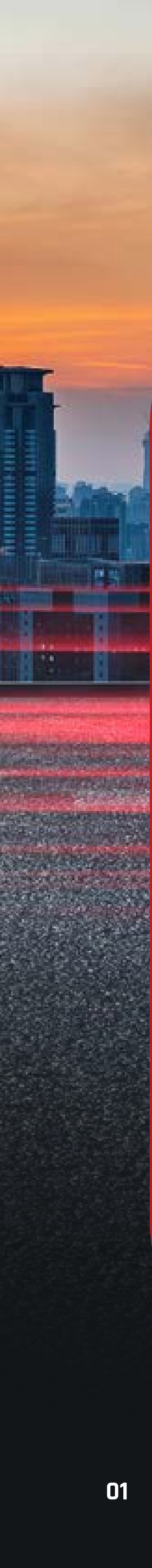
BERYLLS BY ALIXPARTNERS INSIGHT

QUO VADIS CHINA 2025

China's winning formula for intelligent and connected vehicles



China's automotive industry in 2025 will continue to be defined by fierce domestic competition, relentless innovation, and aggressive price cutting. Led by brands such as BYD, XPeng, and Geely, Chinese automakers are pushing the boundaries of technology and affordability and challenging the dominance of international OEMs and suppliers.

Market dynamics have shifted, with declining market shares for foreign players, as Chinese companies dominate the electric New Energy Vehicle (NEV) segment and introduce features tailored to domestic preferences. These developments pose critical questions for international OEMs' head offices about how to adapt, compete, and remain relevant in the world's largest automotive market, where domestic NEV players are already designing, building and selling a new generation of intelligent and connected vehicles (ICVs).

This report explores the strategies that foreign automakers and suppliers must consider to navigate these challenges and maintain their footing in China's increasingly localized and innovation-driven landscape.

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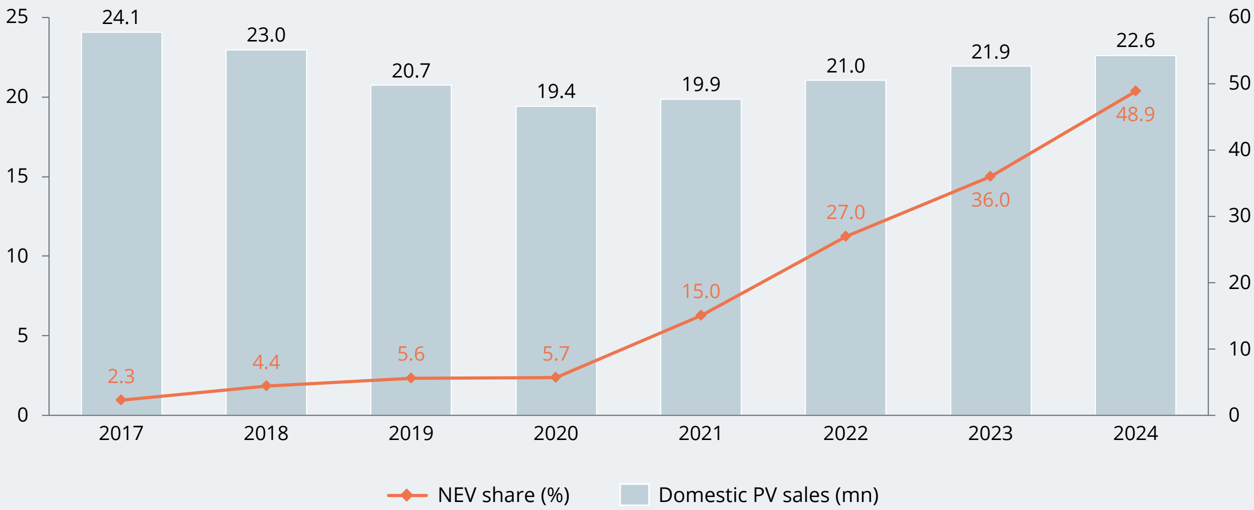
PART 1

LOOKING BACK ON 2024

In 2024, 22.6 million passenger vehicles were sold in China, a year-on-year (YoY) increase of 3.1%. The total market share of NEVs reached 48.9%, compared with 36% in 2023.

