January 15, 2025

Zacks Small-Cap Research

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SunCar Technology Group (NASDAQ: SDA)

SDA: SunCar expands business with multiple new partnerships and collaborations. The company also appoints a new Chief Strategy Officer. We maintain our price target of $20.00.

Utilizing a Discounted Cash Flow process containing conservative estimates combined with other valuation methodologies, we believe SDA could be worth **$20.00** per share.

Current Price (01/14/25)	$9.21
Valuation	**$20.00**

OUTLOOK

SunCar Technology Group ((NASDAQ: SDA) is a leading Chinese cloud-based provider of digital enterprise auto services and auto eInsurance services in China. The company offers one-stop, fully digital, on-demand automotive service systems to help enterprise clients build up their customer base and serve their end customers (auto owners). The company has grown revenues rapidly in recent years, which we expect to continue in the near-to-midterm. SunCar has ample liquidity after raising capital in 2023 and now has approximately $44.6 million in cash and equivalents as of 6/30/2024. We believe the stock to be significantly undervalued.

SUMMARY DATA

52-Week High	**$11.74**
52-Week Low	**$5.71**
One-Year Return (%)	**8.7**
Beta	**-0.19**
Average Daily Volume (sh)	**380,834**
Shares Outstanding (mil)	**103.6**
Market Capitalization ($mil)	**$954**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**1.0**
Insider Ownership (%)	**52.4**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2025 Estimate	**17.4**
P/E using 2026 Estimate	**9.1**

Risk Level	**Average**
Type of Stock	**Mid-Growth**
Industry	**Software & Services**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	H1 (Jun)	Q3 (Sep)	H2 (Dec)	Year (Dec)
2022		$124.7 A		$157.7 A	$282.4 A
2023		$159.4 A		$204.4 A	$363.7 A
2024		$203.1 A		$252.2 E	$455.2 E
2025					$570.7 E

EPS / Loss Per Share

	Q1 (Mar)	H1 (Jun)	Q3 (Sep)	H2 (Dec)	Year (Dec)
2022		$0.04 A		-$0.11 A	-$0.07 A
2023		-$0.04 A		-$0.27 A	-$0.31 A
2024		$0.01 A		$0.10 E	$0.11 E
2025					$0.53 E

Quarterly revenues may not equal annual revenues due to rounding.
Quarterly EPS may not equal annual EPS due to rounding or dilution.
EPS may be Non-GAAP.

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WHAT'S NEW

Company Announces New Chief Strategy Officer

On January 13, 2025, the company announced that Breaux Walker was appointed Chief Strategy Officer. Mr. Walker will oversee the company's capital markets strategy, investments, international financing, and investor relations.

Mr. Walker has over 25 years of experience in business development, corporate finance, and cross-border transactions, particularly in the technology and fintech sectors. He joined SunCar in March 2024 as consulting GM, North America. Earlier in his career, Mr. Walker demonstrated entrepreneurial success in China, founding and scaling a technology services company to $25 million in revenue. He is also fluent in Mandarin Chinese.

SunCar Secures Exclusive $6.8 Million Contract with Sam's Club Across 17 Cities in China.

On January 8, 2025, SunCar announced that it had secured the exclusive contract to manage the 2025 Sam's Club Premium Membership Car Wash Project. Under this agreement, SunCar will deliver premium car wash services for Sam's Club members across 17 cities in China. This includes cities such as Shanghai, Shenzhen, Guangzhou, Chengdu, Chongqing, Changsha, Hangzhou, Suzhou, and Zhuhai. Walmart China's budget for the Contract is approximately 49 million RMB ($6.7 million) and highlights SunCar's capabilities and leadership in the automotive after-service sector.

SunCar Wins Bid to Provide Concierge Transportation Services for Shanghai Rural Commercial Bank

On December 18, 2024, SunCar announced that it had been awarded a bid to provide premium concierge transportation services for Shanghai Rural Commercial Bank's valued clients. This extends the partnership between SunCar and SRCB, who have worked together since 2014.

SunCar will manage SRCB's retail points-based travel benefits, which include concierge car services, designated driver assistance, and VIP lounge access. Other services include designated driver assistance, high-speed rail station transfers, and international airport transportation for credit card customers.

SunCar Technology Group Joins the NASDAQ Golden Dragon China Index

On November 19, 2024, SunCar announced its inclusion in the NASDAQ Golden Dragon China Index. The NASDAQ Golden Dragon China Index is a benchmark for tracking Chinese companies listed on U.S. exchanges which provide investors exposure to dynamic growth opportunities in China's economy, particularly in high growth sectors such as digital services, technology, new consumer markets, and clean energy. This index includes leading Chinese companies like Alibaba (NYSE: BABA), JD.com (NASDAQ: JD), Baidu (NASDAQ: BIDU), Xpeng (NYSE: XPEV), and Nio (NYSE: NIO).

SunCar Technology and Wuhan JIDU Join Forces to Revolutionize Auto Insurance with Nationwide Intelligent Platform

On November 11, 2024, SunCar announced it had entered into a strategic partnership with Wuhan JIDU to provide its advanced insurance technology platform to auto buyers and customers across China. This partnership represents a major step in enhancing the digital insurance experience for Wuhan JIDU's growing customer base.

Wuhan JIDU is a groundbreaking joint venture between Baidu and Geely. JIDU Auto is at the forefront of developing intelligent electric vehicles focusing on AI-driven autonomous technology. With this

collaboration, Wuhan JIDU will leverage SunCar's cloud-based intelligent insurance platform to deliver efficient, fully digital insurance services.

The nationwide rollout of SunCar's intelligent insurance platform will provide Wuhan JIDU's customers with a comprehensive solution for managing their auto insurance needs. The platform offers instant online quoting, underwriting, electronic policy issuance, and claims management powered by big data and AI. It connects Wuhan JIDU with leading insurance providers and intermediaries in China.

SunCar Technology Expands Strategic Partnership with Ping An Property & Casualty Across Key Provinces

On October 24, 2024, SunCar announced new and renewed partnerships with several branches of Ping An Property & Casualty Insurance, which includes Shanghai, Guangdong, Foshan, Hebei, and Shanxi. The total contract value from these agreements exceeds 30 million RMB ($4.1 million).

The breadth of these new agreements goes beyond traditional car wash and maintenance services. SunCar will introduce a larger suite of premium auto services, including clay bar waxing, polishing, wheel alignment, ozone disinfection, and air conditioning sterilization. As of October 2024, SunCar's automotive service collaborations now extend to all of Ping An P&C's top 10 provincial branches by premium scale, including Guangdong, Jiangsu, Zhejiang, Shanghai, Sichuan, Shenzhen, Shandong, Hebei, Beijing, and Anhui.

SunCar Technology Expands Multi-Platform Collaboration with ICBC Shaanxi Branch Through "Shaanxi Benefits" Platform

On October 15, 2024, SunCar announced the successful development and expansion of its collaboration with the Shaanxi Branch of the Industrial and Commercial Bank of China (ICBC) through its "Shaanxi Benefits" platform. This partnership extends beyond previous car-washing projects into a broader, multi-platform cooperation. This positions SunCar as the largest marketing service provider for ICBC Shaanxi Branch, working closely with the bank's Internet Finance Department, Credit Card Department, Retail Business Department, and Private Banking Department.

Since its inception in 2024, the "Shaanxi Benefits" Platform has enacted marketing campaigns that have reached nearly 1 million monthly interactions. The average monthly investment by ICBC in these campaigns exceeds RMB 7 million ($955,000), driving consumer spending of over RMB 70 million ($9.5 million) from ICBC Shaanxi Branch cardholders.

New Investor Presentation

The company also released a new investor presentation in late December which can be found here.

Valuation & Estimates

There are no changes to our price target and estimates at this time. Our total revenue estimate is $455.3 million for 2024 and $570.7 million for 2025. The eInsurance segment is expected to be the company’s fastest growing business line. Our 2024 full year adjusted EPS estimate is $0.11, and for 2025, our EPS estimate is $0.53.

We believe our multiple valuation methods support our conservative Discounted Cashflow (DCF) valuation, which provides a target price of **$20.00** per share.

KEY INVESTMENT POINTS



Source: ir.suncartech.com

- SunCar Technology Group (NASDAQ: SDA) is a leading cloud-based provider of digital enterprise auto services and auto eInsurance products in China. The company has a leading position in both of these segments and with the synergies between them, the company offers one-stop, fully digital, on-demand automotive service systems to help enterprise clients build up their customer base and serve their end customers.

- The company has also used its technology expertise to create a 3rd segment, Technology Services, which utilizes modular online management tools such as customer relationship management (CRM), order management, finance management and visual analysis systems which are based on its proprietary hybrid cloud platform.

- The total addressable market for auto insurance products in China is approximately $120 billion and the total addressable market for B2B auto services is approximately $20 billion.

- The company utilizes app-based integrations with an expansive B2B services network which enables an asset-light, low capital utilization business model.

- The company was established in 2007 and has a proven, state-of-the-art, multi-tenant digital system with an innovative online Auto Services and eInsurance platform. The company operates on a national basis across China while most competitors are regional.

- The B2B online platform for Auto Services complements the Auto eInsurance solution and creates synergistic revenue potential through cross-selling.

- The SunCar platform is highly unique in China and no other competitors have the breadth of offerings and advanced technology that the company has.

- The company is largely considered recession proof or even counter cyclical as its growth does not depend on new car sales or employment levels. There are already over 300 million cars in China and the company's market share for providing auto service and eInsurance is still in the low single digits.

- The company generated revenues of $363.7 million in 2023, an increase of 28.8% from $282.4 million in 2022. Revenues in the 1st half of 2024 increased 27.4% to $203.1 million.

- The company has $44.6 million in cash as of 6/30/2024 and working capital of $50.8 million.

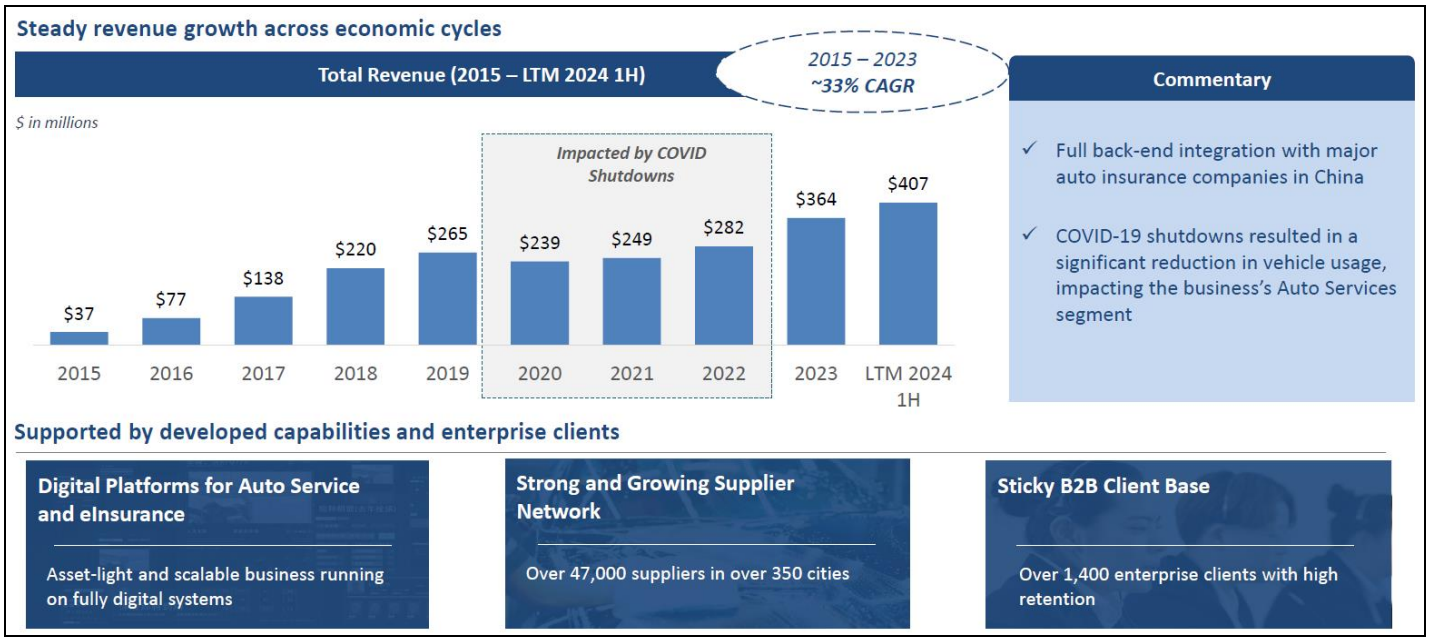
- We believe SDA stock is worth **$20.00** based on a conservative discounted cash flow (DCF) calculation and peer multiple comparisons.

OVERVIEW

Source: ir.suncartech.com

SunCar Technology Group is a leading cloud-based provider of digital enterprise auto services and auto eInsurance products in China. The company has a leading position in both of these segments and with complementary synergies between them, they offer one-stop, fully digital, on-demand automotive service systems to help large enterprise clients build up their customer base and serve their end customers. The company operates in a unique position in which it is believed to be the only company in China providing this type of comprehensive technology services.

