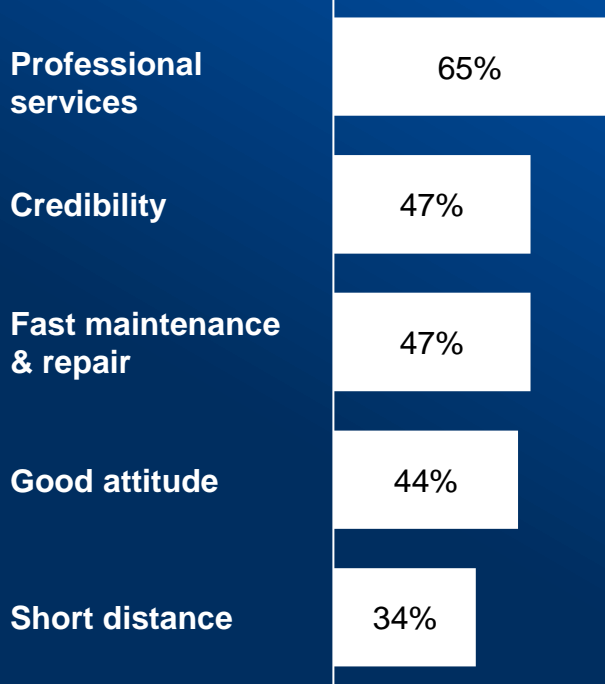
High-income households prefer aftersales service in 4S stores

Preferred aftersales service channels, by after-tax household income, % of respondents, 2021



Offerings and quality are key reasons that high-income households prefer 4S stores

Top 5 factors for consumers to choose aftersales service providers, % of respondents, 2021

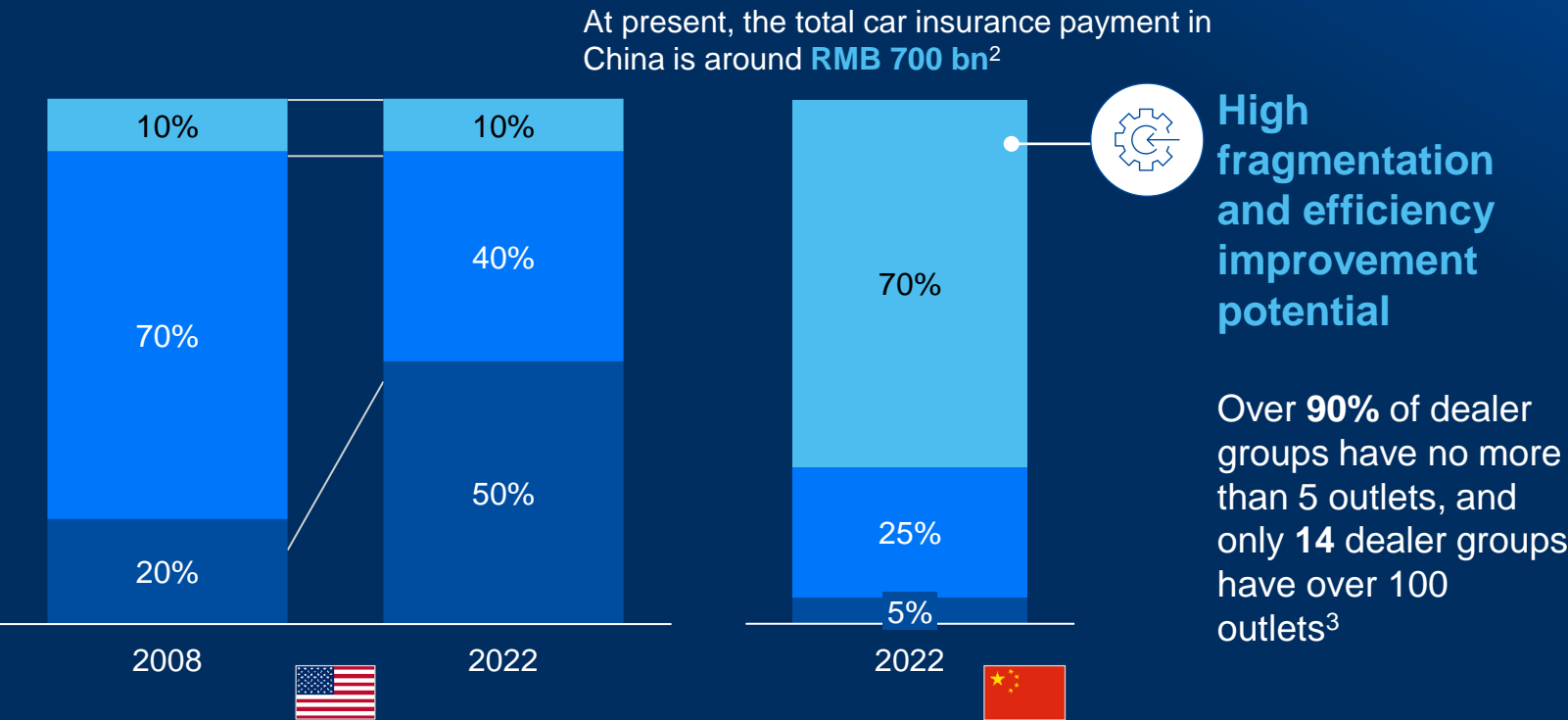


C: Branded services and industry consolidation: auto service providers are highly fragmented and varied in service capabilities, with huge potential of industry consolidation

Example - accident car repair

■ 4S store ■ Independent collision center □ Chain collision center

Share of accident car payment amount¹
By claim payment channel



Leading collision center service providers with great cost and quality advantages can consolidate the market

- Customer:** access to favorable collision center price and high-quality experience, e.g., courtesy car services
- Insurer:** reduce payment amount and loss ratio
- OEM:** build good relationship with collision center service providers
- Government:** promote energy saving and environmental protection, e.g., waste gas purification and wastewater recycling

1. China-related data is from four national insurers
2. Include payment amount for car damage only
3. Data as of the end of 2022

C: Branded services and industry consolidation: key success factors in building service brand



	Descriptions	Established market practices (AutoNation)
1 High-quality and professional services	<ul style="list-style-type: none"> ~65%¹ of consumers agree that service quality is the key consideration when choosing aftersales service channel 	<ul style="list-style-type: none"> Provide the same showroom experience as new car business Offer diversified hassle-free services, such as refund within the first 5 days/250 miles from date of purchase
2 Consistent experiences	<ul style="list-style-type: none"> Ensure consistency with in-store experience through uniform online portal and standard process, engineering and tooling 	<ul style="list-style-type: none"> Develop One-Price used car strategies Design financing solutions with consistent digital tools such as AutoNation Express
3 High market share in key regions	<ul style="list-style-type: none"> AutoNation has extensive coverage of local customers and high market share in core regions 	<ul style="list-style-type: none"> 64% of AutoNation's revenue in 2020 is from Florida (24%), Texas (21%) and California (19%)

AutoNation built its own brand of AutoNation Collision Center and AutoNation USA with strong brand perception



1. Consumers value: high-quality and professional collision center skills (29%), trustworthiness (12%), fast collision center(8%), good attitude (6%)

Zhongsheng's strategic vision:

To become the most trusted auto service brand for premium consumers in China

To build a household name for auto services for the upcoming 130 mn high-income families in China