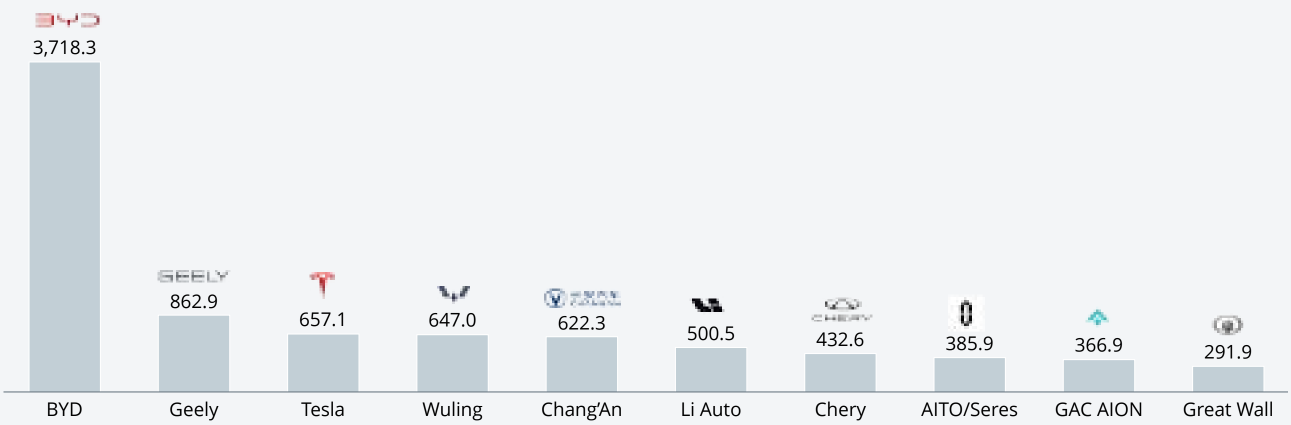
NEW PASSENGER VEHICLE (PV) SALES IN CHINA 2017-24



Unsurprisingly, the best-selling NEV brands in 2024 were BYD, Geely and Tesla, which respectively sold around 3.72 million, 860,000 and 660,000 vehicles. Overall, Chinese brands accounted for approximately 90% of all domestic NEV sales.

Source: Berylls, CAAM, CPCA

DOMESTIC NEV SALES – TOP 10 OEMS ('000 UNITS)



Meanwhile, Germany's premium auto brands did not perform well in China last year. Mercedes sold around 680,000 units, down 7.3% compared with 2023; BMW sold 714,000 units, down 15.6%; and Audi's annual China sales fell 10.9% to 683,000 units. All figures including NEVs.

As for used cars, China's market recovered well in 2024, with total transactions rising 6.5% year-on-year to 19.61 million units. Used NEV sales also increased significantly, with annual transactions exceeding 1 million units.

Four qualitative market trends dominated China's passenger vehicle landscape in 2024:

- **Price markdowns**
- **Tech "overload" for both smart and traditional features**
- **Focus on comfort and user experience**
- **Dominance of Chinese OEMs**

The combined impact of these trends is that Chinese cars now have their own special characteristics which diverge substantially from those of international OEMs.

Source: Berylls, CPCA

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Price markdowns

The continuing downward price spiral has brought multiple challenges and pressures to China's automotive industry, which permeate the entire value chain. As in 2023, vehicle sales prices continued to slide, with discounts on manufacturers' suggested retail prices (MSRPs) running rampant across all domestic and international OEMs in China, including legacy and new players. At the time of writing in early 2025, a new round of industry-wide discounts have just been triggered.