Founded in 2007, the company has developed extensive experience in understanding and serving the expanding needs of China's automobile owners. With the increasing prevalence of the mobile internet in China, the company introduced online apps for its insurance and auto business in 2014 and 2015. The company has built comprehensive digital systems for both the auto service and auto eInsurance business segments which is centered on a multi-tenant, cloud-based platform which empowers its enterprise clients and service providers to optimally access and manage the types of services and insurance they need.



Source: ir.suncartech.com/

For the auto eInsurance business, SunCar primarily facilitates the sale of auto eInsurance products underwritten by major insurance companies in China. The company receives commission income from these insurance companies, typically a percentage of the premium paid by the end insurance purchasers. SunCar implements, automates and streamlines the insurance purchasing process on its proprietary, fully online digital apps, which integrate full spectrum products from leading insurers in China. The company sells insurance policies through a network of over 64,000 external sales partners. These sales

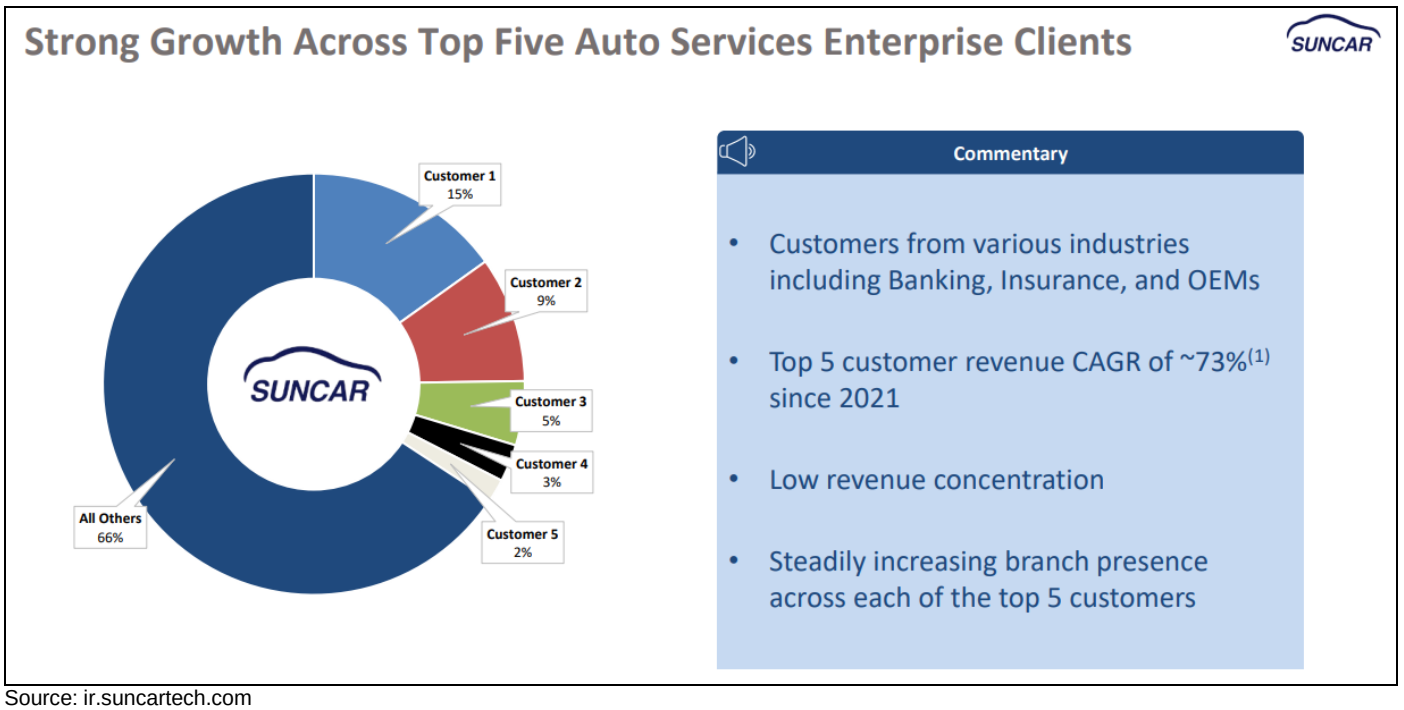
partners include an offline auto network with frequent exposure to car owners, an online marketplace with large user traffic, and emerging EV manufacturers and service providers. As of December 31, 2023, the company has branch headquarters in 32 cities in 20 provinces of China. The company has also established collaborative relationships with 85 insurance companies including the top 10 insurance companies in the country with a combined market share of over 90%.

The company operates its auto services business by offering customized service solutions to its enterprise clients, who are typically major banks, insurance companies, or telecommunication companies. These organizations typically have end customers demanding automotive services. These enterprise clients purchase service solutions from SunCar for the members of their reward programs or customer loyalty programs.

The auto service solutions cover over 300 types of services such as car wash, oil change, tire repair, car beautification, road assistance, flight pickup, designated driving, or VIP lounge. They are provided in collaboration with third-party auto service providers. As of December 31, 2023, the company has established a service network of over 47,000 third-party brick-and-mortar auto service providers, leasing and roadside assistance companies which covers over 350 cities (out of a total of approximately 690), and all 33 provinces of China. With this extensive service network, the company serves over 1,400 enterprise clients.

SunCar has built up these businesses as an advanced technology-driven provider of online services. The company has secured 150 registered copyrights of computer software. Its proprietary technology solution is centered on a multi-tenant platform and advanced cloud infrastructure. On the auto services side, the digital platform provides API docking, front-end plug-in and module integration for enterprise clients, as well as efficient, user friendly management and operations tools for service providers.

On the auto eInsurance side, the existing platform empowers insurance company clients to manage all aspects of their business including customer orders, products, commissions, and other reports. For insurance purchasers by consumers, the online insurance interface provides data-driven, AI-empowered real time quotation, pricing, underwriting and payment. The AI-empowered hybrid cloud infrastructure provides secure storage and computation to support the demands by both insurance companies as well as end customers.



Source: ir.suncartech.com

SunCar has recently begun making its core technologies into a new business line. With growing demands to efficiently manage their businesses, the company's auto service providers are now paying for online tools to streamline their business workflows, manage their customer relationships and automate orders processing. As the technology becomes more advanced, the company is working on developing a SaaS model product offering and plan to gradually turn the automotive service providers into technology customers.

The cross-utilizations and interconnections between the auto service and auto eInsurance business lines enable positive feedback loops between them. As the company is developing a nationwide automotive service provider network, these service providers become sales partners of the auto eInsurance business. Conversely, when engaging with insurance companies to sell their insurance products, we also obtain them as clients of the auto service solutions. We believe this synergistic business development will boost sales channels as well as expand the client network in both business segments.

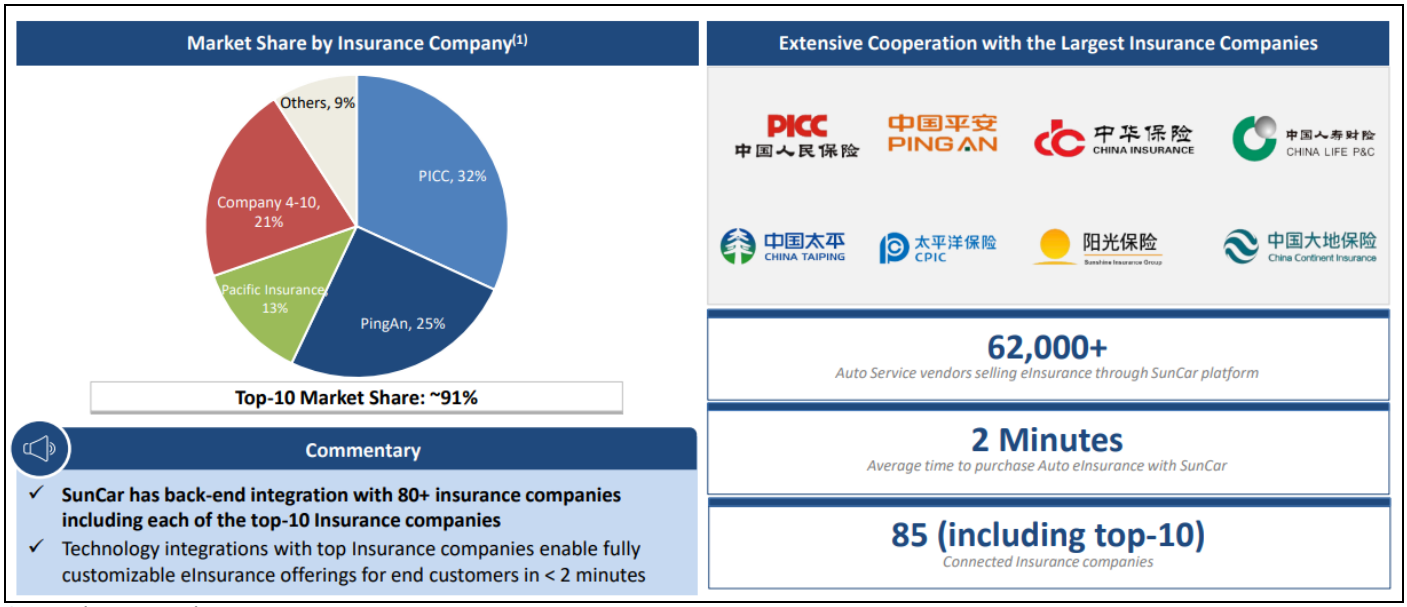
As both core businesses are closely connected to the automotive industry, the company has also captured the recent trends of electric and smart vehicles. SunCar is now working with 20 mainstream EV and smart car panel players which embeds the auto service solutions into their online applications and panels as well as providing various insurance products to EV owners.

The company generated revenues of $363.7 million in 2023, an increase from $282.4 million in 2022. The company currently has cash and short-term investments totaling $44.6 million as of 6/30/24 and working capital of $50.8 million. The current market capitalization is approximately $989 million.

PRODUCT & SERVICE DESCRIPTIONS

Auto Insurance

SunCar Online Insurance Agency was founded in 2007 and is headquartered in Shanghai. This business unit has 35 branches in 27 cities across 20 provinces, autonomous regions, and municipalities. This includes Shanghai, Beijing, Guangzhou, Chengdu, Nanjing, and Wuxi. This segment is supported by advanced and efficient digital platforms and various cutting-edge technologies which is integrated with 85 insurance companies. It provides customers with a fast, simple, transparent, and fully online car insurance buying experience through more than 64,000 marketing partners.

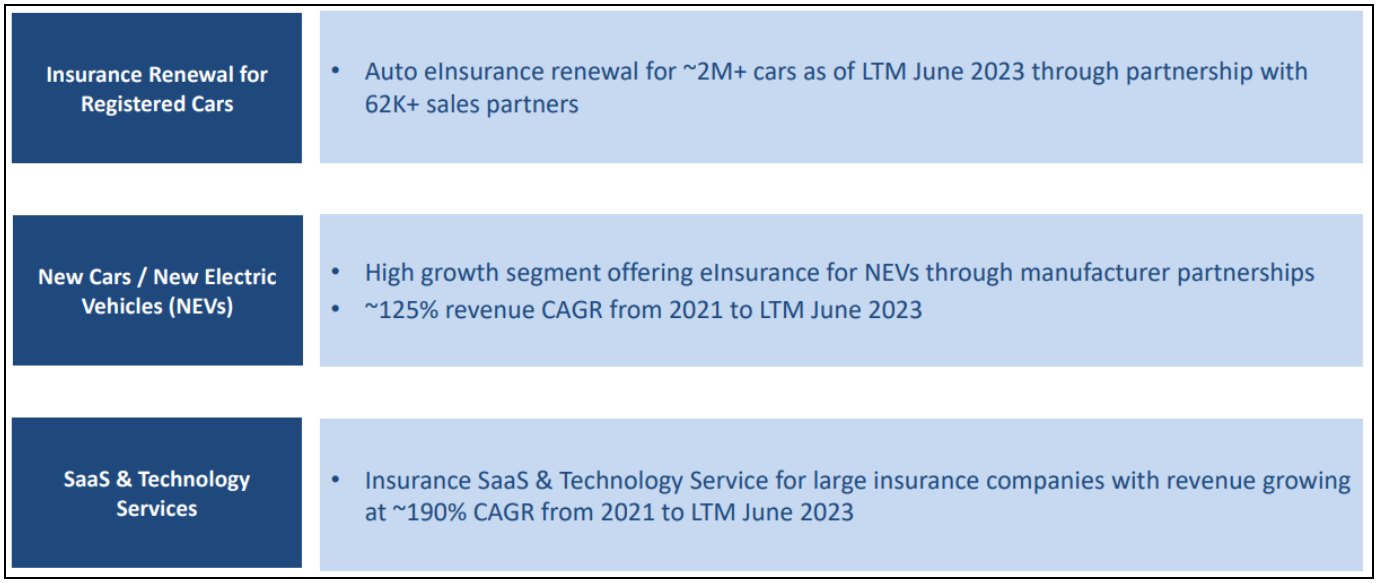


Source: ir.suncartech.com

Revenues for the auto eInsurance business are derived through collecting commissions from insurance companies for successful sales of their insurance products, which are typically based on a percentage of the premium paid by insurance purchasers. The commission rates are usually set by insurance companies and differ by product types, each insurance company, and the regions where the products are sold. These commission rates are also subject to adjustments by insurance companies based on their profit potential, consumer demand, the availability and pricing of competitive products, and government regulations and policies.

