



Arcos Group

Sample Corporate Strategy Document

Client: *HNW Investor*

Industry: *automotive finance*

Scope: *pro-forma scenario modeling + investor presentation development*

DECEMBER 2022


Agenda

Market overview and opportunity

Business model and financial projections

The auto industry is undergoing a period of significant disruption, with wide-spread impact across the market

Technology trends




Electrification

- Battery electric and hybrid vehicles
- Growing role of infotainment in differentiating vehicles




Connectivity

- Integration of 3rd party services
- Over-the-air updates



Autonomous driving

- Active safety features (e.g. automatic braking)
- Self-driving vehicles



Shared mobility

- Ride share apps (e.g. Uber, Lyft, Via)

Market impacts (non-exhaustive)



Stock price

- Market cap of Tesla larger than GM and Ford




Auto retailers (dealers)

- EV consumers increasingly expect vehicle servicing to be performed “virtually,” with no dealer visit



Mobility customers

- 25% of 16-year-olds have a drivers license in 2014, down from 46% in 1983



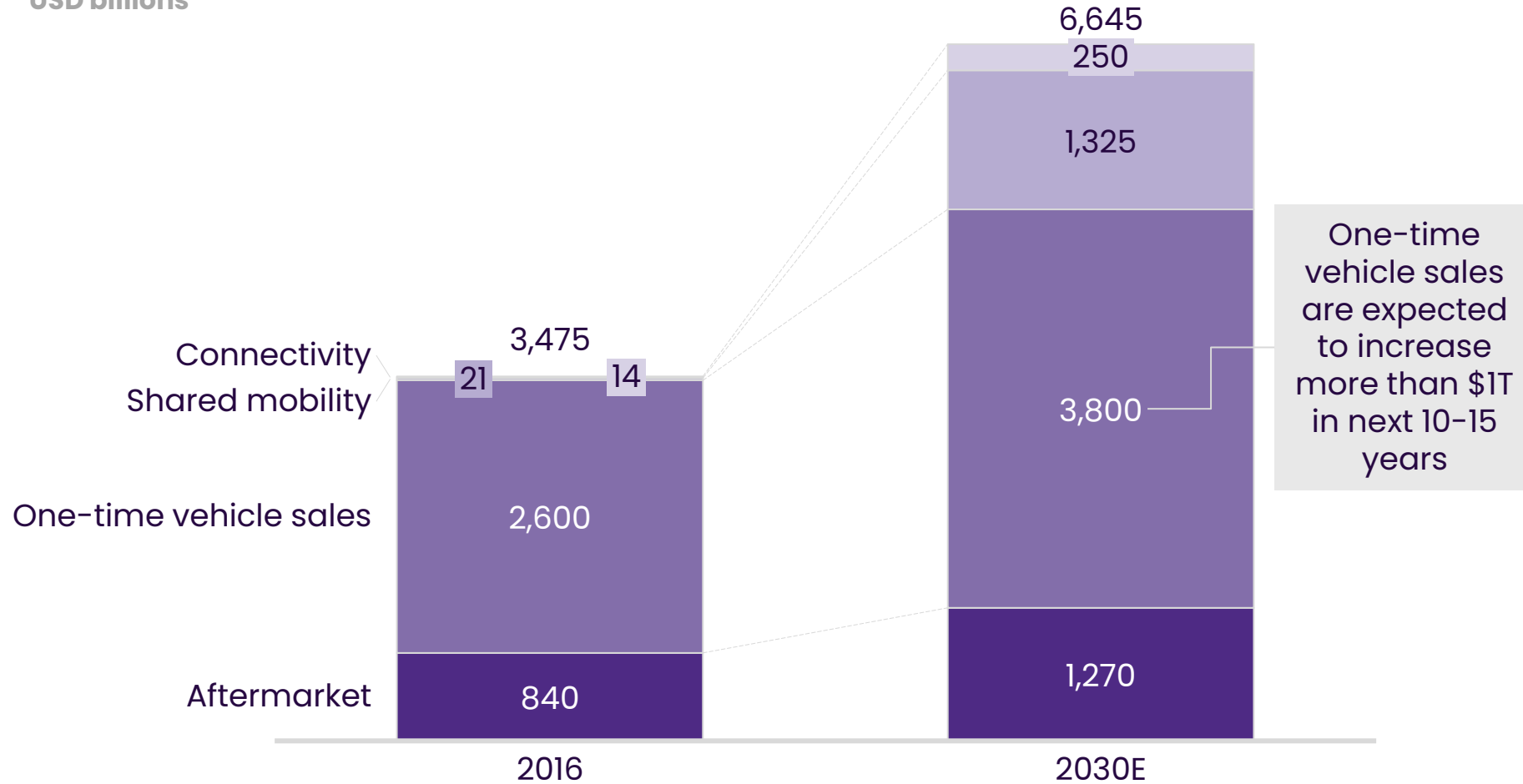
OEMs

- Up to 25% of auto revenue will be generated through disruptive technologies by 2030

While revenue growth will flow to innovative business models, one-time vehicle sales are expected to remain big business, totaling nearly \$4T by 2030