As a result, dealers are experiencing widespread losses, and in many cases, the financial strain is increasingly threatening their survival. The cumulative impact of all the MSRP discounts over the past two years has been to lower massively the baseline for vehicle pricing. Currently, premium vehicles in China have never been so cheap, with brands such as ZEEKR, Denza, IM and DeepAI only costing between €30–35,000. Significant markdowns have also been passed on by OEMs to suppliers. Low profitability, extended capital turnover periods, and frequent requests by manufacturers for price reductions are piling the pressure on China's automotive suppliers.

Tech "overload"

Despite the falling prices, Chinese vehicles are now packed more than ever before with tech and "smart" functions, which are one of their key tools to outcompete other brands. This increasingly intense tech rivalry is seen in multiple areas, notably:

- **AD/ADAS – L2+ fitted as standard:**
  - High computation power
  - Proliferation of high-tech sensors, deployed algorithms and resulting functions
- **Smart cockpit:**
  - Multiple screens and installed microchips
  - Increasing memory size
- **E-powertrain:**
  - Increasing battery range and capacity
  - Faster charging speed

These innovations, driven by ferocious domestic competition, are rapidly opening up the road towards intelligent connected vehicles (ICVs). In the past, this competition focused on “smart” functions; now the emphasis is also switching to traditional vehicle characteristics such as driving performance, handling and chassis. Highlights in this context include Yang Wang U8’s stationary 360° “tank turn”, enabling the vehicle to rotate, and IM L6 and Denza Z9’s rear wheel steering. All these functions make Chinese consumers see domestic manufacturers as the innovation leaders in China.

Comfort and user experience

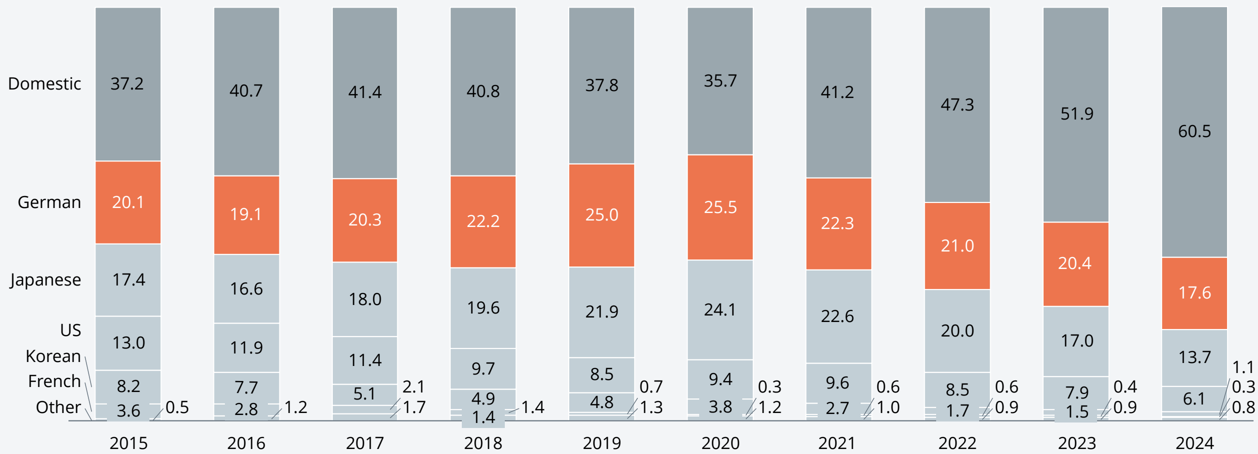
Fundamentally, cars manufactured by international OEMs focus on the driver, while Chinese OEMs are turning their sights towards passengers. They are trying to create as much pleasure and comfort as possible for them, by designing a car that can be used for different purposes and in various settings. Examples include the current trend for cars that can be converted into stylish camping vehicles, supported by zero-gravity seats that can be turned into lie-flat beds, and large projector screens to watch TV or movies. Some features, such as the recently launched hotpot table, have attracted a lot of media attention.