Next strategic milestones

100

No. of Collision Centers

+100%

Revenue of car accident repair

1.0

Used-to-new vehicle sales ratio



Agenda

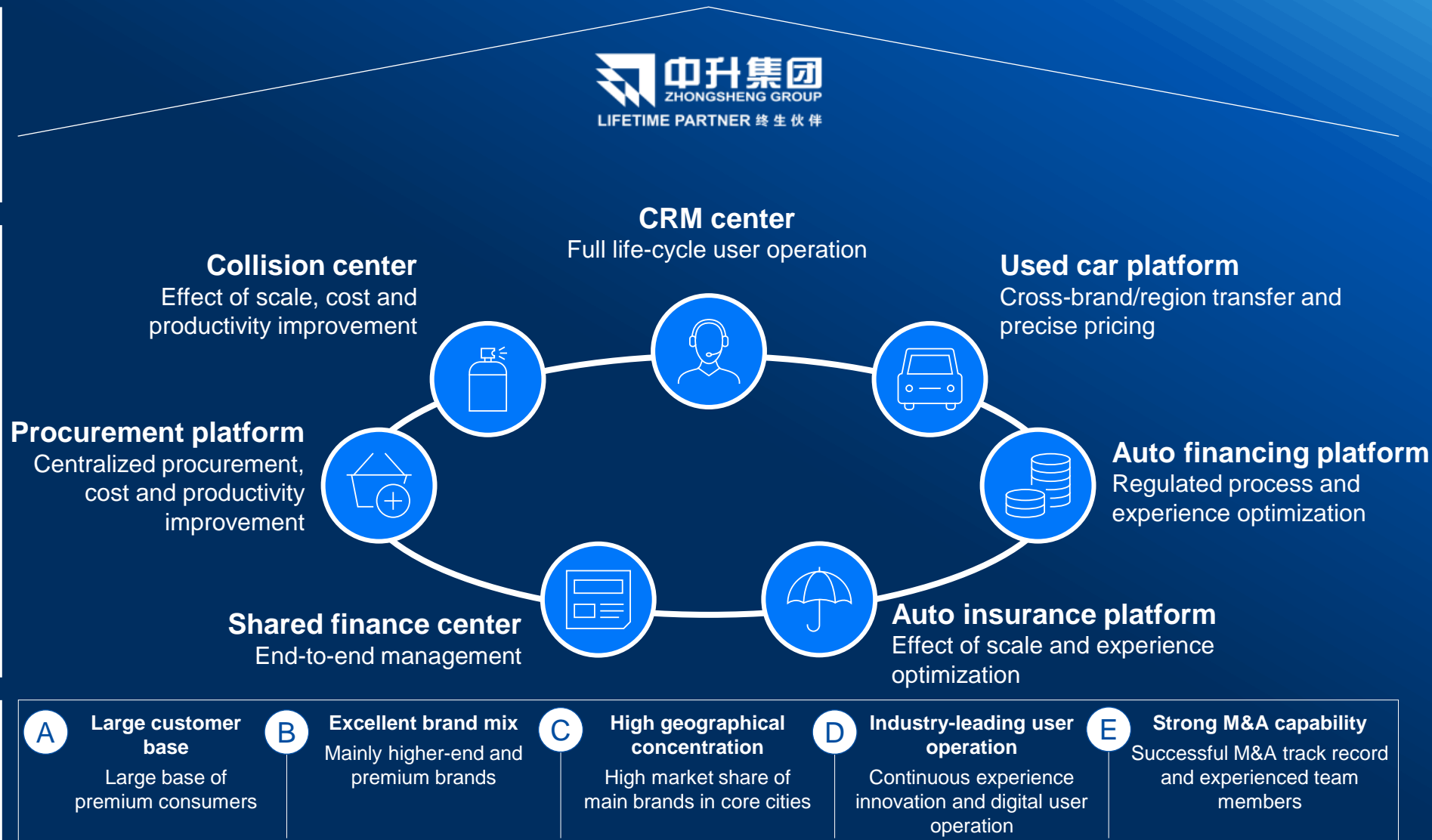
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Build Zhongsheng's auto service brand

Collaboration of 7 platforms

- Improve service quality of stores
- Empower user operation of stores
- Drive group-level cost and productivity optimization

Five key levers



A: Large customer base: Zhongsheng has been an industry leader

7.65 mn

cumulative customers serviced⁴

3.54 mn

customers
serviced¹

15% 2019-22 CAGR

2 mn

Insurance policies
brokered²

28% 2019-22 CAGR

5.04 mn

WeCom users³

Scale-up since 2021

1.04 mn

Zhongsheng GO
registered users⁴

Official launch on Apr. 1, 2023

1. Calculate # of revisit customers and new car buyers based on VIN within 12 months based on data as of Dec. 31, 2022
2. 2022 full year
3. WeCom account followers by May 31, 2023
4. Data as of May 31, 2023



A: Large customer base: Zhongsheng has covered main city clusters in China with the potential to further unlock growth within these clusters

Main city clusters in China¹ and Zhongsheng's store & customer distribution



xx # of Zhongsheng stores

xx # of Zhongsheng active customers in each city cluster⁵

21/22

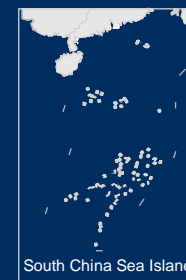
Zhongsheng coverage of city clusters²

~6%

2022 share of Zhongsheng customers⁴

~3X (2030 vs. 2022)

Estimated incremental of high-income households in main city clusters³



1. According to McKinsey Global Institute, main city clusters cover over 75% of high-income households in China
2. The city clusters with Zhongsheng footprints
3. High-income urban households - after-tax household income over RMB 230k (calculated based on 2020)
4. The share of Zhongsheng's active customers in high-income population in main city clusters
5. Active customers are revisit customers and new car buyers calculated based on VIN within 12 months; data as of Dec. 31 2022

Source: McKinsey Global Institute

B: Excellent brand mix: Zhongsheng has been focusing on the optimization of higher-end and luxury brands

NON-EXHAUSTIVE

xx # of stores



64%

Share of luxury brands stores

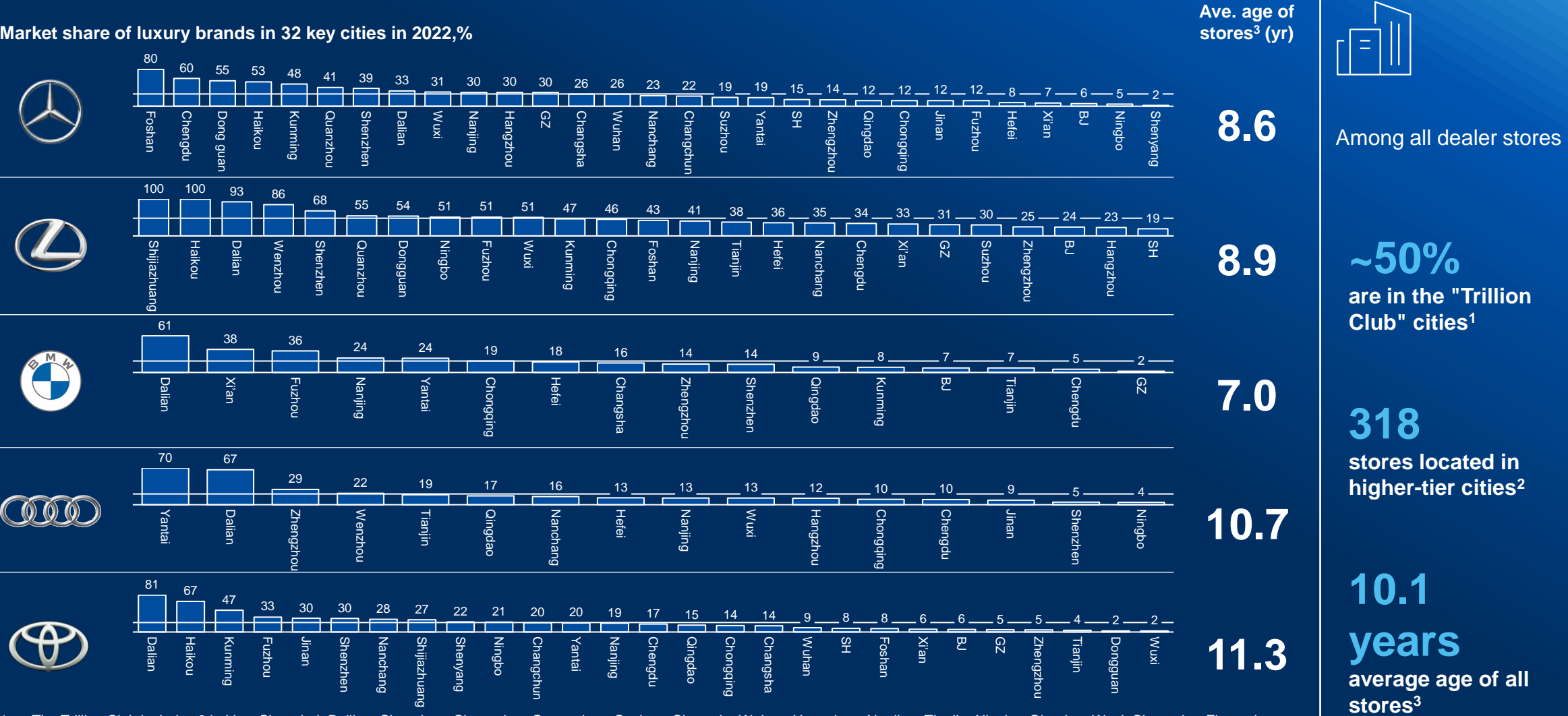
#1

Market share of Lexus

#2

Market share of Mercedes-Benz

C: High geographical concentration: Zhongsheng continues to tap the potential of higher-tier cities and regions



1. The Trillion Club includes 24 cities: Shanghai, Beijing, Shenzhen, Chongqing, Guangzhou, Suzhou, Chengdu, Wuhan, Hangzhou, Nanjing, Tianjin, Ningbo, Qingdao, Wuxi, Changsha, Zhengzhou, Foshan, Fuzhou, Quanzhou, Jinan, Hefei, Xi'an, Nantong and Dongguan

2. Higher-tier cities include 4 tier-1 cities, 15 new tier-1 cities and 30 tier-2 cities

3. As of May 31, 2023

D: Leader in CRM: Zhongsheng has created industry-leading digital user operation capabilities through continuous innovation on user experiences

Continuous innovation on user experiences



Zhongsheng GO



Launched on April 1, 2023

1.35mn visits on Day 1, including new users of 0.14mn, achieving 0.11mn orders during the day

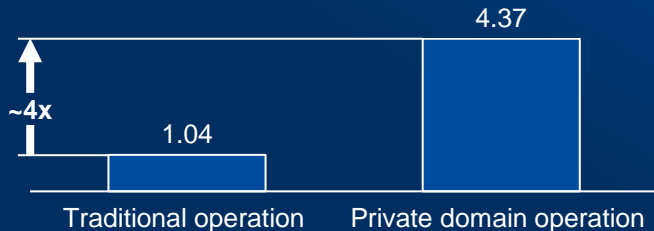
Registered users of ~1.04mn accumulated in the first 2 months of the launch