Global automotive revenue

USD billions



Client believes one-time vehicle sales revenue will remain stable, or even grow in the secondary (pre-owned) market

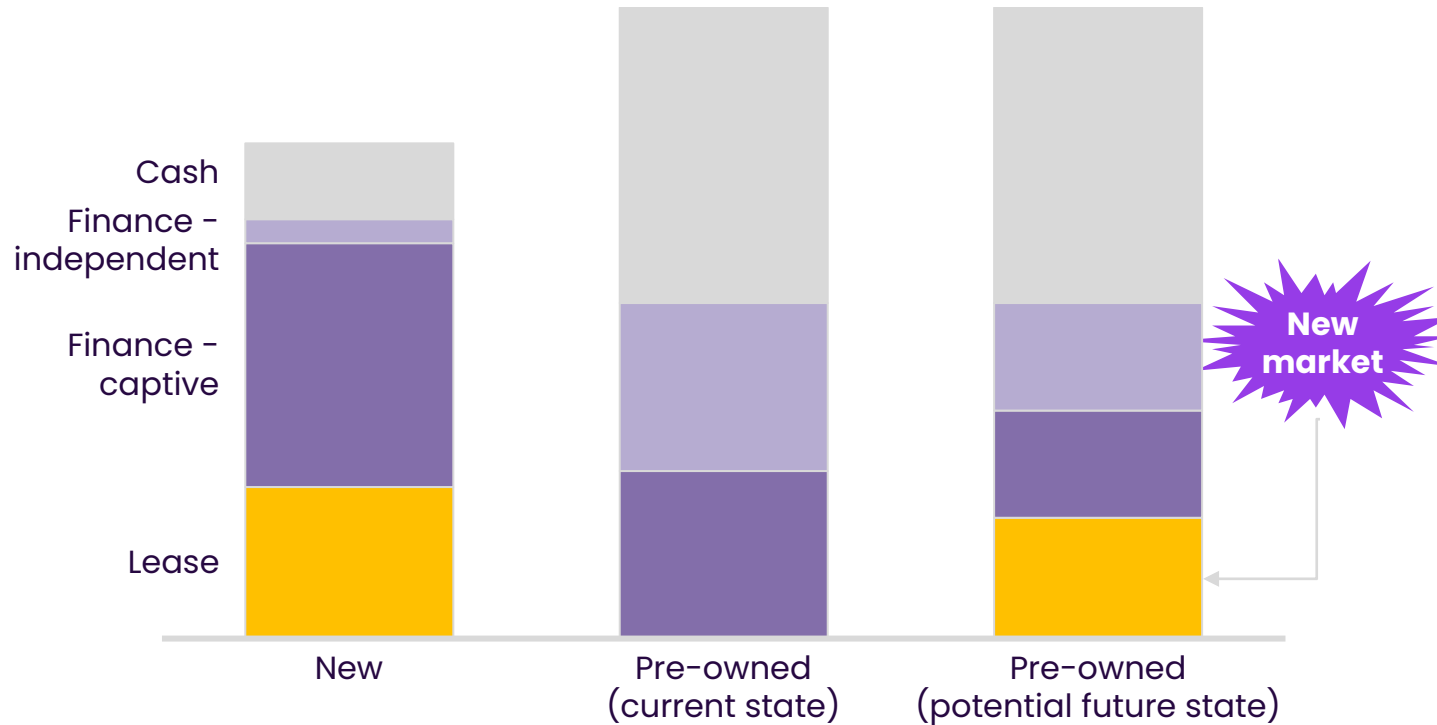
Trend	Supporting evidence	Why it matters
Vehicles are lasting longer	<ul style="list-style-type: none">▪ Average age of vehicle has increased every year since 2002, reaching a record high in 20XX (10 years)▪ EV's have even longer lifespans and are expected to gain share	<ul style="list-style-type: none">▪ Longer lifespans will increase the number of pre-owned vehicles available in the market, potentially driving more attractive pricing
Ride-sharing is most popular with the affluent	<ul style="list-style-type: none">▪ Educated, affluent Americans have adopted ride sharing at double the rate of those who make less than \$35,000 per year	<ul style="list-style-type: none">▪ Shared mobility poses increased risk to new car sales to the affluent, suggesting share could shift to used vehicles
Vehicles are becoming more expensive	<ul style="list-style-type: none">▪ Average price of a new vehicle has increased from 10% of average income to over 60% of annual income for average American	<ul style="list-style-type: none">▪ As new vehicles become more expensive on relative basis, consumers are increasingly likely to consider pre-owned vehicle