SunCar offers car owners auto eInsurance products underwritten by major insurance companies in China. The auto eInsurance products provided consist primarily of statutory automobile liability insurance ("SALI") as well as commercial auto eInsurance. SALI is the mandatory vehicle insurance for all automobiles in China as required by current laws and regulations. This typically covers casualty and property loss in accidents involving the insured vehicle. Additionally, the service provides various types of non-mandatory commercial insurance products for automobile owners, which cover damages caused by collisions, falling or flying objects, fire, explosion and natural disasters.

The company also offers commercial third-party liability insurance products, which cover bodily injuries and property damage to third parties caused by accidents as well as losses arising from vehicle theft and robbery and liability to passengers. In addition, supplementary policies to cover additional losses such as broken glass and vehicle body scratches are offered.

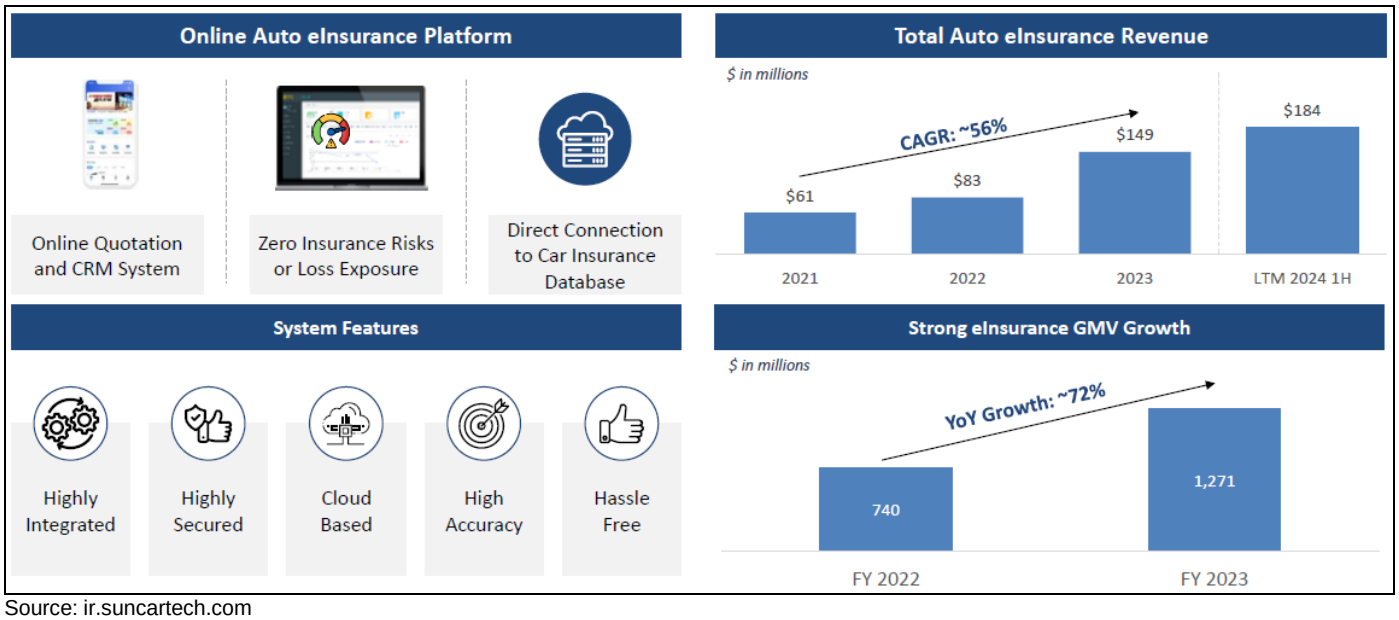


Source: ir.suncartech.com

SunCar has digitized the auto eInsurance business using proprietary technology to ensure an efficient and friendly user experience. The company utilizes artificial intelligence (AI) technology to automate parts of the workflow which allows completion of the entire insurance purchase process within a few minutes. The company is digitally connected to 85 major insurance companies (including the top 10 insurance companies with a combined 90%+ market share) in China through their systems, with a wide selection of automotive insurance products.

The company has sales partners (typically auto service providers) that introduce and guide the car owners to purchase insurance and receive sales commissions from the company. By the end of 2023, SunCar had set up 32 branches in different cities and expanded the sales channels to over 64,000 sales partners. In China, insurance companies set up many local insurer branches in different provinces or cities to deliver their services and products. Usually, both the insurance companies and their insurer branches have decision power to select the agency partners but when SunCar engages with insurance

companies, the cooperation is established by an advanced technology connection and the business is allocated and implemented by their insurer branches.



Source: ir.suncartech.com

According to Frost & Sullivan, in 2021, SunCar ranked second in the China professional auto eInsurance market by auto insurance premium, with a market share of 0.9%. In 2021, the company ranked first in China professional auto eInsurance market by online auto insurance premium of EVs, with a market share of 5.2%. Based on an estimated $120 billion total auto insurance gross market value, the company's implied market share is approximately 1.0%.

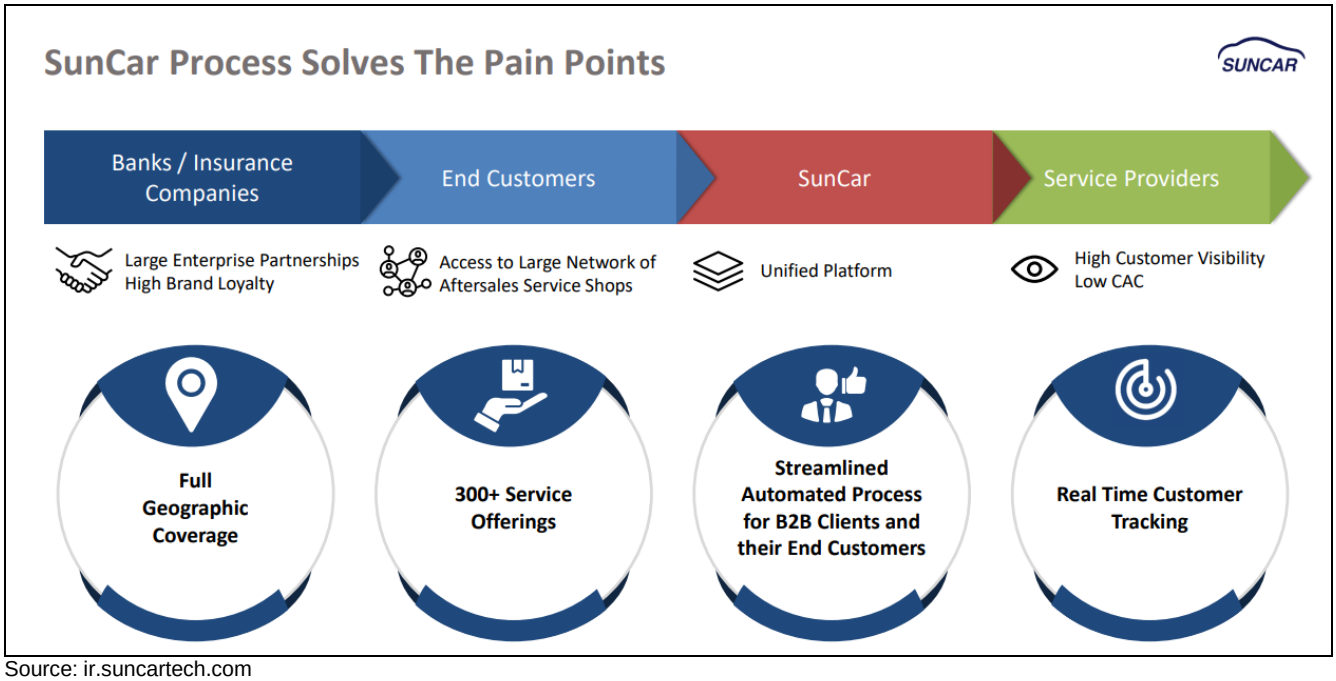
In 2023, the auto eInsurance segment generated revenues of $118.1 million, an increase from $67.6 million in 2022. For the 1st six months of 2024, eInsurance revenues increased 55%.

Auto Services

Suncar Car Butler was founded in June 2013 and has become a leading one-stop shop for aftersales automotive services in China and provides convenient service offerings and high-quality experiences for SunCar customers and drivers.

Currently, Suncar's business covers over 2,800 districts and counties in more than 300 cities across 31 provinces, autonomous regions, and municipalities in China. The platform displays information from over 47,000 service providers offering hundreds of categories of vehicle services, including car wash and beauty, maintenance, destination pickup, designated driver, non-accident roadside assistance and breakdown services.

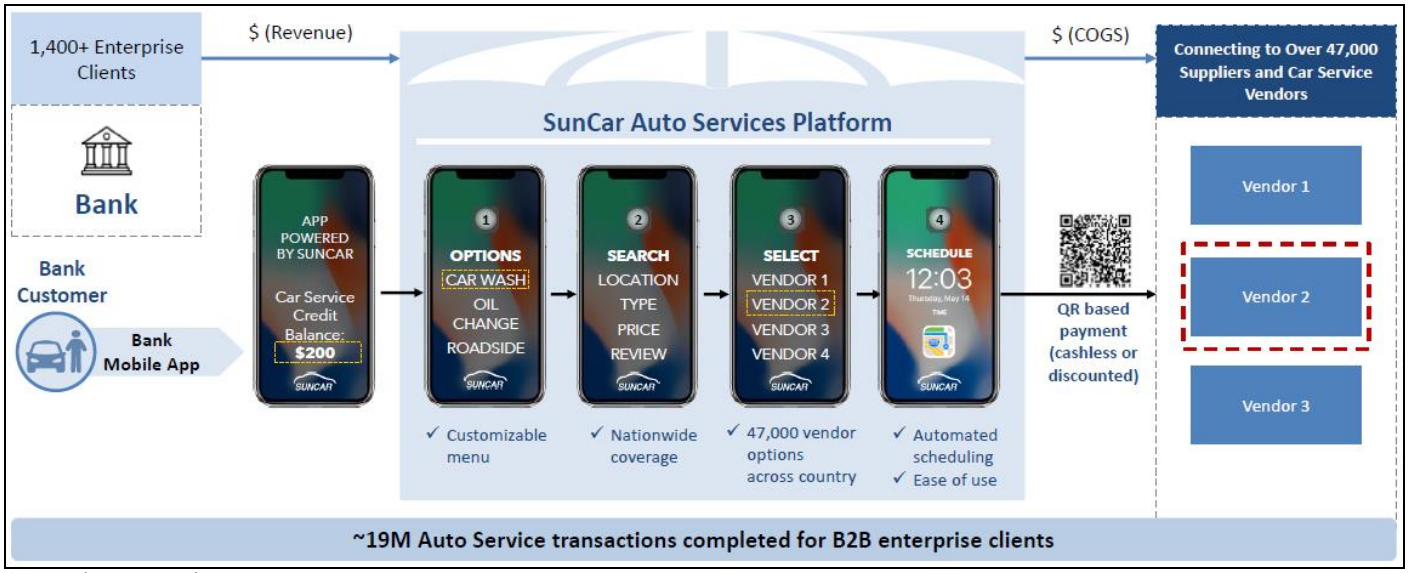
Through this digital platform, over 46,000 auto service providers are integrated to provide customized service solutions for enterprise clients. The enterprise clients purchase these service solutions for its customers, who are typically members of their reward and customer loyalty programs. Through a simple plug-in connection into their own systems, these enterprise clients can indicate the customer's current needs and budgets on the platform, which generates flexible and customized service solutions which vary by type, price, scale, locations, terms and length of services.



Source: ir.suncartech.com

The auto service solutions include both regular, high frequency, drop-in services as well as one-time, reserved services. The high frequency services include car wash, oil change, car beauty, tire change and other regular auto maintenance services. The one-time services include flight pickup, driver service, road assistance, and car overhaul services.