Private domain user operation



5.04mn customers are directly served by Zhongsheng CRM centers via its WeCom account, increasing servicing frequency significantly

Monthly customer interactions¹, frequency



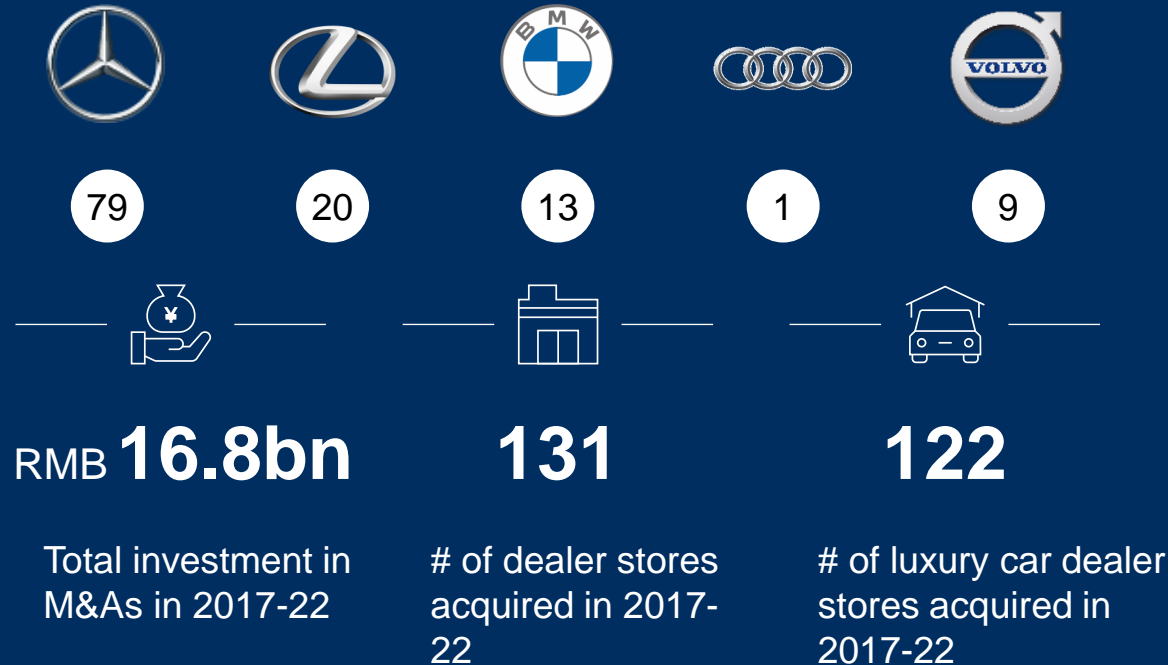
1. Call center and WeCom operation result comparison is based on non-Dalian vs Dalian CRM center operational data

E: Strong M&A integration capabilities: Zhongsheng has invested over RMB 10bn in acquisition of 100+ dealer stores since 2017, demonstrating solid post M&A integration capabilities

XX # of dealer stores acquired

Historical M&As, 2017–2022

Luxury brands



Superior capabilities in M&A integration

Zung Fu China
仁孚中国

23%

Increase in # of units serviced¹

RMB **6,285**

Increase in contribution of new car derivative business per vehicle^{1,3}



41%

Increase in gross profit of new car derivative business^{1,2}

-30bps

(SG&A + overhead + financial) expense ratio¹



1. Monthly performance of Zung Fu China in Jan-May 2023 vs Q4 2021

2. New car derivative businesses include new car insurance, finance, licensing, car maintenance PLUS, extended warranty, courtesy car service for new car, new car maintenance worry-free, new car paid rescue and other derivative businesses

3. Contribution of new car derivative businesses per vehicle = total gross profit of new car derivative businesses / # of new cars sold

Zhongsheng's strategic vision:

To become the most trusted auto service brand for premium consumers in China

To build a household name for auto services for the upcoming 130mn high-income families in China



Next strategic milestones

100

No. of Collision Centers

+100%

Revenue of car accident repair

1.0

Used-to-new vehicle sales ratio

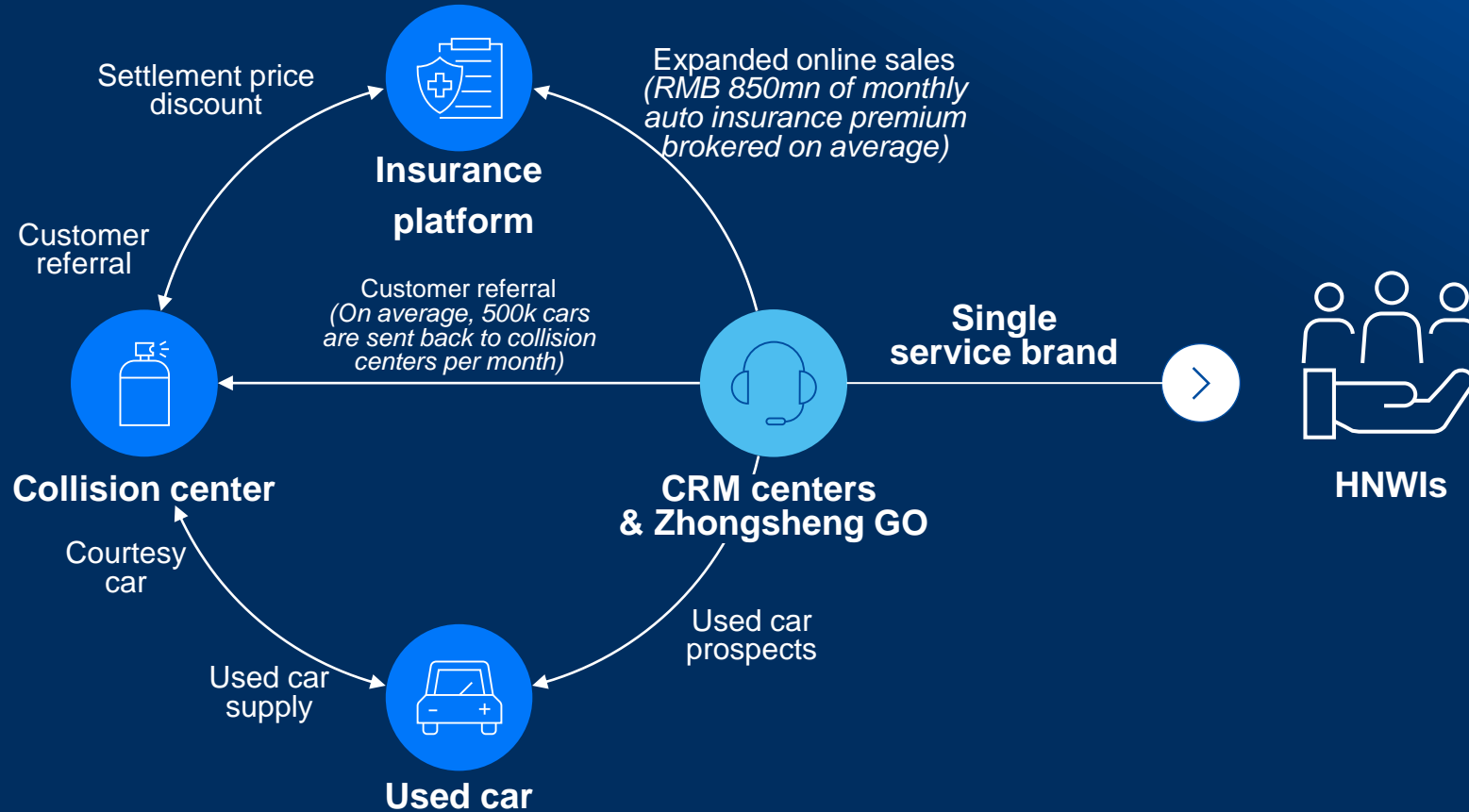


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Collaboration among 4 key platforms to serve Zhongsheng customers under one single brand image

CRM center, connected with other business platforms, acts as one single customer touchpoint to build the "Zhongsheng Service" brand system