Client believes one-time vehicle sales will continue to grow for the foreseeable future, potentially with share migrating to the pre-owned market

Client believes pre-owned vehicle leasing will resonate with customers, representing an untapped \$XXXB opportunity in the market

20XX vehicle sales overview

USD billions



Insights

- Pre-owned volume purchased with cash are likely unaffected by Client:**
 - Cars do not qualify for debt-financing
 - Cash purchasers are not attracted to flexibility offered by leasing
- New vehicle consumer preferences are likely comparable to pre-owned vehicle preferences:**
 - Given option to lease, pre-owned vehicle customers would consider leasing

Client believes lease penetration could mirror that of the new vehicles market, suggesting a total addressable market (TAM) of \$XXXB+

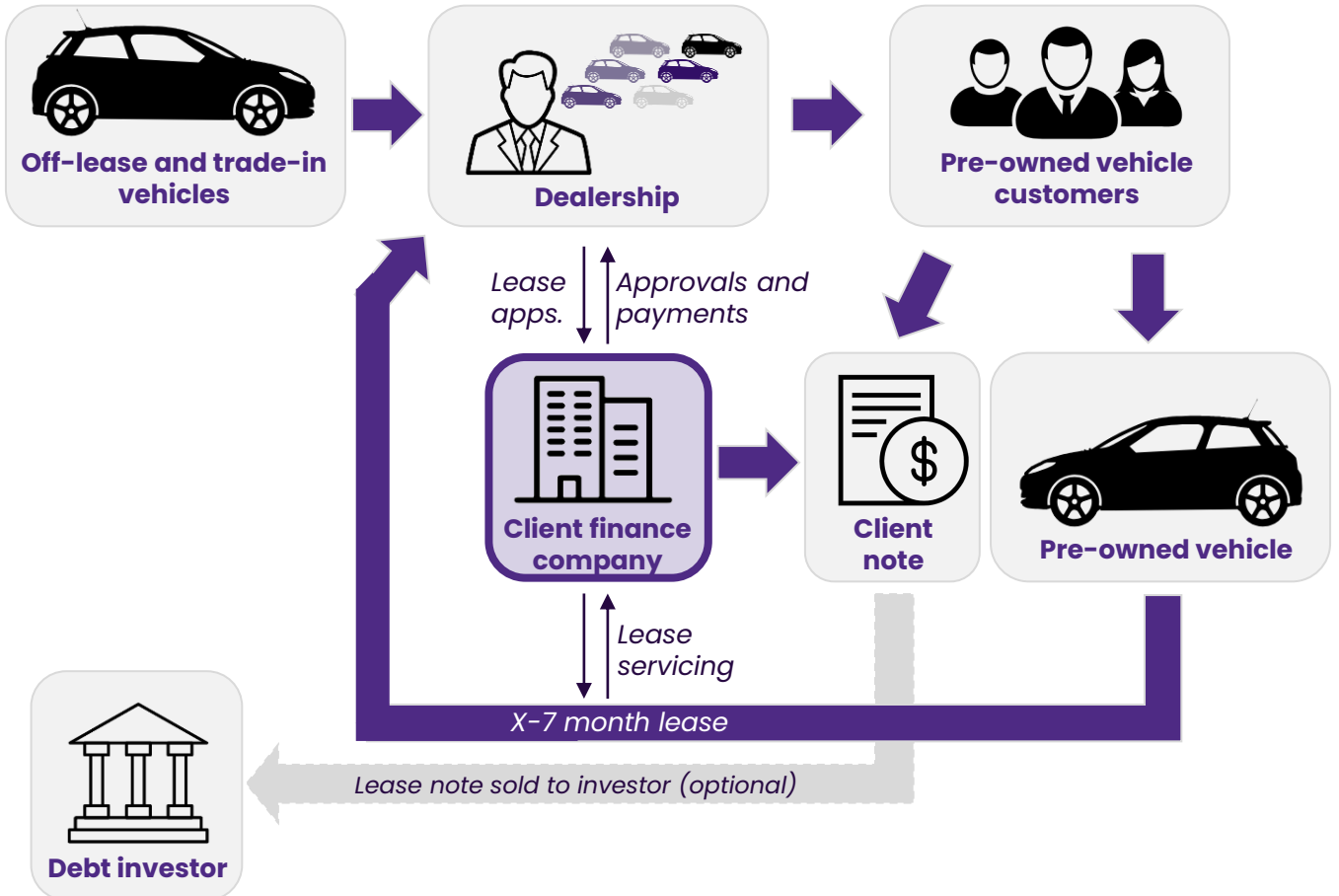
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Business model overview

Business model overview



Insights