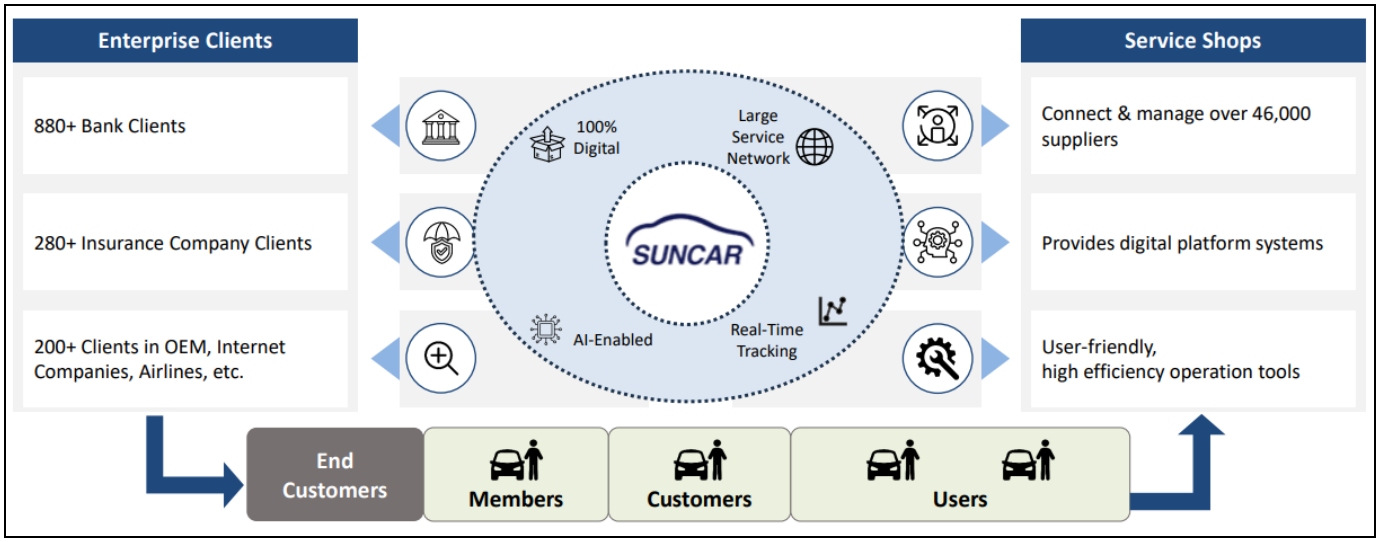
These services are performed by the auto service providers connected to the digital platform which encompasses over 47,000 big and small businesses and individuals in the auto service industries. Chinese regulations dictate that the auto service providers are liable for tort claims for any damages arising from their services. The enterprise clients are also liable for contractual claims by their end customers for any damages arising from the services of the auto service providers.



Source: ir.suncartech.com

These auto services create value for both clients and the auto service providers. According to a Frost & Sullivan Report, the auto market is highly fragmented, complex and localized, with non-standard quality specifications. Based on auto service providers' feedback, without the intermediation that SunCar provides, these service providers often experience insufficient and unpredictable order flow.

The company's auto solution connects clients with full spectrum services covering all 33 provinces in China while providing quality standard supervision, data security and on-demand flexibility. The size of the business and large order volume has provided bargaining power with the auto service providers, which has enabled uniform standards of service quality, cost efficiency, and on-demand flexibility. The smart order distribution system automatically matches each client's service need to the best auto service provider for the job. Client feedback after the service also provides a sustained, accurate and fair rating system.



Source: ir.suncartech.com

SunCar had over 1,400 enterprise clients using these services in 2023 (compared to approximately 1,300 in 2022 and over 1,200 in 2021). The system generates hundreds of customized service solutions running on over 1,400 client applications.

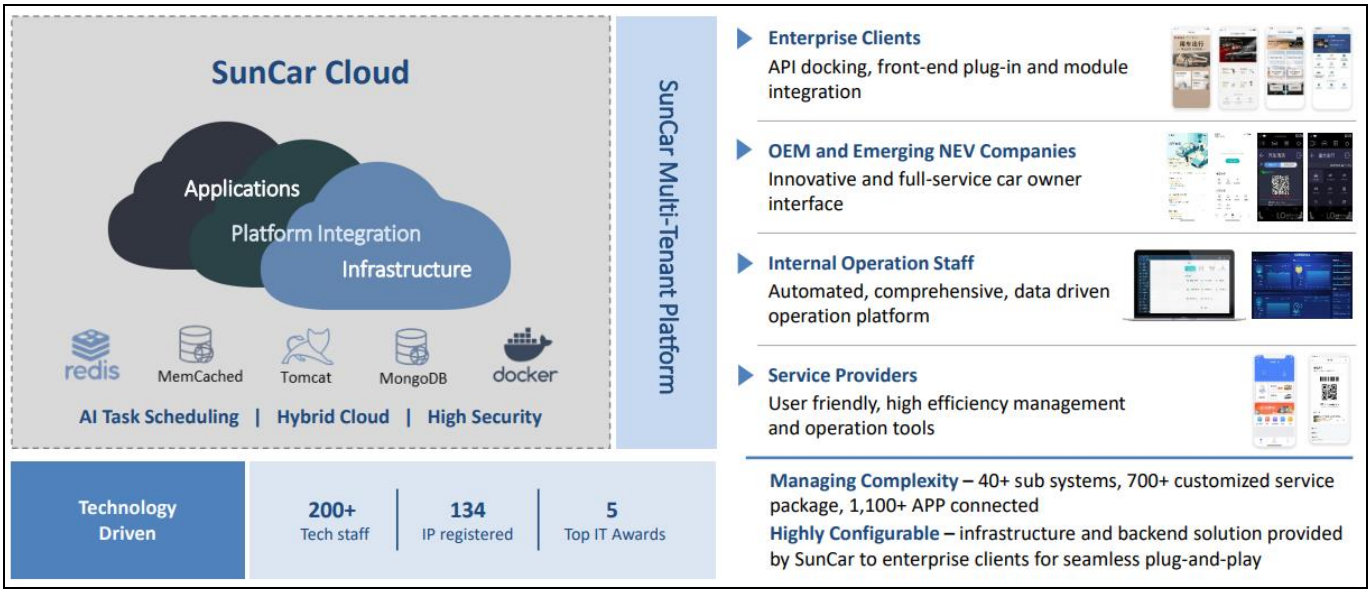
In 2023, the auto service segment generated revenues of $214.9 million, an increase from $199.3 million in 2022. For the 1st six months of 2024, Auto Service revenues increased 9%.

Technology Services

The company's 17 years of business in automotive service and insurance markets has built up a comprehensive domain knowledge of not only their two business segments, but also of the businesses of their partners. Because of this, the company has continuously worked to develop online tools and digital systems to empower its partners to run their businesses more efficiently and effectively.

This includes management tools such as customer relationship management (CRM), order management, finance management and visual analysis systems, based on their proprietary hybrid cloud platform. All of the company's auto service providers and insurance sales partners use all or some of these online tools.

The company has been putting more R&D resources into this segment to accelerate the development of turning the existing online software modules into a SaaS based product. The company launched its SaaS product with select customers in 2023 and is expected to scale up in 2024 and 2025.



Source: ir.suncartech.com

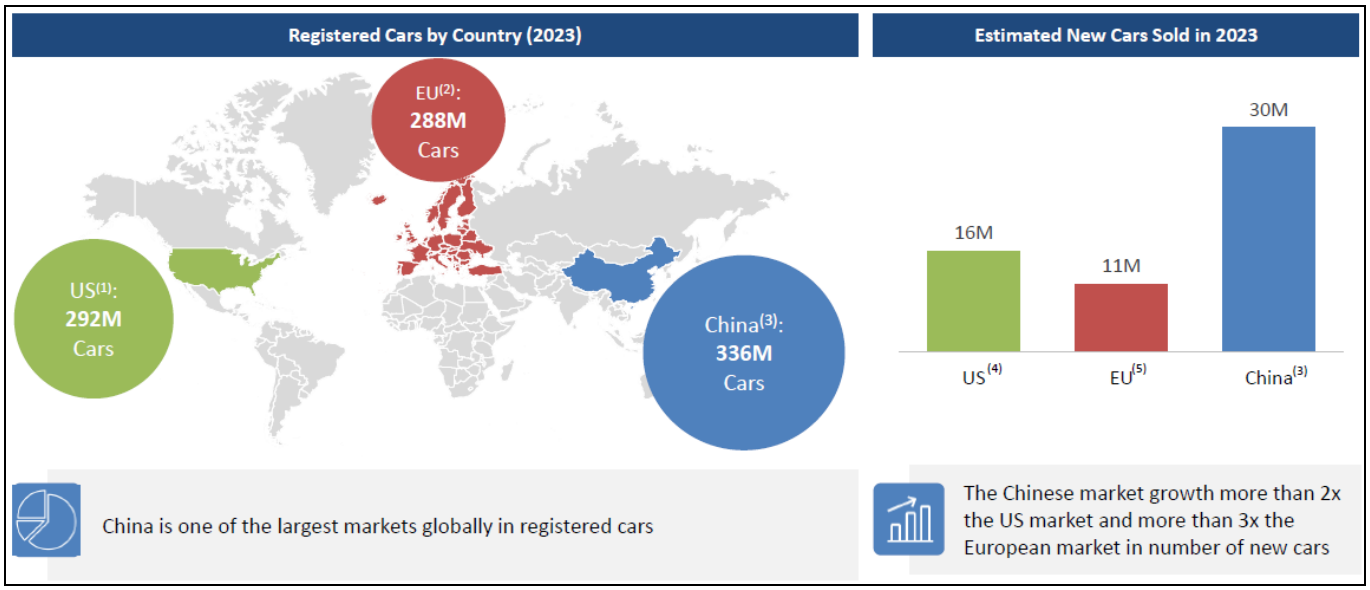
SunCar expects to add more features and iteratively update the product to enhance the capability as well as user experience. Currently it is only being marketed to service providers and insurance sales partners. The expansion to external clients will begin in 2024 when the products mature and when there is solid product penetration in the existing potential client pool.

In 2023, the technology services segment generated revenues of $30.7 million, an increase from $15.5 million in 2022. For the 1st six months of 2024, Technology segment revenues increased 70%.

INDUSTRY & ADDRESSABLE MARKET

China Auto Market Size

China is believed to be the largest and fastest growing auto market in the world. There are over 300,000,000 cars in China and in 2023, an estimated 30,000,000 new cars were sold. The number of autos in China may grow to 400,000,000 cars by 2026. The auto market in China growing at approximately two times the rate of the U.S. market and three times the rate in European markets.



Source: ir.suncartech.com

China's Auto eInsurance Market

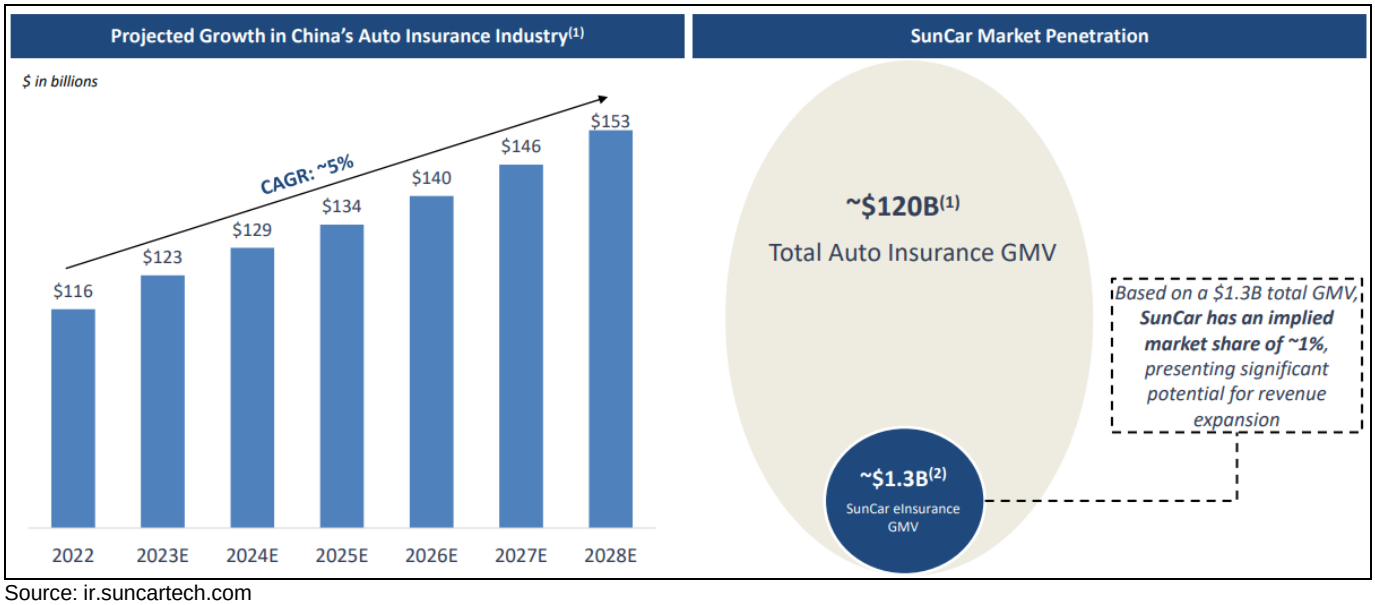
Online auto insurance (eInsurance) in China includes mandatory motor vehicle liability insurance and commercial insurance. Compulsory motor vehicle liability insurance premium is paid annually with rates determined by the driver's accident record and vehicle capacity. Commercial insurances are classified into two categories, primary and additional insurances. Typically, the premium of commercial insurance is decided by the purchase price of the vehicle, traffic violations and accident rates.

The auto insurance agency market in China is similar to other countries and includes insurance companies and insurance agencies. Insurance companies produce the policies and claims are paid by the insurance company and also assume the risk of these policies. Insurance agencies, either retail or wholesale, sell and services the policies created by the insurance company. They are typically not directly employed by any insurance company, instead, they can decide which insurance companies they would like to represent and which products they would like to sell.

Auto eInsurance agency refers to the auto insurance agency that leverages internet technology and distributes auto insurance products through its online sales interface, including PC interfaces and mobile apps, which are designed to facilitate its sales staff and to promote sales in its offline channels.