Status quo of CRM centers



June 2022
Establishment time



30+
CRM centers



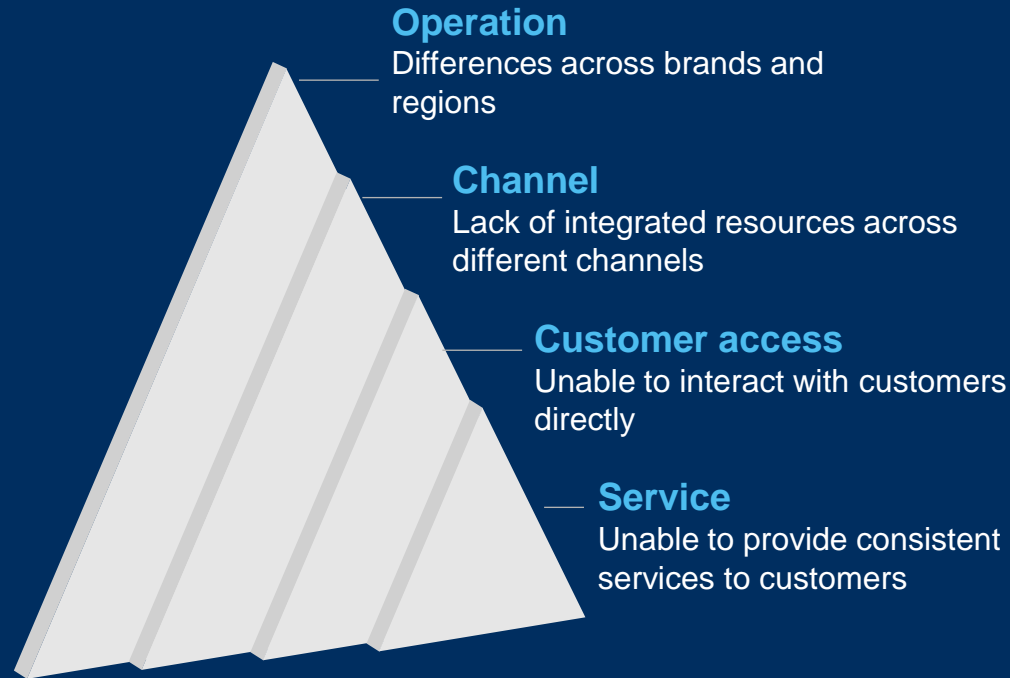
1,289
of FTEs



Zhongsheng GO & WeCom
Digital levers

CRM centers have been upgraded (vs. the traditional model) in 3 areas: integrated marketing resources, standardized service processes, and digital customer operations

“Four obstacles” in traditional customer operation



Enhanced customer experience



A. Integrated marketing resources

- Break brand and dealer store silos with centralized operations and vertical management
- Capture sales opportunities in a timely manner by connecting new car sales, collision centers, and used car centers



B. Standardized service processes

- Standardized processes and management to ensure consistent and good service experience for customers
- Real-name authentication and digital validation to ensure that deals and benefits reach customers directly



C. Digital customer operation

- Leverage digital tools to reach customers across full lifecycle through omni-channel and improve the frequency and quality of customer interactions

A|B: Service quality and effectiveness of CRM centers have been significantly improved with integrated marketing resources and standardized process management

Activities covered by CRM centers



Auto insurance renewal

Digital distribution of marketing resources to reach customers directly with benefits



After-sales business expansion

expanded aftersales services enabled through Zhongsheng GO marketing



New car leads generation

through omni-channel, full lifecycle customer out-reach

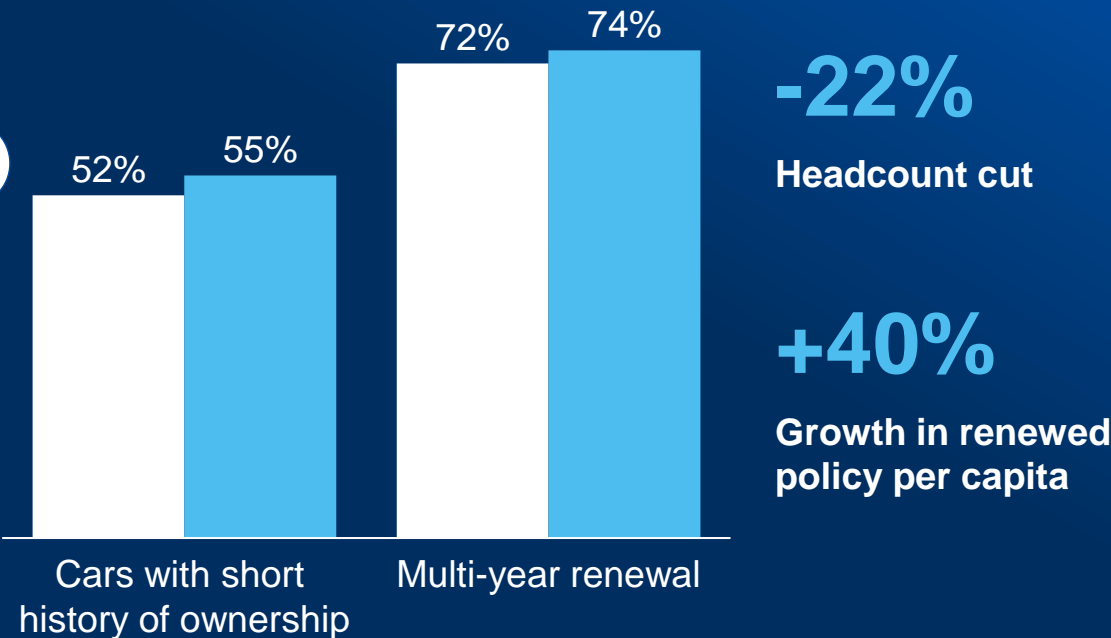


Customer satisfaction survey

To drive process standardization and service brand building

The auto insurance renewal rate and service effectiveness have been significantly improved

Renewal rate, % 2022.1-4 2023.1-4



C: Digital levers enable Zhongsheng to achieve customer-centric, full lifecycle and omni-channel customer operations

From dealer-led customer relationship...



- **Vehicle is the only connection between dealer stores and customers:** changes in vehicle ownership and dealer store could lead to customer loss
- **Fragmented resources:** limited scale, marketing resources, and customer operation capabilities of single store

...to omnichannel, full lifecycle service platform



- **Consistent UI of WeCom:** standardized processes and interfaces provide customers with consistent Zhongsheng brand service experience
- **Zhongsheng GO platform full lifecycle user operation:** integrated group customer service resources to increase customer loyalty and enable capturing of customer needs throughout the full lifecycle of customers

Distribution of customers



7.65mn

In total²

5.04mn

Via WeCom²

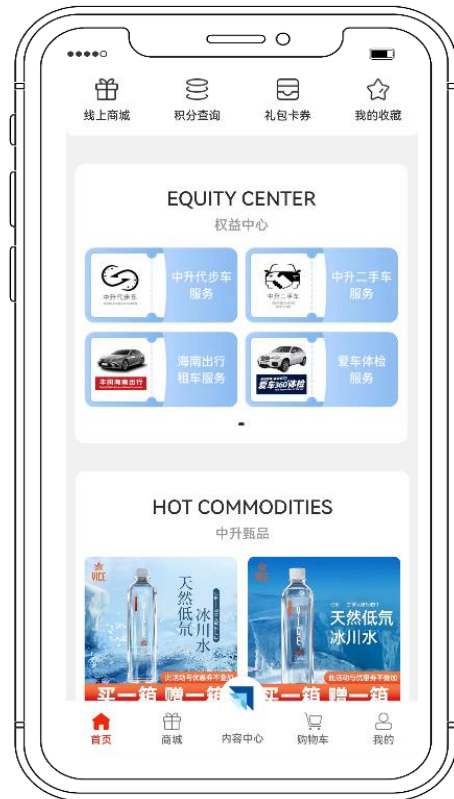
1.04mn

of members registered in the first 2 months of the launch of Zhongsheng GO¹

1. Launched on April 1, 2023, and data as of May 31, 2023

2. As of May 31, 2023

Creating the most valuable membership platform to build a "car owner ecosystem of people, car and life"



C: Zhongsheng takes customer experience to the next level from offline to omni-channel through WeCom and Zhongsheng GO

Acquiring customer data via WeCom

Increasing interaction frequency via paid subscription

User fission to capture lifecycle value of customers

Connecting with 5.04mn customers via WeCom



Expand connection with customer from vehicle only to the people and families by locking in IDs such as region, brand, and dealer store, etc.



Connect CRM centers with paid subscription members to achieve **one contact for long lasting relationship**

Creating Zhongsheng GO membership benefits to increase customer loyalty



All offline consumption is converted to points to build **"one point is worth one yuan" membership point system** for customer loyalty



Bring Hot Commodities to JD flagship store and allow customers to **enjoy platform partnership resources** e.g., insurers, banks and attractions, etc.

Expanding revenue sources through full lifecycle customer operation



Capture relevant needs of customers and their families based on user profiling for service opportunities



Attract/acquire more customers through cross-industry collaboration and connection with other membership systems, etc. **to expand Zhongsheng GO customer base**

From single aftersales touchpoint (repair shop) ...to digital, high-frequency, and full lifecycle customer operation

C: We aspire to make Zhongsheng GO the most valuable membership platform in auto services

Implication of the paid subscription membership system

A prerequisite to earn points



High stickiness: paid membership customers won't unsubscribe casually given the cost



More benefits: paid membership includes consumption benefits/equity that guide customer consumption



High frequency: paid members login Zhongsheng GO frequently, generating traffic and referral opportunities for the platform



High conversion: more targeted benefits/equity enabled by accurate calculation of paid membership data, resulting in higher conversion rate

Exclusive benefits for paid subscription membership

- 1 Any consumption is converted to points
- 2 Right to participate in flash sale of any time slots on the platform
- 3 Exclusive member birthday gifts and product customization services
- 4 Right to purchase hot commodities at better price, benefiting from the bargaining power of Zhongsheng
- 5 Right to use Zhongsheng courtesy car and car rental services, etc.

Other benefits coming soon...