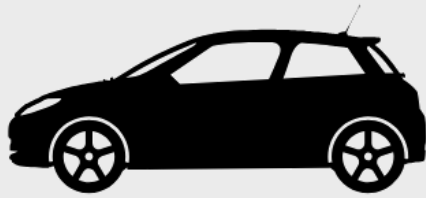
Advantages

- Client captures lease servicing fees and spread between collections and cost-of-capital once scale is achieved
- Client does *not* need to own inventory or a retail footprint

Disadvantages

- Client is unlikely to capture retailer's margin
- Lessees have Segment 1 credit
- Vehicle quality unknown

Client will offer x-y month vehicle leases to consumers in segment 1 and segment 2



Pre-owned vehicles

Luxury and economy vehicles with high residual values

A



Segment 1 and Segment 2 customers

FICO x-y consumers with limited access to new vehicle lease financing

B



Auto leasing





X-y month lease term at a-b% APR

C

A Client will target Toyota CUVs and sedans in economy and luxury segments

Sedan

Truck / CUV

Economy	
Vehicle	Buy vs. lease ¹
 Toyota Corolla	\$14-16k vs. \$260-340/mo
 Toyota Camry	\$17-19k vs. \$260-350/mo
 Toyota RAV4	\$20-22k vs. \$300-410/mo
 Toyota Tacoma	\$28-30k vs. \$380-560 /mo