Through an online sales interface, the sales staff of the agency can search for quotes and terms for different products provided by many different insurance companies. In addition, they can recommend insurance products and perform the whole insurance transaction process, including information consultation, plan design, insuring, and payment processing for their end clients.

The insurance market in China is highly concentrated and dominated by state-owned insurance companies such as PICC, PingAn, and Pacific Insurance. The top 10 insurance companies have over 90% of the market.



Source: ir.suncartech.com

Auto eInsurance Market Size in China

Because of the strong demand from the growing sales volume of vehicles, between 2017 and 2019, the market increased from approximately $105.0 billion to approximately $112.0 billion. However, since the implementation of insurance premium rate reform in 2020, the market was negatively impacted and a large number of unqualified auto eInsurance companies were fined

and some exited the market. In addition, the proportion of the auto eInsurance market to the whole property insurance market declined along with the success of other non-auto eInsurance as well. Because of those issues, the market declined to approximately $107.1 billion in 2021. With the growing sales volume of vehicles, as the market grows mature and becomes more regulated, the auto eInsurance market is expected to be more concentrated over time. By 2026, China's auto eInsurance market is expected to increase to approximately $107.9 billion.

Auto eInsurance Agency Market in China

The auto eInsurance agencies are more connected with target customers and because of this, customers are more likely to purchase auto insurance through agencies that are able to better capture their consumer needs. The auto eInsurance agency market increased from approximately $48.5 billion in 2017 to approximately $58.8 billion in 2020. Impacted by the strengthened regulation imposed by the government to broaden the auto eInsurance industry, the auto eInsurance agency market declined to approximately $56.8 billion in 2021. As the effects of the market regulation impact gradually decreases, the auto eInsurance agency market is expected to reverse its downward trend and increase to approximately $58.8 billion by 2026.

Increasing Demand for More Diversified Auto eInsurance Products

From the supply side, as the market becomes more standardized and concentrated, auto eInsurance agencies are seeking to differentiate themselves, primarily through product diversification. As the market gradually evolves and matures, the complexity of auto eInsurance products should keep developing. On the demand side, as the number of vehicles increases over time in China, there will be more customers entering the market with a wide variety of specific demands. Also, as customers increase their knowledge of auto eInsurance, they will demand different types of auto eInsurance to meet their diverse and specific needs.

Accelerating Industry Consolidation

With a short history relative to more developed countries, the professional insurance agency market in China is somewhat fragmented, which indicates substantial opportunities for further growth and consolidation. In addition, as the government continues its focus on the development of the auto eInsurance agency market through industry regulations, the barriers to entry will increase and the expected number of market participants will decrease. Because of this, auto eInsurance agencies who cannot not pay the increasing regulatory costs will likely consider exiting the market due to poor profitability or burdensome industry regulations. Leading players like SunCar with scale and experience are expected to benefit over the long run.

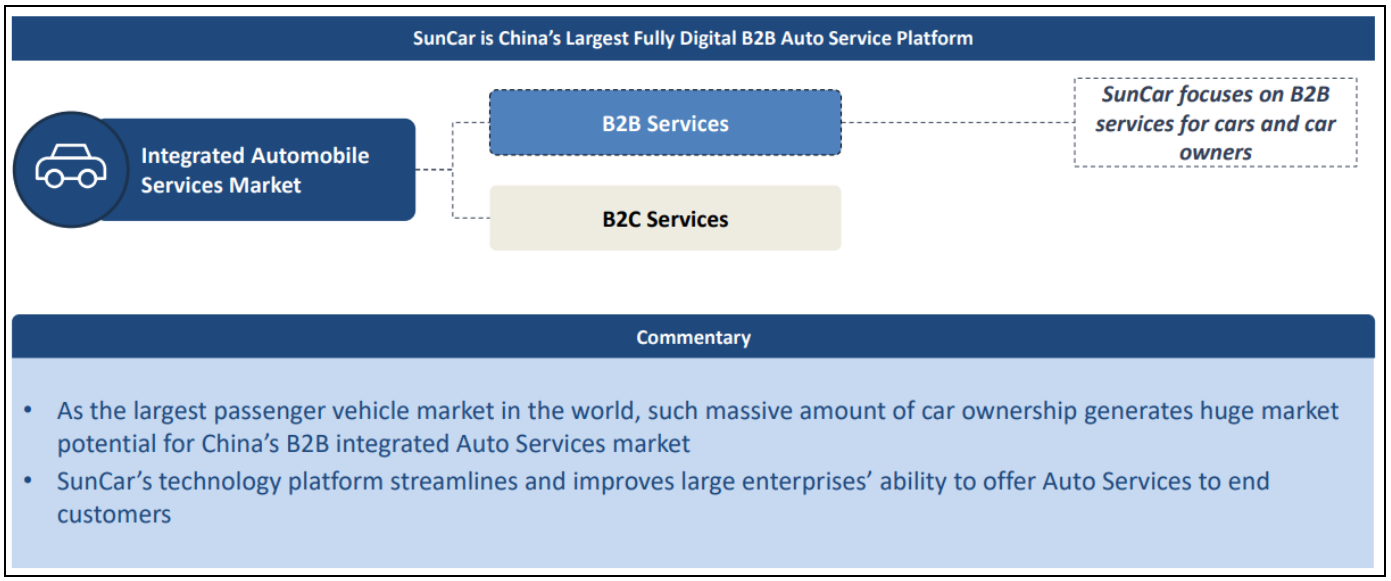
Technological Advancement to Enhance Operational Efficiency

With advances in technologies from big data, cloud computing and artificial intelligence (AI), the adoption of technology to improve operational efficiency becomes more ubiquitous and integrated in the value chain. As technology and digital integration bring customers, vehicle manufacturers and auto eInsurance providers closer together, auto eInsurance agencies can initiate strategic alliances with vehicle manufacturers to better take advantage of the current market opportunity. Through the application of these technologies, auto eInsurance providers can develop sophisticated and customized auto eInsurance according to each individual case.

China's Integrated Auto Service Market

Integrated auto service providers refer to those who offer comprehensive, integrated auto services to customers through offline service channels such as 4S (sales, service, spare parts, and surveys) dealerships, repair & maintenance stores and other offline auto service providers.

B2B (Business-to-Business) integrated auto service providers offer their products and services to business customers which is primarily comprised of banks, airlines, insurance companies, telecom providers, online travel agencies and e-commerce platforms. B2C (Business-to-Customer) integrated auto service providers offer their products and services directly to the end consumers.



Source: ir.suncartech.com

"Butler" services mainly target particular enterprise customers such as banks, insurance companies, airlines and telecom providers who tend to adopt centralized procurement through a bidding process. The winner of the bidding process supplies integrated services to these business customers in the form of an auto service package. These enterprise companies generally distribute these auto services as a reward to their VIP customers or high-level members which can access the services by redeeming their reward points.

B2B Integrated Auto Service Market in China

As the largest passenger vehicle market in the world, this massive amount of car ownership can generate huge market potential for China's B2B integrated auto service market. In order to improve the service offerings and maintain customer loyalty, enterprise corporate customers started offering auto services through collaboration with integrated auto service providers. In the past five years, China's B2B integrated auto service market increased from approximately $540.0 million in 2017 to approximately$1.3 billion in 2021 which is a CAGR of approximately 23.6%. As Chinese regulators continue to standardize the market environment and promote the integration between various parties in the entire auto value chain, China's B2B integrated auto service market is projected to increase to approximately $2.3 billion by 2026, which is a CAGR of approximately 12.5%.

EV Auto Service Market in China

EVs have grown in popularity in recent years. As the government sets goals of carbon neutrality and emission peak, an increasing number of players quickly entered the NEV auto service market in order to gain the first-mover advantage.

A growing number of auto service providers started to deploy specific equipment and initiate pilot collaborations with EV manufacturers to prepare for the potential growth momentum in the sector. The EV auto service market increased from approximately $370 million to approximately $1.8 billion between 2017 and 2021 and is expected to increase to approximately $8.3 billion by 2026 which is a CAGR of approximately 35.4%.

Increasing Demand for Integrated Auto Services

According to the Chinese Ministry of Public Safety, China had 336 million registered cars in 2023, with 30 million new cars sold in that year. That is larger than the U.S. and the European Union in both size and growth. Driven primarily by the steadily growing number of vehicles in use, particularly EVs, the expanding demand for value-added service such as designated driving, and the convenience resulting from the comprehensive service solutions provided, the demand for integrated auto service is expected to show sustained growth over the long-term.

More Standardized Service Delivery Procedures and Products

To better manage their extensive service networks, the leading players have designed a series of service standards to continuously improve their service delivery procedures by enhancing the standardization of their products and services. Going forward, this will be a key development focus for the integrated auto service providers as they try to rapidly expand service networks without sacrificing the quality of the services delivered by their offline channel partners.

Integration and Consolidation in the Value Chain

The margins in this market are relatively low, so certain integrated auto service providers choose to establish their service networks by integrating the scattered and independent offline service providers. This allows them to expand their geographical reach and service scope in a cost effective way and promotes resource integration across the value chain.

More Innovation in the Online-to-Offline Business Mode

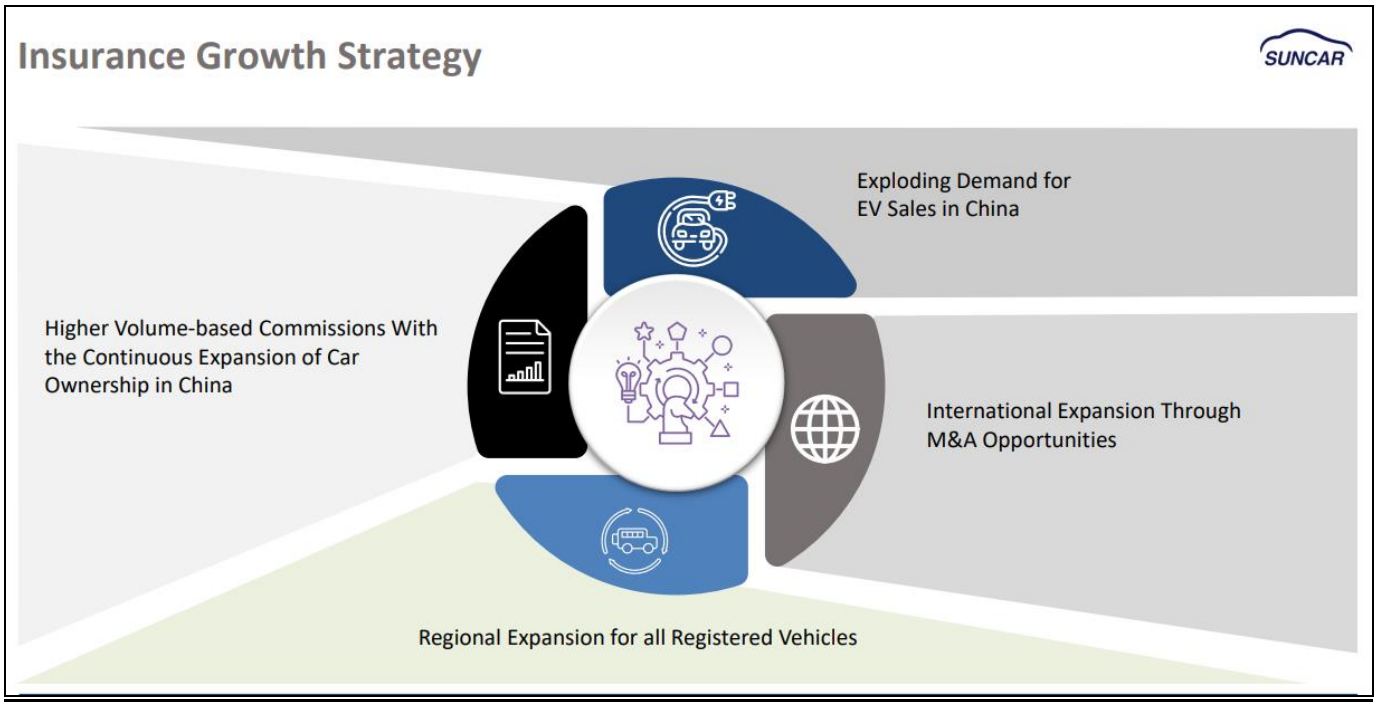
Attracted by the large market potential, many auto service providers have increased their online-to-offline service platforms to deliver auto services. However, the standardized business model, low consumer loyalty, and lack of competitive advantages are concerning to integrated auto service providers. Developing more innovative business models to optimize the resources online and offline has become one of the priorities for current players and new entrants to capture new opportunities in as well as capture the high-potential NEV market.

STRATEGY & OBJECTIVES

SunCar expects to maintain its leading position in both enterprise auto services as well as auto eInsurance markets. The company intends to take an active part in the automotive industry's transformation and seek new opportunities to develop growth. The key components of the growth strategy are:

Benefit from High Industry Growth

The auto service industry and online automotive insurance industry will continue to benefit from significant trends that drive continuous growth, including growing car ownership in China. The uptrend of vehicle usage post COVID-19 has created more opportunities for auto service and insurance orders.