Such developments show how comfort and usability are becoming as important as selling points as driving.

Dominance of Chinese OEMs

The key to why Chinese OEMs now dominate the domestic NEV market is their winning formula, which combines abundant tech and comfort features with aggressively low pricing. This formula contrasts starkly with the typical customer offer for cars made by international OEMs, which emphasize the driver experience over the needs and demands of passengers.
The superiority of the NEV formula deployed by Chinese manufacturers is now helping to expand even further their share of the country's passenger vehicle market, which has almost doubled since 2015 to more than 60%.

PASSENGER VEHICLE (PV) SALES IN CHINA, 2015-24: SHARE OF BRANDS BY COUNTRY OF ORIGIN (%)



The rise of Chinese OEMs over the past decade has been powered by their lean structures, low costs, and fast product development processes, allowing them to adapt rapidly to changes in customer preferences. The most visible development in this respect has been the emergence of AD/ADAS automated driver systems as a "must-have" for Chinese purchasers and therefore a key industry focus. According to China's Ministry of Industry and Information Technology, 55.7% of new cars sold in the first half of 2024 were equipped with advanced L2 ADAS systems.

Source: Berylls, CPCA

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PART 2

LOOKING AHEAD TO 2025

We expect the following three general trends to strengthen over the next year:

- **Accelerated NEV market penetration, led by dominant Chinese OEMs**
- **Continued fierce domestic competition between OEMs and between suppliers**
- **Continued NEV divergence between domestic and foreign OEMs**

Accelerated NEV penetration and Chinese dominance

We believe that the total passenger vehicle market share of NEVs will continue to rise in 2025, accounting for more than 50% of all car sales in China. A permanent NEV market penetration rate of 50 to 60% or even higher seems possible, given the growing appeal of NEVs to consumers, reinforced by continuing support by China's government for the sector. At the time of writing, the Chinese government is starting a new round of financial subsidies for NEVs.

Within the NEV segment, we believe that Chinese players will widen their market share from 90% in 2024 to as much as 95% in 2025. Chinese OEMs have established themselves as leaders within the NEV domain and will not be overtaken by international automakers in the short- to mid-term.

Continued fierce domestic competition

The NEV market will remain highly volatile and success is not guaranteed for anyone. In 2025, we will thus continue to see OEMs leaving the market and new players emerging, especially since designing and building NEVs has never been so straightforward. Market entrants will certainly try their luck by leveraging the "Chinese Menu" style of car development, simply purchasing off-the-shelf systems from suppliers for elements such as the skateboard chassis, AD/ADAS and smart cockpit tech stack, adding the "rest" of the car and logo, and finding a manufacturer to assemble the vehicle. That is all it involves. As demonstrated by Chinese consumer electronics and smartphone manufacturing company Xiaomi, any player can jump in by using this menu and have a chance of success.