Luxury	
Vehicle	Est. payment ¹
 Lexus IS-350	\$31-33k vs. \$480-650/mo
 Lexus ES-350	\$27-29k vs. \$460-600/mo
 Lexus NX-300	\$36-38k vs. \$600-800/mo
 Lexus RX-350	38-40k vs. \$800-995/mo

¹ Estimated based on Manheim MMR retail clean, 36 month lease, \$2,500 down payment, 10-19% APR






B Client will target Segment 2 and Segment 1 consumers**Average auto loan rates**

	FICO score	Pre-owned		New	
		Loan	Lease	Loan	Lease
Segment 4	A-B	2%	3% est.	4%	5% est.
Segment 5	B-C	3%	4% est.	5%	6% est.
Segment 2	C-D	4%	5% est.	6%	7% est.
Segment 1	D-E	5%	6% est.	7%	Unavailable
Segment 0	E-F	6%	7% est.	8%	Unavailable

Notes

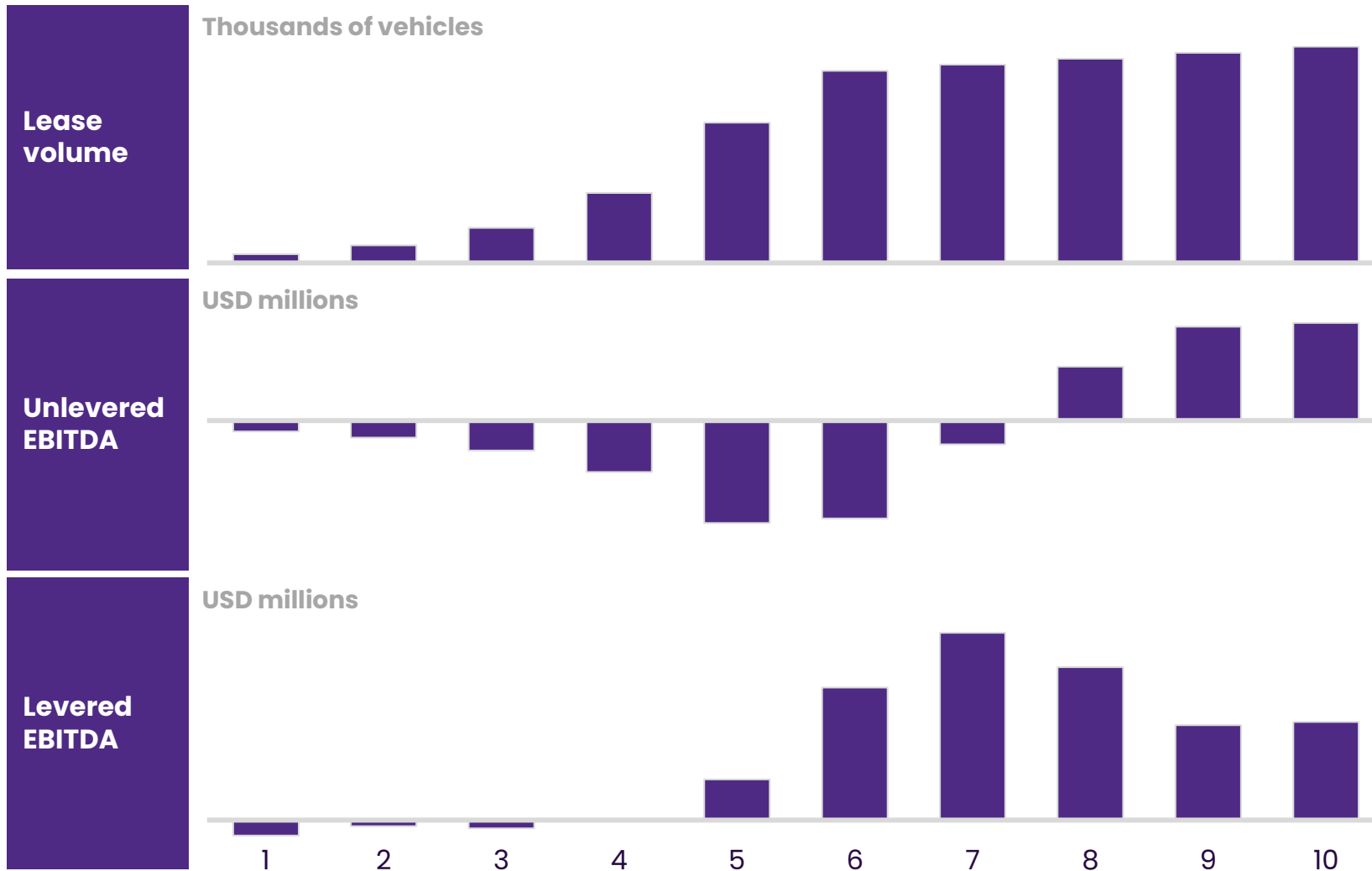
- Interest rates can vary significantly within a FICO band for both retail loans and leases
- Effective APR for pre-owned, Segment 1 leasing is not well understood. Without OEM support, it is likely that effective rate is similar between loan and lease