Source: ir.suncartech.com

Grow Customer Base and Expand the Service Partner Network

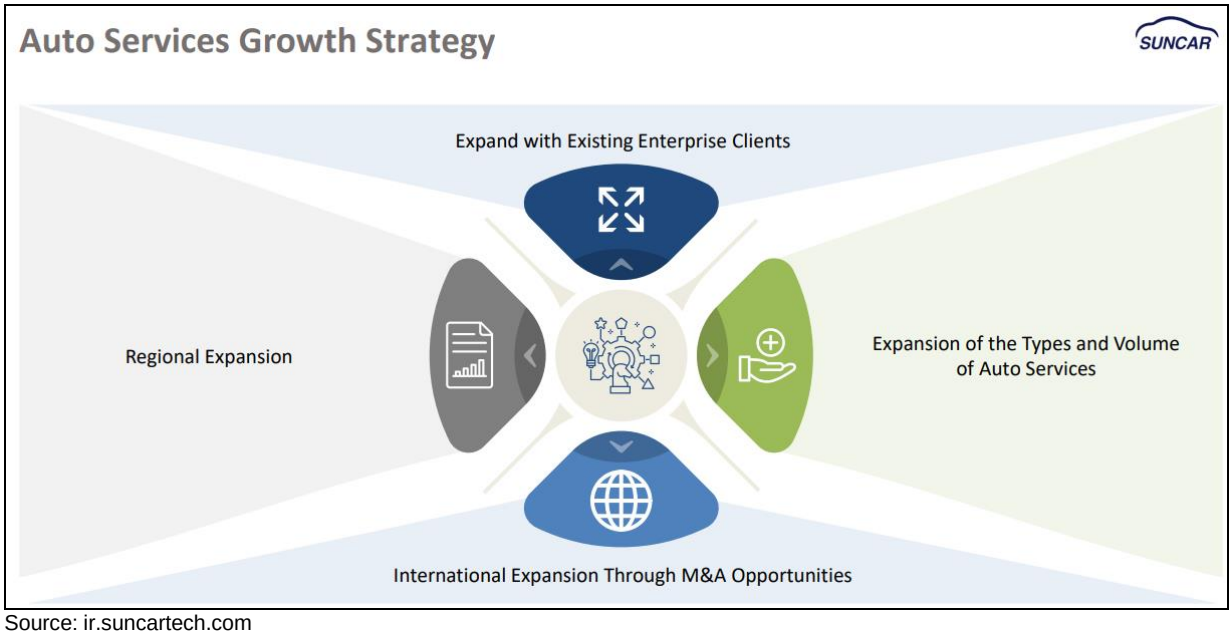
The auto market in China is highly fragmented. In 2021, the top five service providers account for a 40.3% market share. SunCar ranked first with 13.9% market share. The others are TUHU Car Inc., with an 11.9% market share, Harson Group with a 7.4% market share, Bosch Automotive Aftermarket with a 3.7% market share and Beijing Qiguanghang Information Technology with a 3.3% market share.
The company plans to leverage its large business scale to further expand and connect more service partners to the network. This expansion would also benefit the online automotive insurance business since many of the service partners can become insurance sales and referral partners.

Continual Investment in Technology

SunCar's business is built on a cloud-based, multi-tenant digital platform which integrates both the client base as well as the service and sales network. The long-term focus is to digitize all of the internal workflow as well as the related business processes of partners. The company plans to adopt more cutting-edge technologies such as AI, big data and robotics process automation (RPA) to continually upgrade the digital platform for new features and better performance.

Expand the Technology Segment

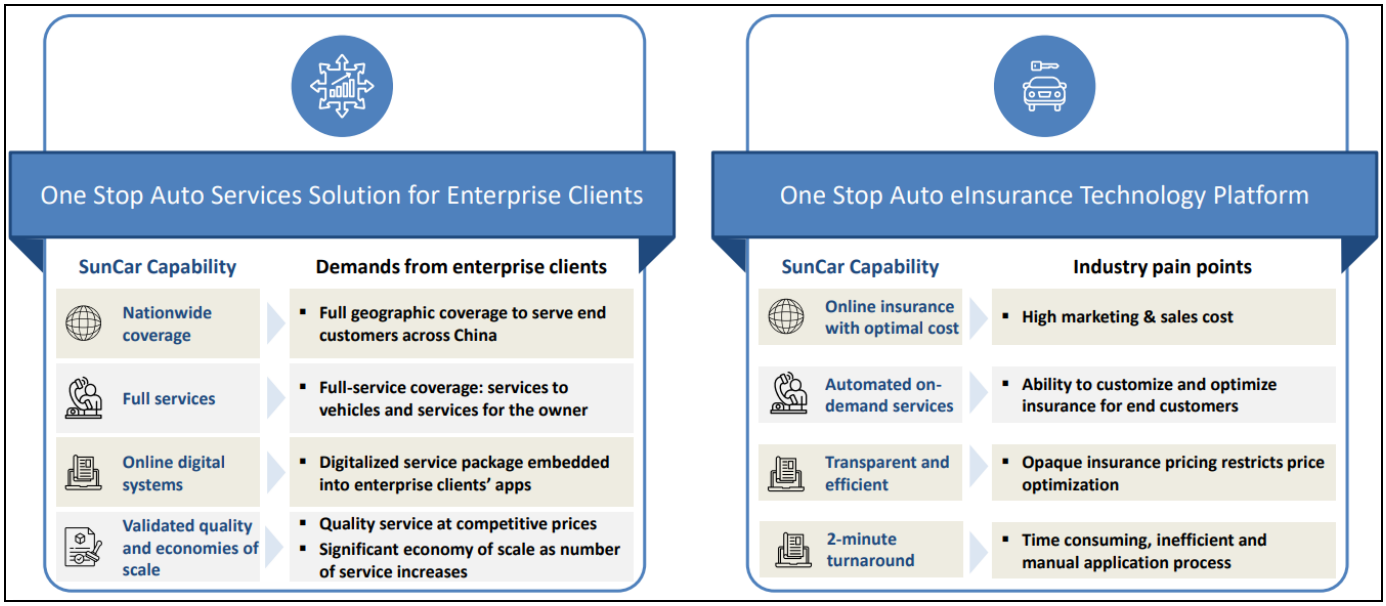
SunCar has based the technology business on in-depth industry knowledge and insights and a library of proven online tools and digital systems that have already been widely adopted by clients and partners. The company has set up modular online management tools such as customer relationship management (CRM), order management, finance management and visual analysis systems, based on the proprietary hybrid cloud platform. The company plans to further develop this business into a SaaS type model.



Source: ir.suncartech.com

COMPETITIVE ADVANTAGE

SunCar's synergistic double platform can provide unique values for enterprise clients and their end customers in the auto services and the auto eInsurance markets. The companys plan is to promote sustainable and healthy development of an integrated and digital service platform for car owners in China.



Source: ir.suncartech.com

Value proposition for enterprise clients

- One-stop, plug-in, round-the-clock service enablement - The service solutions contain diverse service selections, provided 24/7 across China, empowering clients with round-the-clock, on-demand service capability to satisfy their end customers.

- Simple, convenient and cost-efficient service process - SunCar has built and enabled an extensive network of quality auto service providers and set up strict service standards to ensure consistent service quality. The digital platform allows enterprise clients to purchase comprehensive integrated auto services in one stop using a simple plug-in connection which avoids the potential high costs of selecting, engaging and supervising numerous scattered and independent service providers by themselves.

- Quality auto services to the end customer increases loyalty and satisfaction with the enterprise clients - SunCar selects quality auto service providers and monitors them with regular training and supervision. These quality services provided by auto service providers enhance the loyalty and satisfaction of the end consumers.

Value proposition for auto service providers:

- Cost-effective customer acquisition - Once connected, the digital platform directs end consumers of the enterprise clients, typically members of their loyalty and reward programs, to visit the locations of these auto service providers. This provides the service providers with an additional flow of customers that can be significant in volume and consistency.

- Online management tools for efficient operation - The company provides the auto service providers with online management tools to streamline their workflow and improve business efficiency.

- Referral fees for the auto eInsurance business - Auto service providers on the platform can also act as referral service providers for the auto eInsurance business. They refer their end consumers, who are also potential insurance purchasers, to the company's eInsurance segment and can receive referral fees and other rewards when these referrals lead to successful insurance policy sales.

Value proposition for insurance company clients:

- Extensive network to market insurance policies in an efficient manner - The company leverages proprietary technology platforms and extensive networks of service providers to promote the sale of auto eInsurance products for insurance company clients. This is done by the online platform, which connects over 64,000 external sales partners to insurance products underwritten by 85 insurance company clients using a convenient online insurance interface.

- Targeted sales channels - The sales partners consist of auto service providers and online car marketplaces with direct exposure to a focused user traffic of car owners. They bring customers to the product offerings of the insurance company clients, and the management believes these customers to be accurate target customers for the insurance company.

- Efficiency by full digital experience - The online interface enables insurance company clients to complete the whole insurance underwriting process fully digitally. With simple prompts from the insurance buyer, the system can realize automatic vehicle recognition, easy quotes, online underwriting, online payment and generation of the insurance policy.

Value proposition for auto consumers:

- Convenient one-stop “supermarket-style” auto insurance shopping experience - End consumers can obtain accurate real-time information about various auto eInsurance products and shop for insurance products conveniently while visiting auto service providers such as car wash businesses, maintenance facilities or car dealerships.

- Auto services for free or at discounted prices - The auto services platform enables end consumers to receive a variety of quality services for free or at discounted prices as members of the reward or customer loyalty programs of the enterprise clients. The end consumers can redeem their reward points that they have accumulated in in this process.

- Convenient and customized service experiences - SunCar management believes the scale of its network of auto service providers as well as their efficient digital platform allows end consumers to conveniently choose auto services that best suit their particular needs at the times and locations most convenient to them.

- Complementary insurance claims assistance and related services - In collaboration with the insurance company clients and external insurance sales partners, the company also provides claims assistance and damage assessment assistance.

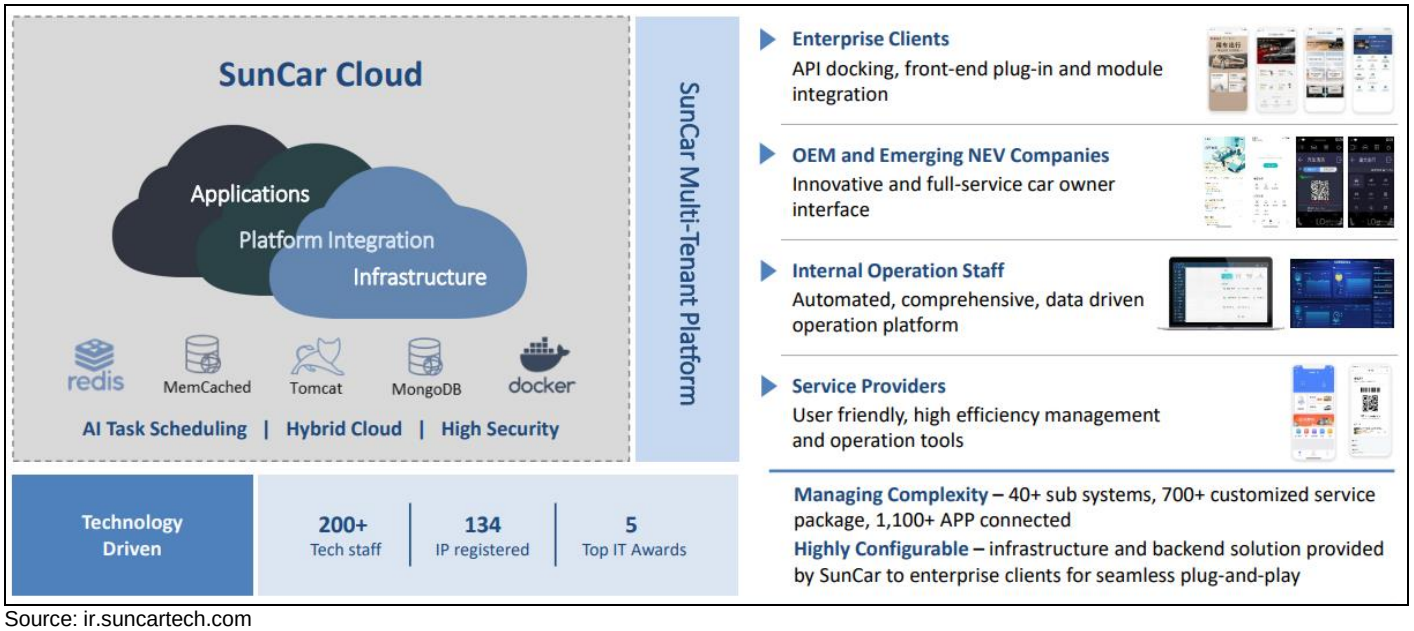
TECHNOLOGY

Much of SunCar’s success is dependent on its advanced technological capabilities which delivers an exceptional user experience, secures information on the platform, increases operational efficiency and enables new innovations. The cloud-based digital platform is the foundation of its operations and supports the entire transaction process. The company has adopted AI, hybrid cloud, big data and scalable technologies to continuously and iteratively upgrade the systems. The company has developed digital systems and relevant online software and apps, which include hybrid cloud, online insurance interface, auto apps, order allocation system, the auto service modules embedded in the apps of enterprise clients. They have also developed various desktop and mobile applications utilized by employees, clients and partners. The company has invested over $100 million in its technology platform.