Continued NEV divergence between domestic and foreign OEMs

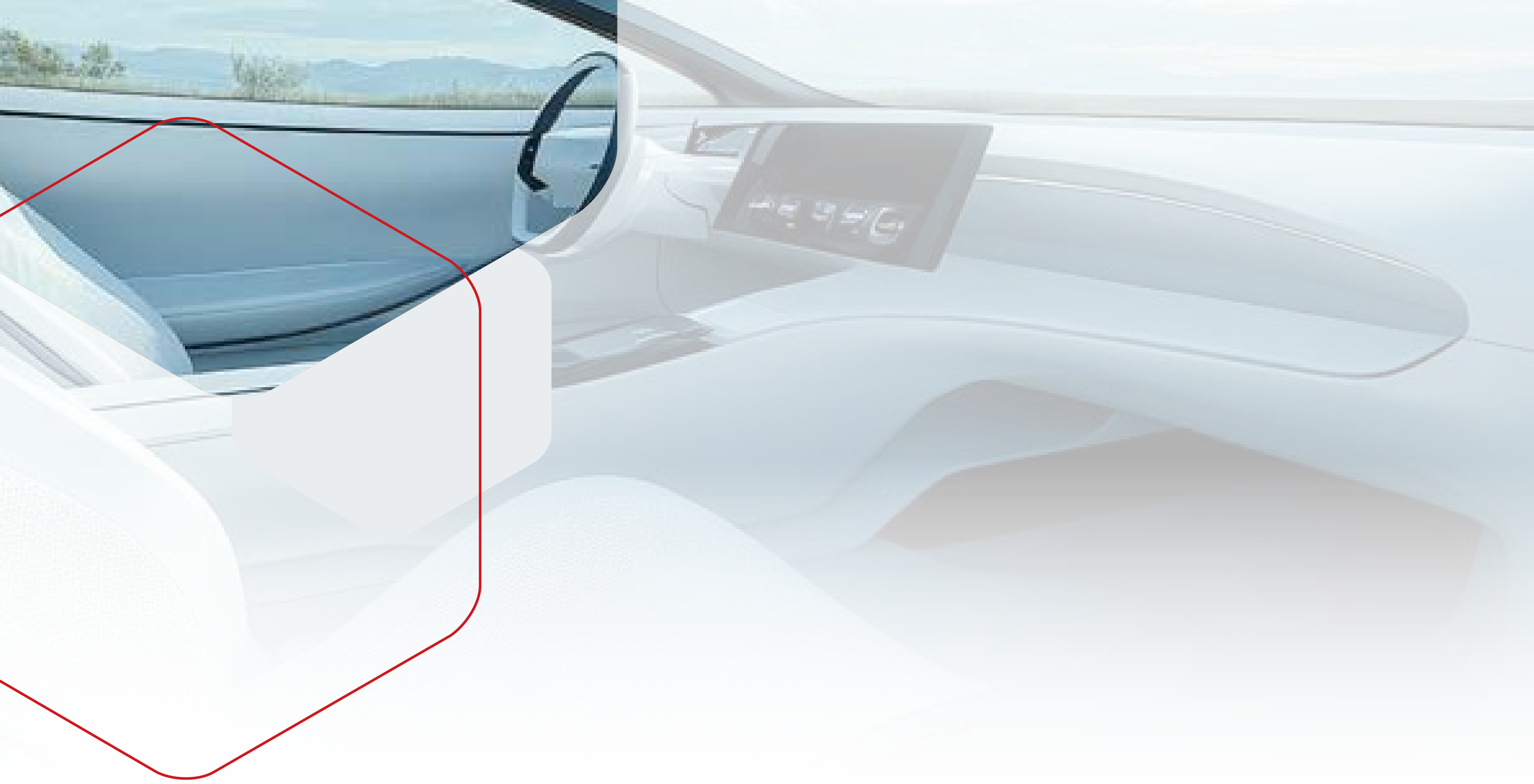
The overarching theme for 2025 will be divergence, as Chinese NEVs become increasingly different from their international counterparts, fueled by two factors:

- **Domestic OEMs' successful "Chinese formula" for NEVs**
- **Strong push by Chinese players into top-end and luxury NEV segments**

Successful "Chinese formula" for NEVs

We believe that Chinese OEMs will continue to follow their winning formula for NEVs and load even more functions into the cars. However, we highlight two further points:

First, Chinese OEMs will put more focus on vehicle driving characteristics. Their previous product weaknesses in vehicle handling, acceleration parameters and chassis behavior will be eliminated. This is a dangerous development for international players, undermining their previous competitive edge.



Second, interior design and smart cockpits will feature even more prominently in Chinese NEVs. We believe domestic NEV players will maintain their strong focus on passenger comfort and usability, even as they improve the vehicle's driveability, making the car a versatile space for work, entertainment, and outdoor activities.