C Client believes its offering will resonate with Segment 1 consumers, offering the flexibility of leasing at a price comparable to a X month pre-owned loan

	Client pre-owned, lease	Pre-owned, 60 mo. loan	Pre-owned, 72 mo. loan	Pre-owned, 84 mo. loan
	 			
Vehicle description	<ul style="list-style-type: none"> 2016 Toyota Corolla LE 4-door, auto trans 36k miles 3 years old 	<ul style="list-style-type: none"> 2016 Toyota Corolla LE 4-door, auto trans 36k miles 3 years old 	<ul style="list-style-type: none"> 2016 Toyota Corolla LE 4-door, auto trans 36k miles 3 years old 	<ul style="list-style-type: none"> 2016 Toyota Corolla LE 4-door, auto trans 36k miles 3 years old
Pricing	<ul style="list-style-type: none"> Acquisition: \$15,550 Residual: \$XXXX 	<ul style="list-style-type: none"> \$15,550 	<ul style="list-style-type: none"> \$15,550 	<ul style="list-style-type: none"> \$15,550
Up front payment	<ul style="list-style-type: none"> \$2,500 	<ul style="list-style-type: none"> \$2,500 	<ul style="list-style-type: none"> \$2,500 	<ul style="list-style-type: none"> \$2,500
Financing terms	<ul style="list-style-type: none"> 7% (FICO A-B) A months 12k mi/year 	<ul style="list-style-type: none"> 8% (FICO B-C) B months 12k mi/year 	<ul style="list-style-type: none"> 9% (FICO C-D) C months 12k mi/year 	<ul style="list-style-type: none"> 10% (FICO D-E) D months 12k mi/year
Recurring payments	<ul style="list-style-type: none"> \$... 	<ul style="list-style-type: none"> \$... 	<ul style="list-style-type: none"> \$... 	<ul style="list-style-type: none"> \$...

Client anticipates EBITDA of \$A-BM at x/year lease origination volume

10 year pro-forma: cash flow



Key assumptions

Lease volume

- 65% FICO A-B
- 25% FICO B-C
- 10% FICO C-D
- Starting volume: 50 veh/mo

Growth

- Years 1-5: 100% annual growth
- Years 6-10: 3% annual growth

Default rate

- FICO A-B: X%
- FICO B-C: Y%
- FICO C-D: Z%

APR rate

- FICO A-B: X%
- FICO B-C: Y%
- FICO C-D: Z%

Client believes its business model will remain profitable even in stressed scenarios