Key components of the technology systems include:

- Plug-in and flexible implementation: The digital system provides enterprise clients with the capability to implement the service solutions rapidly and cost-efficiently, with an average implementation period of less than two weeks. These clients can choose the service category to customize while the company’s operation and technical teams work seamlessly to perform the implementation and testing. The digital service solutions can be embedded into a client’s existing systems through Application Programming Interface (API), HTML 5, Applet or their own applications.

- Secured Hybrid Cloud and Data: The company has developed its hybrid cloud to support the multi-tenant digital platform which processes large amounts of transactions every day. Since many of its clients are in banking, insurance or other data sensitive institutions, the company maintains a financial institution’s level of cybersecurity throughout the whole system to monitor and manage data traffic on a real-time basis. The company has also implemented multiple layers of security measures to insulate the database from unauthorized access, along with sophisticated security protocols for communication among applications.



Source: ir.suncartech.com

- Innovation: The company continues to invest in R&D to provide innovative solutions for its clients and partners. The multi-tenant platform has derived over 40 sub-systems which continually release new features for clients, partners and internal staff. The company also works closely with automotive OEMs and smart panel companies to deploy new features and services into their mobile applications or car panels.

- Automation: SunCar maintains a highly automated management process. For its auto eInsurance business, they imbed modules with functions including real-time insurance premium quotes inquiry and underwriting decisions that connect to and automatically interact with insurance company clients. The auto service orders are also processed by an AI task scheduling system based on service category, location and time requirements and distributed to the best available service providers.

- Managing complexity: The multi-tenant digital platform plays a critical role in managing the growing complexity of the overall business. The company works with over 1,400 enterprise clients, over 47,000 auto service providers, 85 insurance companies and over 64,000 insurance sales partners. The platform and its 40 derived sub-systems support over 1,400 service solutions embedded in client applications. The platform digitizes and manages complex processes and interactions across all parties in the automotive ecosystem with their diverse business workflows.

- Cyber resilience: The company has adopted various IT safety measures to enhance information security, including firewalls, data encryption and intrusion detection. They utilize multiple data centers in different cities and maintain data redundancy through a real-time multi-layer data backup system to ensure the reliability of the systems. The company's board of directors reviews cyber security measures and cyber resilience twice a year.

- SAAS Potential: The SaaS business addresses both NEV manufacturers and traditional gasoline vehicle markets. The company is targeting a 30% market share in the traditional vehicle sector which represents significant revenue potential. This can help fuel vehicles OEMs significantly improve their earnings, including increasing the rate of renewal car insurance, while gaining access to high-margin maintenance business given by insurance companies. SunCar's SaaS platform is also integrated with over 18 leading NEV manufacturers such as Tesla, Xiaomi, Li Auto, NIO, and Zeekr. This opens the doors for further collaboration in wider range of services, including Suncar Care services or car window tinting.

MANAGEMENT

Zaichang Ye
Chairman and Chief Executive Officer

Mr. Zaichang Ye serves as Chairman, Director and Chief Executive Officer of SunCar Technology Group Inc. He is primarily responsible for formulating corporate strategy, planning, business development and supervising the overall operations of SunCar. He established Shengda Limited, a predecessor of SunCar, on December 5, 2007 and served as an executive Director and legal representative until May 2012 and served as general manager from April 2010 to May 2012. Mr. Ye has 20 years of experience in corporate and business management and over 10 years of experience in investment management. Prior to founding SunCar, he served as the legal representative and an executive director of Shanghai Jiamei Shenghai Culture Communication Co., Ltd. from December 2003 to April 2016. Mr. Ye has been a director of Shanghai Evening News Media Co., Ltd. since August 2004. He has been a supervisor of Shanghai Shouheng Commercial Consulting Co., Ltd. since August 2005. Mr. Ye obtained a bachelor's degree in engineering from the department of mechanical engineering of Shanghai Jiao Tong University in China in July 1991. He also obtained a master's degree in business administration from Cheung Kong Graduate School of Business in China in September 2007.

Bohong Du
Chief Financial Officer

Mr. Bohong Du will serve as Director and Chief Financial Officer of SunCar. He is primarily responsible for formulating corporate strategy, planning, business development and supervising the overall operations of SunCar. He joined SunCar in March 2008 as a supervisor of Jiangsu Shengda. He has been a supervisor of Shengshi Dalian Automobile and Chengdu Shengda since June 2013 and December 2010, respectively. Mr. Du has 20 years of experience in corporate and business management. Prior to joining SunCar, Mr. Du served as a manager of Shanghai Fosun High Technology (Group) Co., Ltd. from March 1998 to September 2002. Mr. Du obtained a college degree in financial accounting from Shanghai University in China in July 1997. Mr. Du obtained a bachelor's degree in business administration from the School of Continuing Education of Shandong University in China in January 2013. He also obtained a master's degree in business administration for senior executives from Xiamen University in China in June 2016.

Zhunfu Lei
Chief Technology Officer and Chief Operating Officer

Mr. Zhunfu Lei will serve as Chief Technology Officer and Chief Operating Officer of SunCar Technology Group Inc upon the closing of the Business Combination. He joined SunCar as the legal representative and an executive Director of Shengda Limited in May 2012. He was approved to serve as general manager of Shengda Limited on September 21, 2012 by the Shanghai bureau of the CIRC. He is primarily responsible for formulating corporate strategy, planning, business development and supervising the overall operations of the Group. He has been the legal representative, a director and a general manager of Jiangsu Shengda Automobile Service Co., Ltd., a wholly-owned subsidiary of SunCar, since July 2012. He has been the legal representative, an executive director and a manager of Beijing Beisheng since January 2010. He also served as the legal representative, a director and a manager of Shengshi Dalian Automobile from June 2013 to April 2016. Mr. Lei has 20 years of experience in corporate and business management. Mr. Lei obtained a bachelor's degree in computer software from Zhejiang University in China in June 1999.

Breaux Walker
Chief Strategy Officer

Mr. Walker has over 25 years of experience in business development, corporate finance, and cross-border transactions, particularly in the technology and fintech sectors. Mr. Walker joined SunCar in March 2024 as consulting GM, North America. Prior to joining SunCar, he served as a Partner at HRJ International, where he advised emerging technology companies on financings, M&A, and growth strategies. Previously, he held Managing Director positions at Weild & Co. and JMP Securities, where he led cross-border transactions and public equity offerings for technology companies. Earlier in his career, Mr. Walker demonstrated entrepreneurial success in China, founding and scaling a technology services company to $25 million in revenue. He has also held senior positions at notable firms including Kochava, where he was an SVP, of Business Development, and Union Mobile Pay Ltd., where he led North American operations for one of China's leading fintech platforms. He is fluent in Mandarin Chinese and proficient in Spanish. Mr. Walker holds a degree from Wesleyan University in Middletown, CT.

INSIDER TRADING AND OWNERSHIP

The following table shows information regarding the beneficial ownership of the common stock as of December 31, 2023 based on 89,705,058 shares outstanding.

	Class A Ordinary Shares		Class B Ordinary Shares		Voting Power
Name and Address of Beneficial Owner[1]	Number	%	Number	%	(%)
Executive Officers and Directors					
Zaichang Ye	—	—	47,000,902	52.4%	87.7%
Bohong Du	—	—	—	—	—
Zhunfu Lei	—	—	—	—	—
Tianshi Yang	—	—	—	—	—
Ms. Saiye Gu	—	—	—	—	—
Yizhi Qian	—	—	—	—	—
Haidong Zhang	—	—	—	—	—
Ms. Lin Bao	—	—	—	—	—
Yongsheng Liu	—	—	—	—	—
All Executive Officers and Directors as a group	—	—	47,000,902	52.4%	87.7%
5% or Greater Holders					
Automobile Services Group Limited[2]	—	—	41,708,943	46.5%	77.8%
KMBP Holdings Limited[3]	20,832,142	23.2%	—	—	3.9%
SSDL Holdings Limited[4]	—	—	7,919,622	8.8%	14.8%

Source:SunCar SEC Filings

FINANCIAL REVIEW

1st Half 2024 Financial Results

On September 13, 2024, SunCar reported 1st half 2024 financial and operating results which showed a strong increase in revenue growth. Total revenues for the 6-month period ending June 30, 2024 increased 27%. Revenue growth in the Technology segment increased 70% and revenues in the eInsurance segment increased 55%. The Auto Service segment increased revenues by 9%.

In the eInsurance segment, the company ranked first in terms of auto insurance premium originated for EVs in China. EVs' sales have increased sharply in recent years and are a primary driver for growth in

the auto eInsurance business. While average commissions for the 6-month period decreased by 21%, the number of insurance policies sold in the period increased 255%.

For the Technology segment, with the increased demand to efficiently manage their businesses, more enterprise clients are now paying for SunCar's online tools to streamline their business workflows and manage their customer relationships. With the iterative upgrades of their technology, the company is working on developing a SaaS model product offering and plan to gradually turn most of its enterprise clients into Technology customers.

	For the Six Months Ended June 30,		Change	
	2023	2024	Amount	%
	(In thousands, except for percentages)			
Revenues				
Auto service	$ 98,813	107,451	$ 8,638	9%
Auto eInsurance service	47,710	73,747	26,037	55%
Technology service	12,855	21,888	9,033	70%
Total revenues	159,378	203,086	43,708	27%

Source:SunCar SEC Filings

In the 1st half of 2024, the company showed a large operating loss of ($58.6) million. However, that loss was primarily due to stock compensation expenses totaling $62.8 million. Excluding stock compensation, we believe the six-month operating income was $4.2 million.

Integrated service costs increased by 22% to $107.6 million from $87.9 in the prior year period, which was in line with the growth in the Auto Services and Technology segments.

Selling expenses decreased by 20% to $10.2 million from $12.8 million in the prior year period. This decrease in on-site promotion expenses was driven by the synergistic growth between auto service and auto eInsurance segments which enhanced promotion efficiency.

General and administrative expenses increased from $4.0 million in the first half of 2023 to $40.5 million in the first half of 2024. This increase was primarily due to a $31.0 million increase in stock compensation expenses related to the 2024 Equity Incentive Plan and a $6.3 million increase in expected credit losses on account receivables. Excluding these items, there was a slight decrease in general and administrative expenses compared to the prior year period.

R&D expenses increased to $32.2 from $4.0 million in the prior year period which was primarily driven by $31.0 million in stock compensation expense related to the 2024 Equity Incentive Plan.

Adjusted EBITDA, which eliminates depreciation & amortization, stock compensation, and one-time charges, improved to approximately $6.0 million in the 1st six months of 2024 compared to $5.8 million in the prior year period.

The company maintains a strong liquidity position with $44.6 million in cash and short-term investments as of June 30, 2024 and working capital of $50.8 million. Total debt was $83.0 million and was comprised of mostly short-term loans that are due in 2024.

Zaichang Ye, CEO and Chairman of SunCar stated, *"We are incredibly proud of SunCar's remarkable performance in the first half of 2024 with 27% revenue growth and a significant 55% increase in our auto eInsurance business. These achievements reflect the strength of our industry-specific software solutions and our ability to meet the evolving needs of enterprise clients across China's banking, automotive, and insurance sectors. We continue to leverage our unique technology platform to meet the evolving needs of our enterprise customers. As we expand our technology capabilities, service offerings, and partnerships, we are well-positioned to maintain this upward trajectory and deliver sustained value to our shareholders and customers. We look forward to building on this momentum in the second half of the year and beyond."*

2023 Calendar Year Financial Results

For the fiscal year ending December 31, 2023, total revenues increased 29% from $282.4 million to $363.7 million.

Auto service revenue increased 8% from $199.3 million in 2022 to $215.0 million in 2023 which was driven by higher service orders and new service offerings. The extensive service network the company developed reached more enterprise clients and completed more auto service orders during 2023.

Auto eInsurance service revenue increased 75% from $67.6 million in 2022 to $118.1 million for the year ended December 31, 2023. The company ranked first in terms of auto insurance premiums facilitated for EVs in China. As EV sales have increased significantly in recent years, the auto eInsurance business has been able to expand rapidly. While the average commission in 2023 decreased by 12% compared to 2022 due to new regulation requirements and normal market fluctuation, this decrease was offset by the increase in the number of insurance policies sold which more than doubled from the prior year.

Technology service revenues increased from $15.5 million in 2022 to $30.7 million in 2023. This segment is a new business focus for the company which started in 2021. The increase is due to market share gains but also due to the increasing reliance of cooperative insurance companies on the insurance app with the development of online business, which brings more cooperation on technology service. Through the application of Private Cloud Platform, the development process was simplified, and the company can easily obtain various tools for software development, testing, operation and maintenance to strengthen software platform to increase business capacity and better serve customers.

	Year Ended December 31, 2023			
	Auto service	Auto eInsurance service	Others	Consolidated
Revenues from external customers	$ 214,979	$ 118,109	$ 30,658	$ 363,746
Depreciation and amortization	$ (2,759)	$ (1,914)	$ (195)	$ (4,868)
Segment income (loss) before tax	$ 16,958	$ 1,278	$ (33,243)	$ (15,007)

Source:SunCar SEC Filings

Operating costs and expenses increased by 29% from $295.0 million in 2022 to S$379.2 million in 2023. This was primarily due to the growth in revenues in all of the company's segments. These include integrated service costs and promotional expenses to operate the company's core businesses. Promotional service expenses have been steadily increasing as the company continues to capture market share and support the onboarding of new customers. The auto service segment is currently more profitable than the eInsurance segment as the company invests heavily to expand and grow the eInsurance business.