Omni-channel customer operation case study: Zhongsheng Labor Day customer operation campaign



Campaign initiation

Time: 4.26-5.7, 2023

Platform: offline stores + Zhongsheng GO

Content: '125 yuan is worth 1250 yuan' for car purchasing and exclusive car booking

Consistent omni-channel marketing campaign strategy developed to reach customers via Zhongsheng GO and WeCom



Execution

Browsing, benefits application & usage, and write-off tracked to provide real-time feedback to frontline sales

Endorsed by Zhongsheng brand, the campaign reached customers directly without intermediaries



Impact achieved

21k units

Incremental orders received during the campaign

31%

YoY growth in new car order



Omni-channel customer operation case study: Zhongsheng GO 618 customer benefits campaign



May 31

New subscription customer benefits launched

- Promoting value-added business targeting at new car buyers
- Acquiring prospects to drive sales of new and used cars
- Driving business by sending cars of existing customers to repair shops to increase stickiness



Jun 12

Blind box lottery launched to repeatedly attract customers to the mini program, **attracting customer attention**



Jun 18

3 rounds of flash sale of hot selling products at floor price for members **via WeCom for customer access**



Note: a variety of online marketing activities are developed and launched, e.g., flash sale on reservation, blind box lottery as illustrated



Going forward, what can Zhongsheng GO achieve?

- 1 Targeting at **over 10mn high income families** to achieve transition from vehicle connection to people connection
- 2 Providing car owners with **full lifecycle services**
- 3 Expanding **Zhongsheng selected products** to serve paid subscription members with substantial quality services from Zhongsheng
- 4 Integrating **partnership resources** (insurers, banks, product suppliers and OEMs) to provide deals/services at cheaper price to customers via the platform



Long-term goal

Achieving **low-cost lead generation** and **high-value conversion** to boost Zhongsheng's auto services business



Agenda

- 1 Opening remarks
- 2 Market outlook and growth opportunities
- 3 Zhongsheng services as a brand: overview
- 4 Zhongsheng services as a brand: customer services
- 5 Zhongsheng services as a brand: collision centers**
- 6 Zhongsheng services as a brand: used car services

Current auto repair services suffer from 3 pain points

Poor service quality

- **Varying efficiency and quality of technicians**
- **Unstandardized service processes** leading to poor customer experience
- **Huge difference across brands** due to lack of consistent customer service standards

Low efficiency

- **Underutilized equipment and waste of resources** due to low insufficient throughput
- **Low work bay turnover rate** due to unreasonable layout of workshops
- **Technology development lagging behind the industry development**

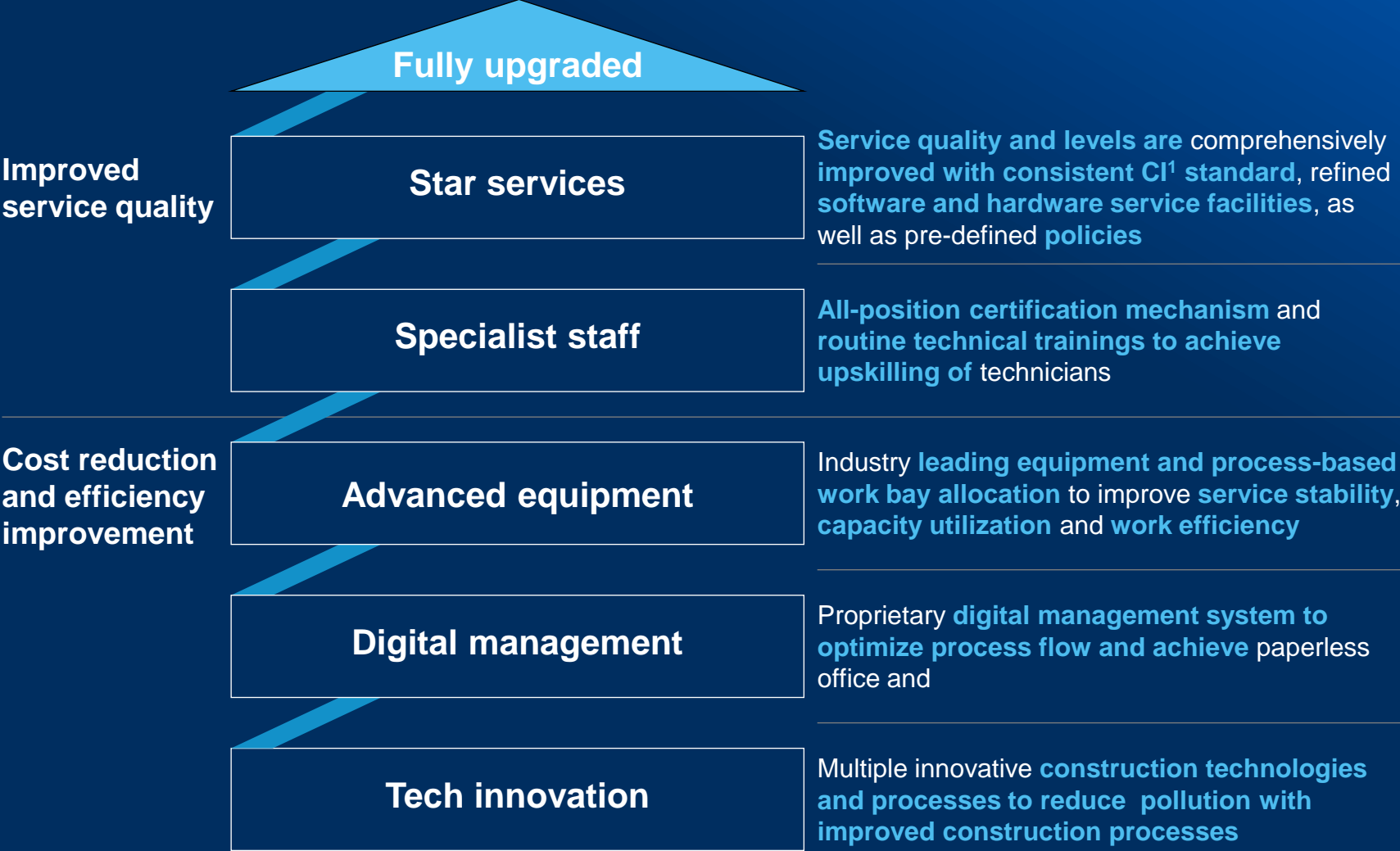
High cost

- **Lack of vehicle supply** given only new car brands are served, **making it difficult to achieve economy of scale**
- Increasingly higher **environment protection requirements** posed by government



Pain points of the traditional model

Zhongsheng collision centers have been fully upgraded, thanks to its unique resource advantages



Cozy lounge area



Certificates from CAs



All-weather assembly line operations



Digital management system



The first wash-free sprayer tech. in China

1. Corporate Identity

Zhongsheng collision centers build on the advantages of Zhongsheng Group, creating a natural moat



Core elements to build collision service centers



Land & capital

A large area of land and huge investment are needed, including buildings, equipment, training, etc., implying high threshold and difficulties in chain operation



Tech talent

Experienced technicians and managers are needed to guarantee service quality while **shortage of tech talent** is a common issue for all



Customer base

Sufficient vehicle supply is the prerequisite, or it will be difficult to sustain operation of collision centers



Highly efficient operation

Competitive **price, quality and service** from collision centers are needed vs competitors

VS

Zhongsheng's endowments and advantages



Leverage original store property to save land, fund, headcount and equipment cost



Centralize operations by **existing excellent technicians to adhere to** brand standards consistently and popularize advanced service and repair technologies



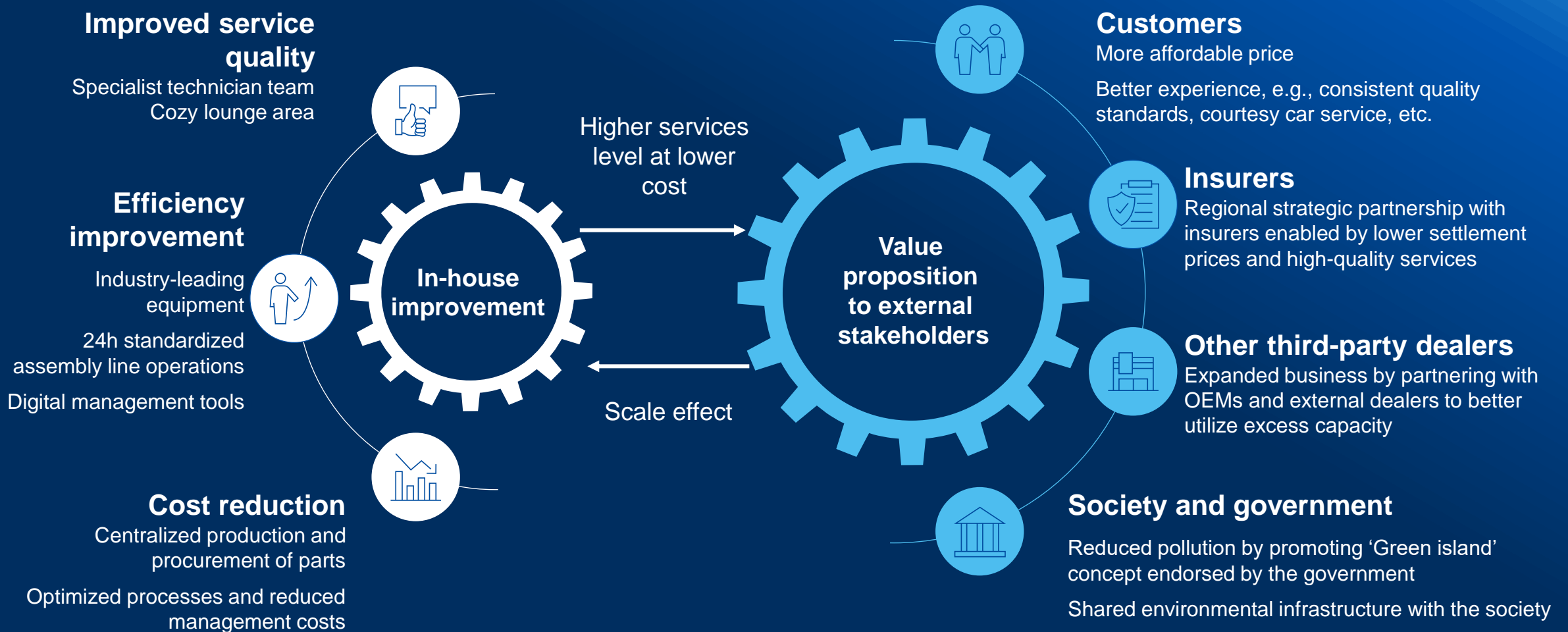
Stable supply of vehicles is ensured by Zhongsheng's 7+mn customers across over 400 dealer stores and supported by CRM centers and insurers