Sensitivity analysis: year 10 EBITDA											
	Attribute 1										
#####	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
2.5%	41,419,154	32,177,218	22,965,155	13,534,739	4,050,301	(5,545,728)	(15,242,609)	(25,079,082)	(35,089,233)	(45,287,867)	(55,686,770)
5.0%	70,592,427	60,689,193	50,784,394	40,646,197	30,436,837	20,094,084	9,630,779	(995,385)	(11,824,176)	(22,872,826)	(34,155,994)
7.5%	99,792,873	89,227,726	78,629,545	67,782,908	56,847,952	45,757,780	34,527,336	23,110,746	11,462,552	(436,905)	(12,605,162)
10.0%	129,019,487	117,791,832	106,499,648	94,943,936	83,282,735	71,444,474	59,446,202	47,238,478	34,770,147	22,019,122	8,964,981
12.5%	158,271,294	146,380,562	134,393,777	122,128,378	109,740,305	97,153,311	84,386,550	71,387,010	58,097,834	44,494,506	30,553,718
15.0%	187,547,360	174,993,000	162,311,037	149,335,364	136,219,816	122,883,468	109,347,581	95,555,567	81,444,866	66,988,530	52,160,359
17.5%	216,846,782	203,628,265	190,250,569	176,564,054	162,720,452	148,634,153	134,328,524	119,743,405	104,810,524	89,500,499	73,784,237
20.0%	246,168,690	232,285,507	218,211,544	203,813,642	189,241,428	174,404,601	159,328,640	143,949,807	128,194,115	112,029,746	95,424,710
22.5%	275,512,250	260,963,909	246,193,166	231,083,351	215,781,986	200,194,079	184,347,216	168,174,083	151,594,972	134,575,629	117,081,163
25.0%	304,876,657	289,662,686	274,194,667	258,372,433	242,341,401	226,001,879	209,383,567	192,415,569	175,012,454	157,137,531	138,753,002
27.5%	334,261,139	318,381,083	302,215,311	285,680,172	268,918,972	251,827,323	234,437,033	216,673,628	198,445,946	179,714,857	160,439,657
30.0%	363,664,953	347,118,373	330,254,390	313,005,876	295,514,029	277,669,757	259,506,982	240,947,646	221,894,854	202,307,036	182,140,579

Sensitivity analysis: levered IRR											
	Attribute 1										
78%	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
2.5%	18.5%	14.3%	9.6%	(2.8%)	#NUM!	#NUM!	#NUM!	#NUM!	#NUM!	#NUM!	#NUM!
5.0%	36.4%	34.0%	32.5%	30.7%	27.4%	24.7%	21.2%	14.0%	#NUM!	#NUM!	#NUM!
7.5%	48.8%	46.9%	45.9%	44.8%	42.4%	41.0%	39.5%	36.3%	33.6%	29.2%	25.1%
10.0%	59.2%	57.4%	56.6%	55.8%	53.7%	52.7%	51.6%	49.0%	47.0%	43.9%	41.9%
12.5%	68.3%	66.6%	65.9%	65.2%	63.3%	62.4%	61.6%	59.2%	57.3%	54.6%	53.2%
15.0%	76.7%	75.1%	74.5%	73.8%	71.9%	71.2%	70.4%	68.2%	66.2%	63.6%	62.5%
17.5%	84.7%	83.0%	82.5%	81.9%	80.0%	79.3%	78.5%	76.4%	74.2%	71.8%	70.7%
20.0%	92.3%	90.6%	90.1%	89.5%	87.6%	86.9%	86.2%	84.1%	81.8%	79.3%	78.3%
22.5%	99.7%	98.0%	97.5%	96.9%	95.0%	94.3%	93.6%	91.5%	88.9%	86.5%	85.5%
25.0%	106.9%	105.2%	104.7%	104.1%	102.2%	101.5%	100.8%	98.6%	95.8%	93.4%	92.4%
27.5%	114.0%	112.4%	111.8%	111.2%	109.2%	108.5%	107.8%	105.6%	102.5%	100.1%	99.1%
30.0%	121.1%	119.4%	118.8%	118.2%	116.2%	115.5%	114.7%	112.5%	109.1%	106.7%	105.6%

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