Strong push into top-end and luxury NEV segments

Chinese NEV players such as HiPhi have previously failed to make significant inroads into top-end and luxury segments. We are now seeing new brands and models such as BYD's YangWang, Huawei and JAC's Maextro, and NIO's ET9 making a renewed effort to penetrate the market for premium vehicles with a price tag above €100,000 and we think that more Chinese players will enter this top-end segment going forward, achieving significant sales.

While international manufacturers' models focus on traditional luxury, domestic players are gaining a competitive advantage and disrupting the segment by adding innovative technology.

To sum up, the typical Chinese NEV is rapidly becoming a tech-laden people-mover that delivers comfort and joy and is well received by Chinese consumers. It is a formidable commercial offering in the world's largest automotive market.

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PART 3

CALL TO ACTION FOR INTERNATIONAL PLAYERS

Foreign OEMs urgently need to reconsider their China strategy and evaluate their future in this market, given the unprecedented challenge now presented by domestic automakers, especially in NEVs. We believe they have the following options:

- Move out of the Chinese market entirely
- Focus on ICE vehicles and move out of NEVs
- Optimize current China operations and continue with the current setup
- Commit totally to an autonomous "in-China-for-China" strategy

In our view, the first three options are only hypothetical for the majority of international OEMs, which are heavily invested in China but cannot afford to persist with their current operating model which has clearly failed. In reality, foreign manufacturers, especially German premium carmakers, should adopt the "in-China-for-China" strategy.

To commit totally to China requires radical changes – in fact a complete decoupling of China operations from the OEM's headquarters in three areas:

- Independent portfolio and spec development
- Complete localization and supplier setup
- Fully localized development processes and organization

Independent portfolio and spec development

Gaining autonomy over the China portfolio is relatively straightforward. Currently, large SUVs and MPVs are extremely popular in China, with range extenders as the powertrain choice. We believe that this trend will continue. The caveat here is that the pricing baseline is certainly lower than in previous years.

As for spec, we have already noted the distinctive characteristics of Chinese OEMs' vehicles. To compete with domestic players, international OEMs must provide an abundance of tech and comfort features rather than the bare minimum which they typically offer. And it is not enough to be on the same passenger experience level as Chinese OEMs. For foreign manufacturers in China to justify their price premium and attract more purchasers, they must outshine local rivals with additional features.

The key to success here is being highly versatile, with the ability to adapt the portfolio and product features faster than domestic competitors in order to become innovation leaders again. This strategy clearly runs counter to the traditional approach of international OEMs, based on long-term cycle plans.

Complete localization and supplier setup

We believe that all international OEMs must increase their localization rates and produce more models in China. This also applies to their supplier base, meaning OEMs need to on-board more local suppliers.