Scale effect associated with core cities and brand influence to create cost advantages, service quality, and quality assurance



Zhongsheng collision centers offer unique value propositions to all stakeholders, including customers, insurers, other third-party dealers and government



Case study:
Dalian collision
center



Dalian collision center has achieved significant impact from cost reduction and efficiency improvement, laying the foundation for rolling out the model at scale

Resources are integrated to achieve comprehensive improvement in digitalization and automation

- Centralized services to improve efficiency**
1 Focusing on body & paint repair services of 22 dealer stores in Dalian area
- Separation of three roles**
2 From 1 Service Advisor (SA) covering vehicle entry, damage assessment, and car delivery to 3 SAs working together (one from store, one from dispatch and the 3rd one from damage assessment)
- Digital full-process dashboard**
3 Proprietary APP system and PC back end developed to improve/accelerate service activities
- 7*24 automated operations**
4 Intelligent spraying robots working 7*24 hours
- Innovative environment friendly process**
5 Cutting edge technologies such as wash free sprayer, multi-color operations in a single drying room, and PPG water-based paint technology, etc.



Service efficiency improvement

- Vehicles repaired per month ~5,000
- Drying room utilization ▲3x¹
- Increase in the average daily painting area per person ▲38%¹



Cost reduction

- # of drying rooms ▼63%¹
- Headcount ▼36%¹
- Shop floor cost ▼30%¹

1. Zhongsheng Dalian accident vehicle repair service data before and after the collision center, i.e., Jan-Jun 2022 vs Jul-Dec 2022


There are 6 Zhongsheng collision centers currently. Our next strategic milestone is to expand to 100 and correspondingly double the accident car repair output value

Collision center footprint and planning



- Collision center 1.0
Modify based on current facilities
6 in operation and 9 being modified
- Collision center 2.0
Optimize layout and upgrade equipment
30 planned to cover core cities
- Collision center 3.0
Improve continuously to meet higher market demand and expand the business footprints
100


Strategic goals



Today

RMB 2.5bn

annual output value contribution



Target

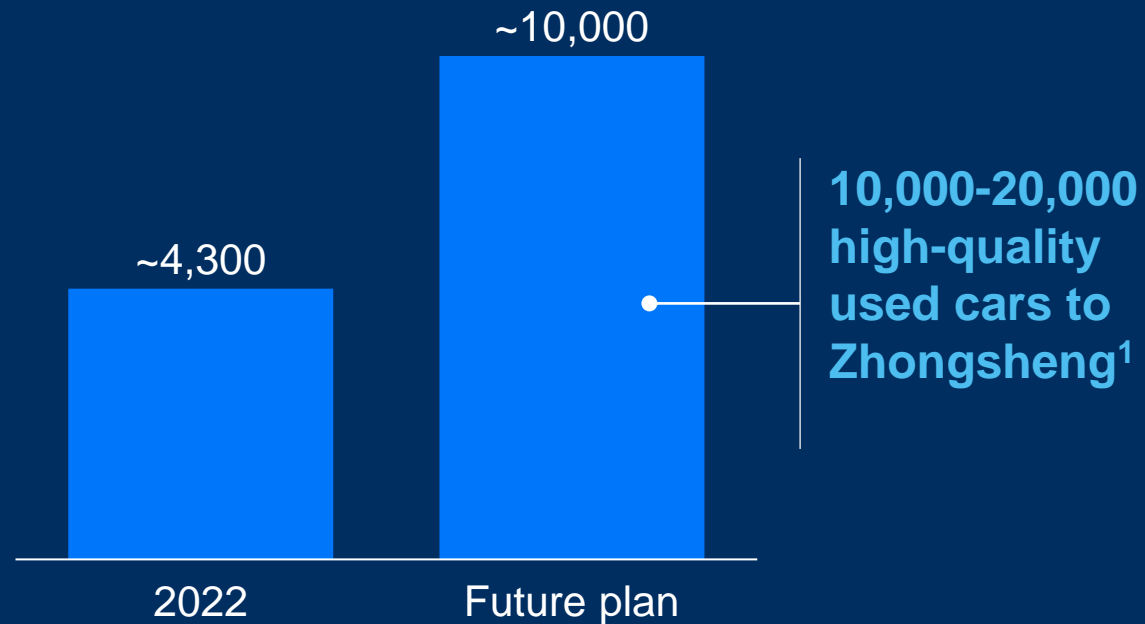
RMB 20bn

annual output value contribution of 100 collision centers

Courtesy cars will be a good source of vehicle supply to the used car business while enhancing customer experiences

Zhongsheng courtesy car business is expected to generate 10-20k high-quality used cars annually

of courtesy cars



1. # of used cars depends on the average retention time of courtesy cars, which is estimated to be 0.5-1 year





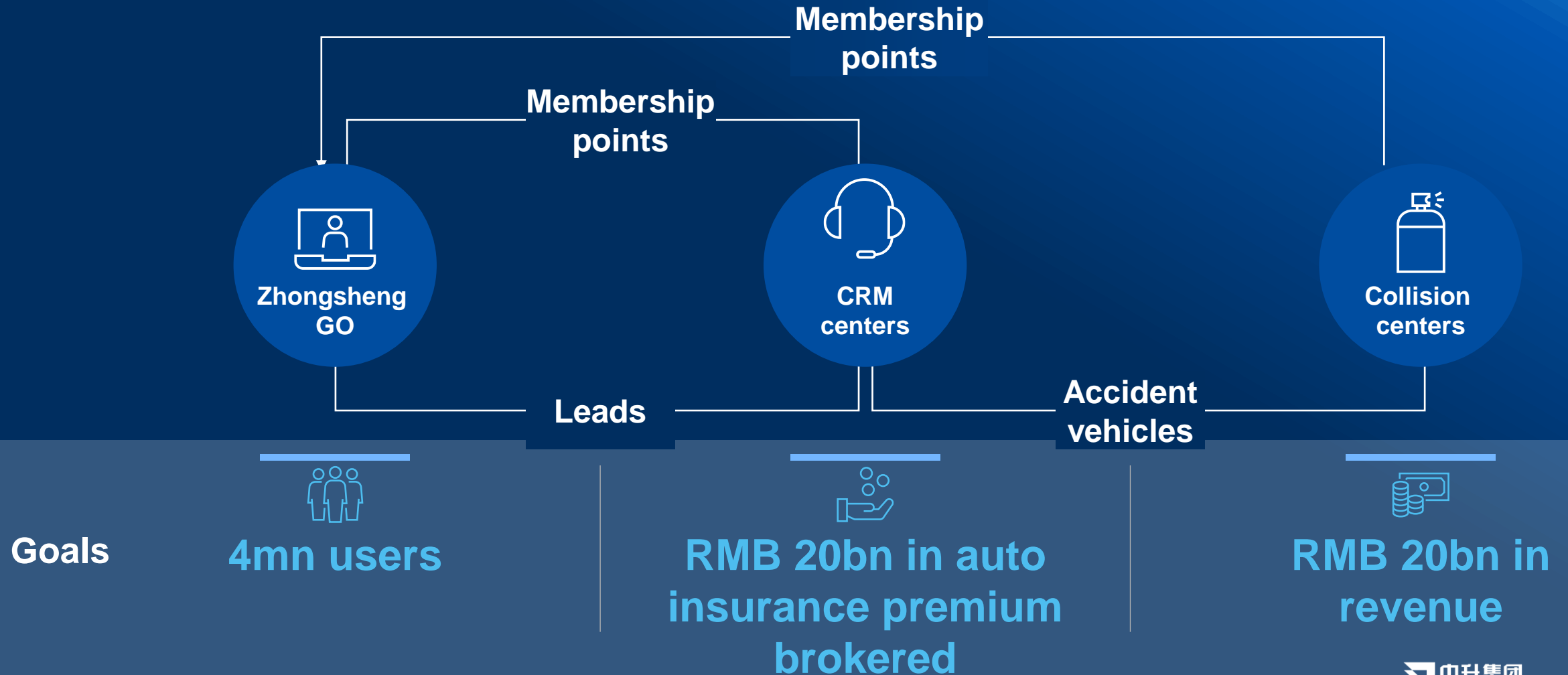
Zhongsheng collision center is aspired to create the most trusted service brand for quality consumers, and to build Zhongsheng after-sales ecosystem

Details to follow

What can Zhongsheng collision center achieve going forward?