The operating loss was ($15.5) million in 2023 and ($12.6) million in 2022. Adjusted EBITDA, which adds back D&A, stock compensation, and unusual items, was $1.6 million in 2023 compared to negative EBITDA of ($5.5) million in 2022. GAAP net loss in 2023 was ($17.6) million and GAAP net loss in 2022 was ($11.9) million. Much of the increase in losses was due to $11.3 million in stock compensation in 2023 which was related to equity capital raises in 2023. The company operates an asset-light business and had capital of expenditures of $4.9 million which was only 1.3% of sales. This low capex business model creates the ability to expand margins as the company continues to increase its scale and market share.

The company raised $40.2 million in equity capital in 2023 and they have a shelf filing in place for $30 million in the short-term and $100 million over the long-term to help grow the insurance business over time. The company indicated they do not need to access the capital markets in the near-term.

VALUATION

SunCar Technology Group has the potential to deliver strong double-digit revenue growth and positive earnings over the next 10 years as the company expands and gains market share in its eInsurance and auto service offerings. We believe the company can generate average annual revenue growth in the 15%-20% range over the next 5 years and improve margins to industry averages over time.

Our primary valuation tool utilizes a Discounted Cash Flow process. Under the scenario described above, our DCF based valuation target is approximately **$20.00** per share. Our target price may be conservative as it utilizes a high discount rate of 15.0% due to the unpredictability of earnings, higher prevailing interest rates, and uncertainty surrounding revenue growth rates.

Our total revenue estimate is $455.3 million for 2024 and $570.7 million for 2025. The eInsurance segment is expected to be the company's fastest growing business line. Our 2024 full year adjusted EPS estimate is $0.11, and for 2025, our EPS estimate is $0.53.

SunCar operates in a unique space in China and there are no competitors with the exact breadth of services and offerings that the company has. However, a competitive set of InsurTech, B2B marketplaces, and vertical software companies provide comps on an EV/Sales basis that show SDA stock to be undervalued on a relative basis.

The competitive set trades at an average EV/Sales ratio of approximately **8.4x** (5.5x for B2B marketplaces, 7.5x for InsurTech, and 12.3x for vertical software). With SunCar's EV/Sales ratio at approximately 2.6x based on 2023 revenues and 2.2x based on 2024 revenue estimates, SDA stock appears to be substantially undervalued on a relative basis. Using the B2B sector EV/Sales ratio of 5.5x, the relative value for SDA stock would be in the **$22.00-$26.00** range.

RISKS

- The company has a history of rapid growth, but historical business growth and profitability may not be indicative of future performance. There is no assurance that the company will be able to deliver similar growth or avoid any decline in the future.

- The company is working as an intermediary in auto services and insurance. Therefore, they depend on auto service providers and insurance company partners to provide services to its clients and customers. Business success depends on the ability to develop and maintain relationships with existing business partners and attract new business partners.

- There are risks related to doing business in China including government influence, currency fluctuations, favorable tax treatment, and regulatory actions. For the auto services business, the company relies on its auto service providers to deliver a variety of automobile-related services to customers of the enterprise clients. Accordingly, relationships with the auto service providers and their quality of service are crucial to continue business growth and promote the SunCar brand and reputation among customers.

- The company faces inflationary pressures which may affect the business model. These include general pressure from inflation-related economic slowdown and a specific pressure from inflation of fuel prices. Since 2020, general inflation was triggered by excessive government spending in the U.S. and other countries. Also, the war in Ukraine caused higher than average oil prices. Efforts in developing NEV (new energy vehicles) business line may not be able to completely offset these inflationary pressures.

- The automobile auto eInsurance market and the integrated auto service market in China are highly fragmented and competitive. In the auto services business, SunCar primarily competes with a large number of large integrated service providers and other independent auto service providers. In the auto eInsurance business, the company faces competition from insurance companies that use their in-house sales force, exclusive sales agents, telemarketing, and Internet or mobile channels to distribute their insurance products. Some of the current and future competitors may have greater financial and marketing resources than SunCar and may be able to offer services that it does not currently have and may not offer in the future.

SUMMARY

We believe SunCar has the potential to generate substantial levels of free cash flow over a near-to-mid-term time frame as market share gains continue to drive revenue growth. A continued focus on operational efficiencies has the potential to increase margins going forward. In addition, SunCar's unique competitive position in which no other company in China has similar broad-based, technologically advanced offerings should allow it to continue to gain market share and grow.

The auto market in China is large and continues to grow. There are over 300,000,000 cars in China and in 2023, an estimated 30,000,000 new cars were sold. The company is not dependent on new car sales for its growth as the existing base of auto owners that do not have integrated auto and eInsurance services is substantial.

The company has a high level of experience in managing extensive networks of auto service providers across China which is the engine of the dual platforms of auto services and auto eInsurance. The platforms enable cost-effective end customer-acquisition for the auto eInsurance business by cross-engaging auto service providers to provide referrals.

The company's current stock price does not likely reflect that potential level of profitable growth going forward when market share gains continue to accelerate in future years, and we believe the stock to be significantly undervalued at this time.

We believe our multiple valuation methods support our DCF valuation which provides a target price of **$20.00** per share.

CHINA'S LEADING

digital automotive aftersales market service platform and vehicle insurance technology platform.

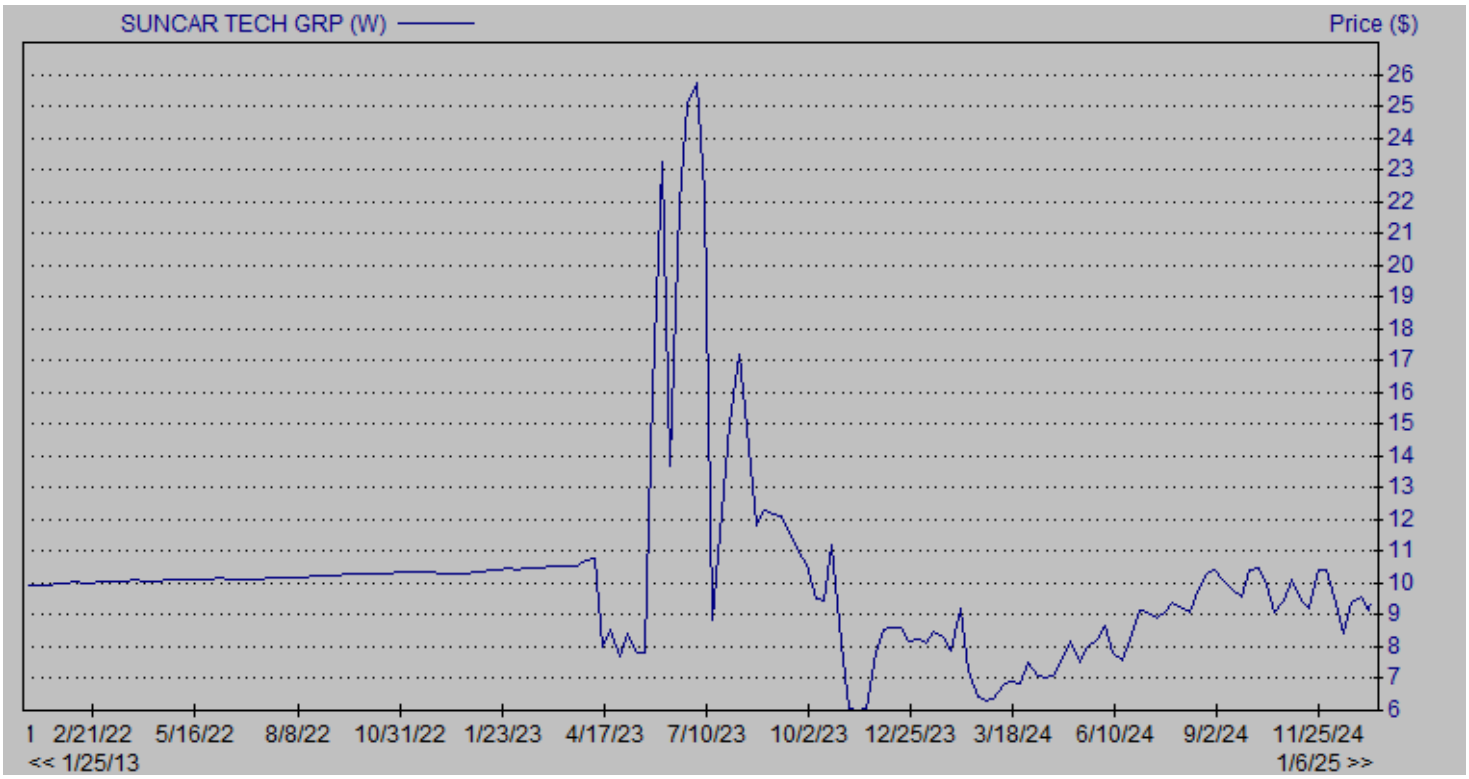
Source: ir.suncartech.com

PROJECTED INCOME STATEMENT & BALANCE SHEET

Income Statement	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
Adjusted EBITDA	3,563	(5,500)	1,648	25,191	73,138
Net Sales	**249,235**	**282,413**	**363,746**	**455,255**	**570,718**
Growth	*#DIV/0!*	*13.3%*	*28.8%*	*25.2%*	*25.4%*
Cost of Goods Sold	**156,361**	**161,715**	**205,439**	**236,395**	**251,984**
%	*62.7%*	*57.3%*	*56.5%*	*51.9%*	*44.2%*
Depreciation & Amort	**4,055**	**5,078**	**4,114**	**4,196**	**4,280**
Gross Profit	**88,819**	**115,621**	**154,194**	**214,664**	**314,454**
Margin	*35.6%*	*40.9%*	*42.4%*	*47.2%*	*55.1%*
Promotional Service Costs	**55,222**	**65,500**	**112,504**	**143,623**	**162,978**
% of sales	*22.2%*	*23.2%*	*30.9%*	*31.5%*	*28.6%*
G&A Expenses	**10,420**	**37,742**	**22,462**	**21,000**	**45,947**
% of sales	*4.2%*	*13.4%*	*6.2%*	*4.6%*	*8.1%*
Selling Expenses	**12,731**	**16,477**	**20,578**	**25,190**	**32,388**
% of sales	*5.1%*	*5.8%*	*5.7%*	*5.5%*	*5.7%*
Research & Development	**3,651**	**8,478**	**14,111**	**7,056**	**7,408**
% of sales	*14`%*	*3.0%*	*3.9%*	*1.5%*	*1.3%*
Amortization	**0**	**0**	**0**	**0**	**0**
% of sales	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Operating Income	**6,795**	**(12,577)**	**(15,462)**	**17,795**	**65,732**
Margin	*2.7%*	*-4.5%*	*-4.3%*	*3.9%*	*11.5%*
EBITDA (non-adjusted)	**10,850**	**(7,499)**	**(11,348)**	**21,991**	**70,013**
Margin	*4.4%*	*-2.7%*	*-3.1%*	*4.8%*	*12.3%*
Other Expenses/(Income)	**(3,216)**	**(5,562)**	**(4,890)**	**(4,556)**	**(5,003)**
%	*-1.3%*	*-2.0%*	*-1.3%*	*-1.0%*	*-0.9%*
EBIT	**10,011**	**(7,015)**	**(10,572)**	**22,351**	**70,735**
%	*4.0%*	*-2.5%*	*-2.9%*	*4.9%*	*12.4%*
Total Interest Exp (net)	**3,045**	**3,659**	**4,435**	**4,435**	**4,435**
%	*1.2%*	*1.3%*	*1.2%*	*1.0%*	*0.8%*
Net Profit Before Tax	**6,966**	**(10,674)**	**(15,007)**	**17,916**	**66,300**
%	*2.8%*	*-3.8%*	*-4.1%*	*3.9%*	*11.6%*
Income Tax	**938**	**231**	**2,572**	**1,971**	**6,630**
% Effective Rate	*13.5%*	*-2.2%*	*-17.1%*	*11.0%*	*10.0%*
% Cash Tax Rate	*13.5%*	*-2.2%*	*-17.1%*	*11.0%*	*10.0%*
Preferred Stock and JV	**5,650**	**(5,230)**	**9,333**	**4,667**	**4,713**
Net Profit	**378**	**(5,675)**	**(26,912)**	**11,279**	**54,957**
%	*0.2%*	*-2.0%*	*-7.4%*	*2.5%*	*9.6%*
Non-recurring income (expense)					
Average Diluted Shares Outstanding	81,600	81,600	85,441	98,601	103,538
Reported FD EPS					
Zacks Adjusted EPS	**0.00**	**(0.07)**	**(0.31)**	**0.11**	**0.53**
GAAP EPS	**0.00**	**(0.07)**	**(0.31)**	**(0.56)**	**0.53**

Source: Zacks SCR analyst

HISTORICAL STOCK PRICE



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