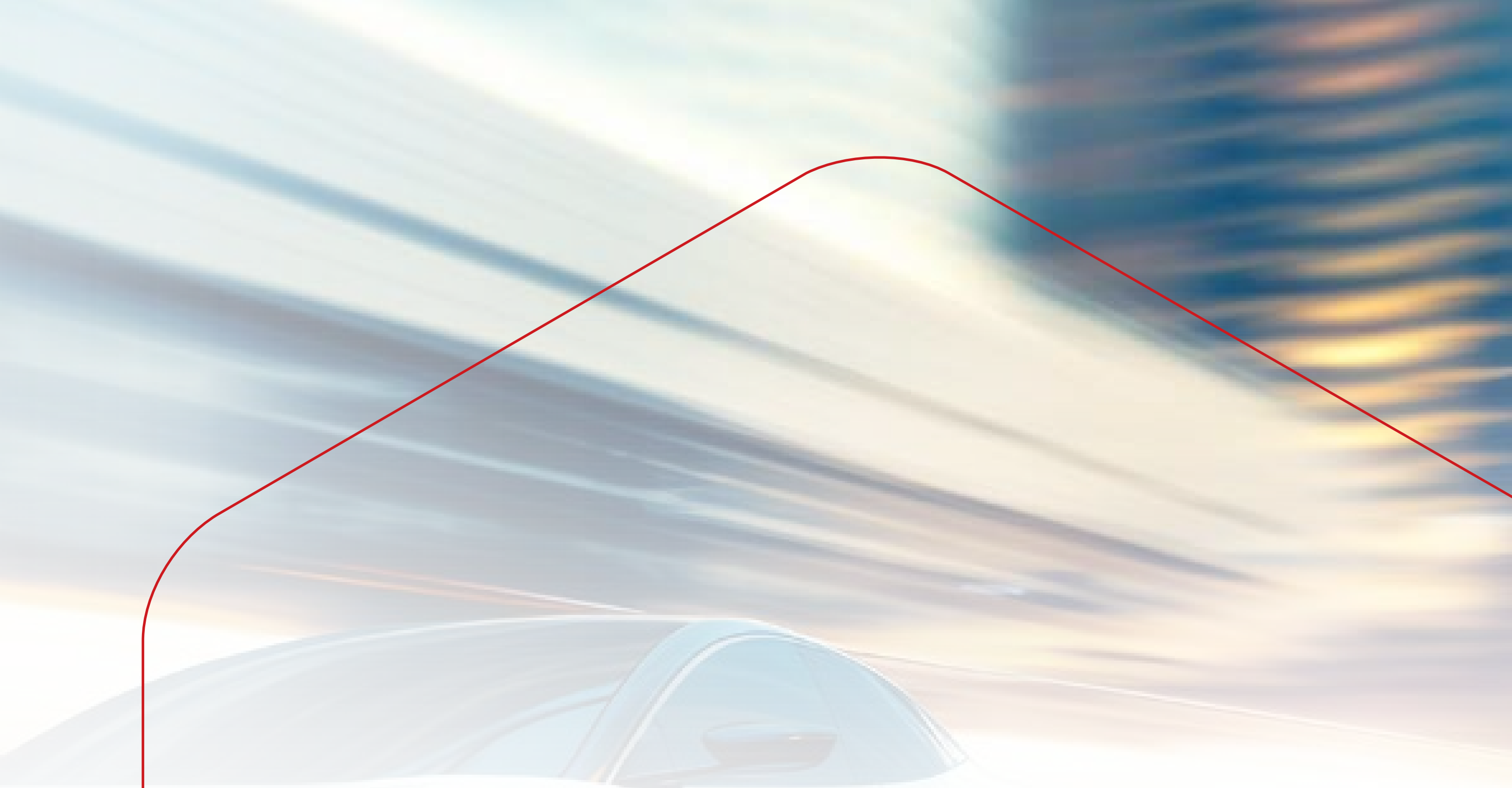
Fully localized development processes and organization

To cater to Chinese tastes in a versatile, agile way, international players must shorten their time-to-market processes. In this regard, developing and manufacturing their vehicles locally is clearly crucial.

At the same time, accelerating processes and developing a China-specific portfolio and spec can only be achieved by a dedicated China organization. The organization will need to work independently from the company's head office management hierarchy, with a different approach focused on time-to-market, not risk avoidance. The local organization must also have the power and capability to conduct its own R&D, without interference by the global head office.

Supplier

Two developments indicate that hard times are ahead for foreign suppliers in China: firstly, the need for international OEMs to localize their supplier base, and secondly, the push by Chinese suppliers into all fields of components from their current domestic position, where they already dominate the battery, smart cockpit and AD/ADAS sub-sectors. To remain competitive in China, international suppliers will need to maintain rigorous cost controls, increase investment in innovation, and achieve stronger localization of their own operations.



CONCLUSION

We are convinced that the future of international OEMs in China is increasingly at risk. Only bold decisions to establish highly independent domestic operations will help them to become more agile again. As profitability in China continues to decline in 2025, leaders will have no excuse to avoid facing the reality that they must take these decisions now before it is too late.

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