- 1 **Higher quality services** to Zhongsheng customers, while satisfying broader **NEV aftermarket demand**
- 2 Serving cities where collision centers are located with **standardized and specialist services at scale**
- 3 **Cross-platform collaboration** to meet higher service demand thanks to the partnership with insurance companies and to achieve **higher profit**

Collision centers, CRM centers and Zhongsheng GO form a closed business loop



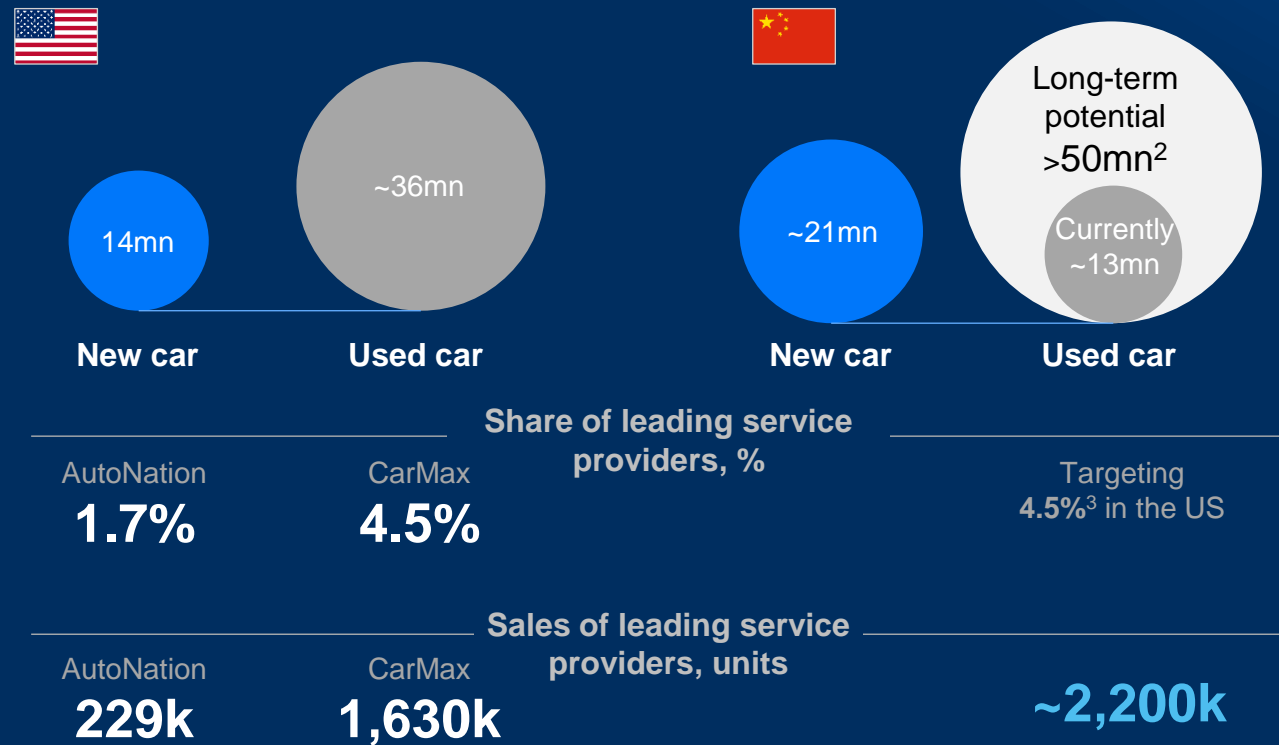


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We believe used car market in China will see a brand that sells more than 1mn cars

As used car market in China matures overtime, sales of a leading brand is expected to reach 2.2mn units¹ when used-to-new ratio is close to that of mature market



Key success factors of becoming a leading used car brand



Used car acquisition

Broad access to used cars that provides consumers with abundant yet and high-quality choices



Precision pricing

Big data analytics enabled precision pricing system



Sales and distribution

Hassle-free after-sales services, wide regional coverage, omni-channel retail capabilities

1. Based on new and used car sales and sales of leading service providers in China and the US in 2022
2. Assuming the used-to-new ratio in China reaches that of the US
3. Assuming the market share of used car business of leading service providers reach the same level in the US

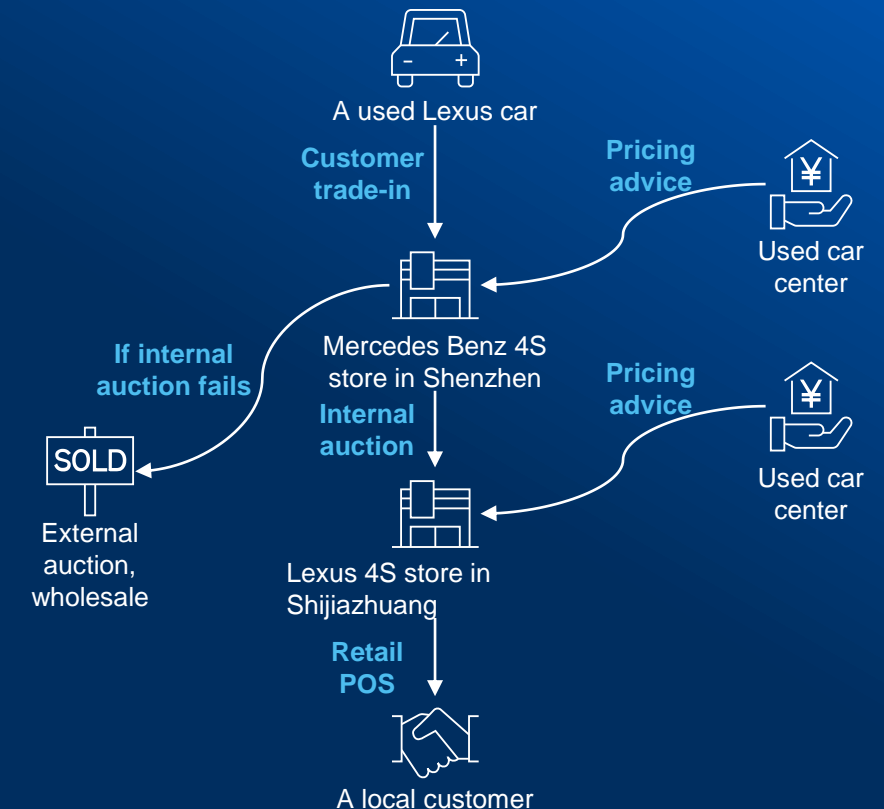
Sources: China Automobile Dealers Association; IHS Markit; CarMax Annual Report 2022; AutoNation Annual Report 2022

To capture the opportunities, Zhongsheng adopts the industry-leading UCC¹ model

In May 2022, Zhongsheng transformed the traditional decentralized operating model to the UCC model that sells used cars from multiple brands with specialized teams



How a used car is distributed under the UCC model



1. UCC (used-car command center)

Zhongsheng UCCs leverage their own endowments and make breakthroughs and innovations in used car sourcing, precision pricing and sales/distribution

Zhongsheng has set up UCCs in 11 cities



A Used car sourcing



Broad access to high-quality used cars

2C channel: **trade-in, customer engagement** (e.g., Zhongsheng Go membership program)
2B channel: **replacement cars at repair service center, rental fleet, replacement fleet procurement**

Digital and centralized management

Clarify the **right and responsibility split** between UCC and dealer stores and drive **process digitization** to build expertise and reduce margin leakage caused by off-record transactions

B Precision pricing



Specialized team

Set up **specialized pricing team** to define precise prices, control risks and provide counseling to transactions

Big data algorithm

Leverage **huge amount of vehicle, user and price data** as well as **advanced algorithms** to build technical barrier

C Sales and distribution



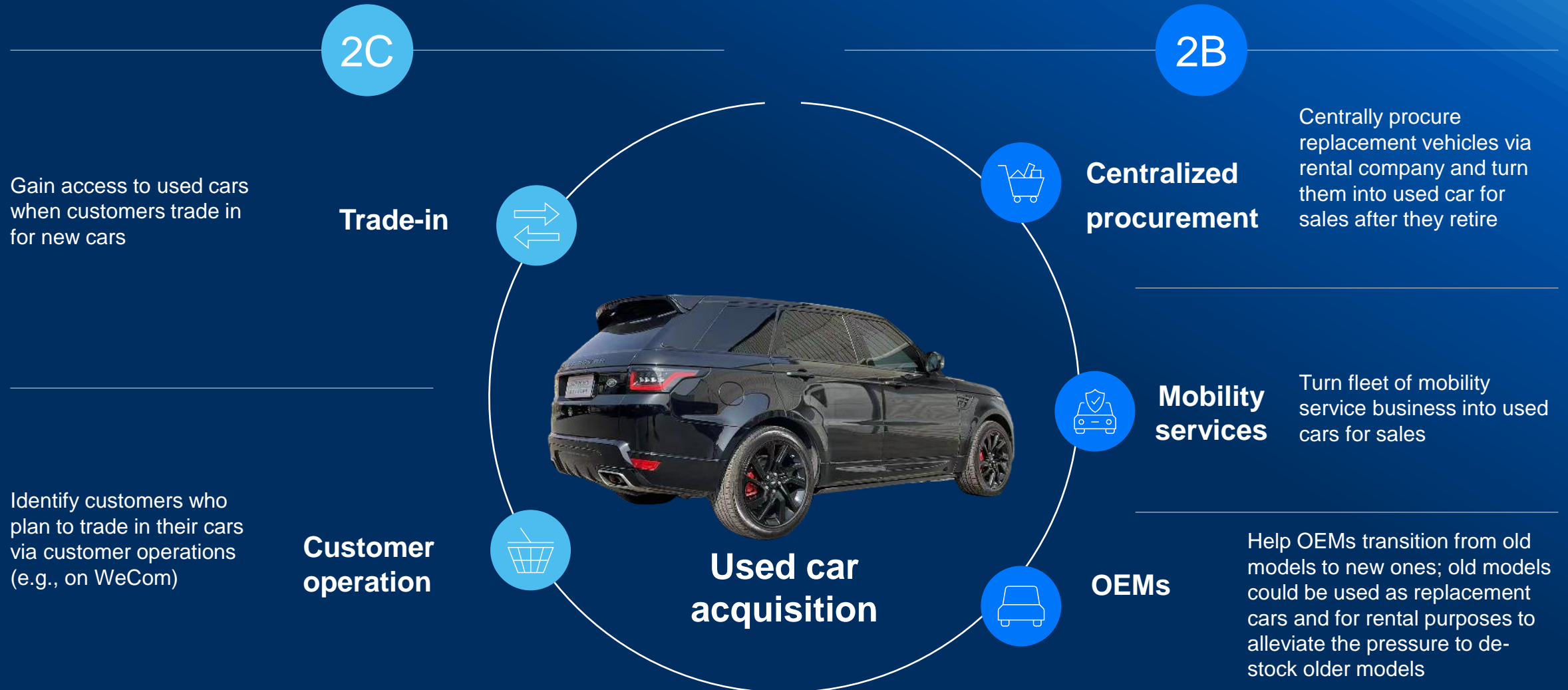
Internal transfer

Effectively match buyers and used cars with **internal auction across the nation** to maximize profit margin and improve turnover efficiency

Omni-channel sales

Market on new media platforms like **TikTok**, and **collaborate with** other brands and **collision centers** ("hassle-free after-sales")

A: Used car sourcing: Zhongsheng builds broad access to high-quality used car sources and captures synergies with other business units within the group



B: Precision pricing: Zhongsheng builds industry-leading pricing capabilities with a specialized pricing team and big data analytics



Specialized pricing team

Support quotation and negotiation process

Region and brand specialization

Assign dedicated pricing professionals by brand and region to improve pricing accuracy

100 pricing professionals

Select competent pricing professionals from 400 dealer stores

>6 years of experience

Experience in valuation, pricing, sales negotiation and end-to-end management, with familiarity with regional markets and brands



Big data analytics model

Inform decision-making

Proprietary data of 500k transactions

Include price and vehicle information of all used car transactions in Zhongsheng since 2019

Access to 3rd party database

Cooperate with Youxinpai.com (online auction platform) to keep track of market transaction prices, car specs and conditions, etc.

Intelligent used car price prediction

A used car price prediction model based on machine learning algorithms will go live within this year to further improve the accuracy and foresight of valuation

C: Sales and distribution: Zhongsheng builds its used car brand via four key levers

Zhongsheng's used car sales mechanism

Used car sources

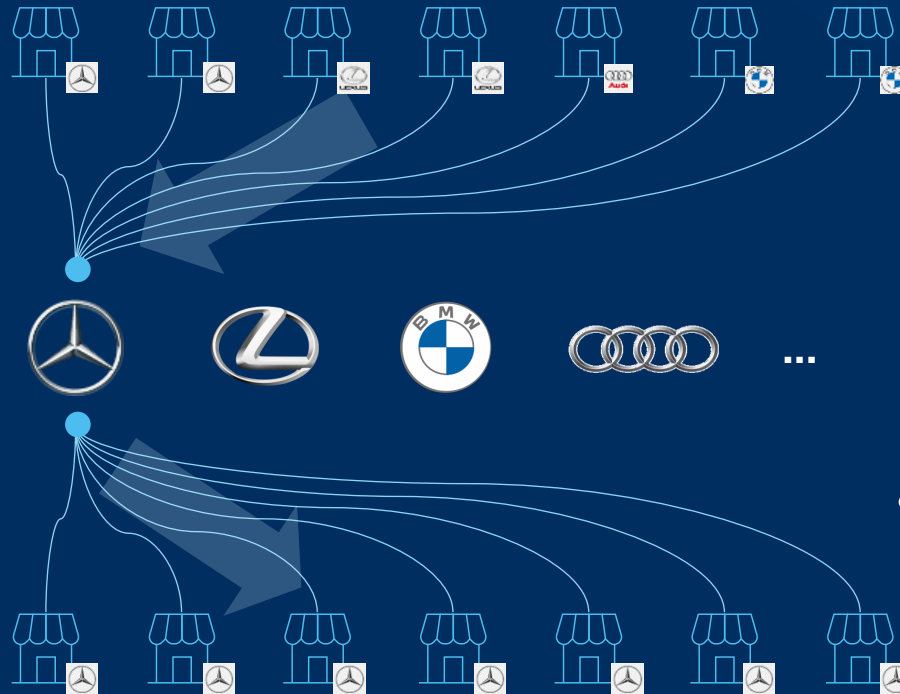
Store 1 Store 2 Store 3 Store 4 Store 5 Store 6 Store N

Internal transfer

(Take Mercedes Benz as an example)

Car sales

Store 1 Store 2 Store 3 Store 4 Store 5 Store 6 Store N



Key levers

- 1 Wide regional coverage with scale advantage**
Build regional “big stores” based on broad access to used cars and an efficient internal auction mechanism (bidding premium 7,200 RMB/unit¹)
- 2 Hassle-free after-sales to build trust**
7-day unconditional return/exchange, exceptional service provided by Zhongsheng collision centers
- 3 Omni-channel operation**
Attract customer traffic via short video platforms and divert to offline stores for conversion
- 4 Brand collaboration**
Collaborate with automotive vertical media platforms to strengthen brand influence

1. Bidding premium = car transaction price - starting bid; data from Feb. 2023 - May 2023, internal starting bid must not be lower than the suggested price provided by UCC

Case study: Zhongsheng Mercedes-Benz Nanjing



Store initiatives



Used car sourcing

Gain access to high-quality used cars via **internal auction and scale advantage**

- 50% of used cars are acquired from internal auction
- With its scale advantage and trust-based relationship with customers, the store has 15-20% market share in Nanjing

Sales uplift

“Fixed” price + “used car new retail” model

- The “fixed” price regime is well received by customers, bringing 10% additional sales every month
- Assign 2 FTEs for new media marketing; 50% of leads come from TikTok

Group support

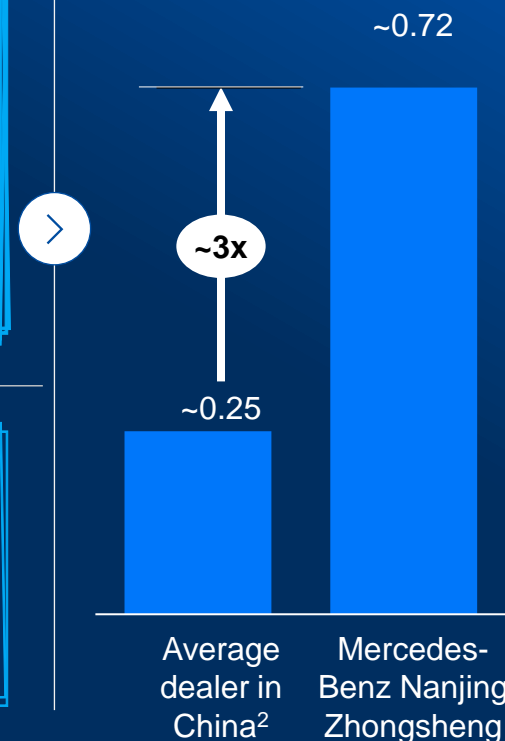


Cross-region distribution + pricing support

- Set up the cross-region internal auction and distribution mechanism
- UCC tailor prices for different brands and inform “fixed” prices

Monthly sales in 2023 reaches **200 units** (RMB **9,600** gross margin per unit) with a used-to-new ratio of **0.72**

Used car sales/new car sales



1. Sales volume, used-to-new-ratio and gross margin are based on Apr 2023 data

2. Ratio of used to new car sales for listed car groups in China, 2021

Zhongsheng's strategic vision:

To become the most trusted auto service brand for premium consumers in China

To build a household name for auto services for the upcoming 130mn high-income families in China



Next strategic milestones

100

No. of Collision Centers

+100%

Revenue of car accident repair

1.0

Used-to-new vehicle sales ratio