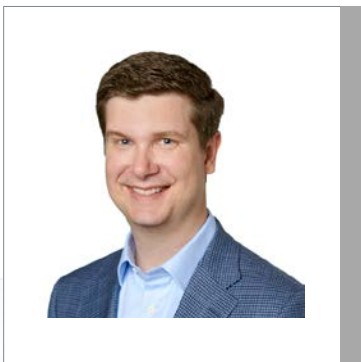


# Transform Tomorrow's Off-Lease Overflow into Opportunity



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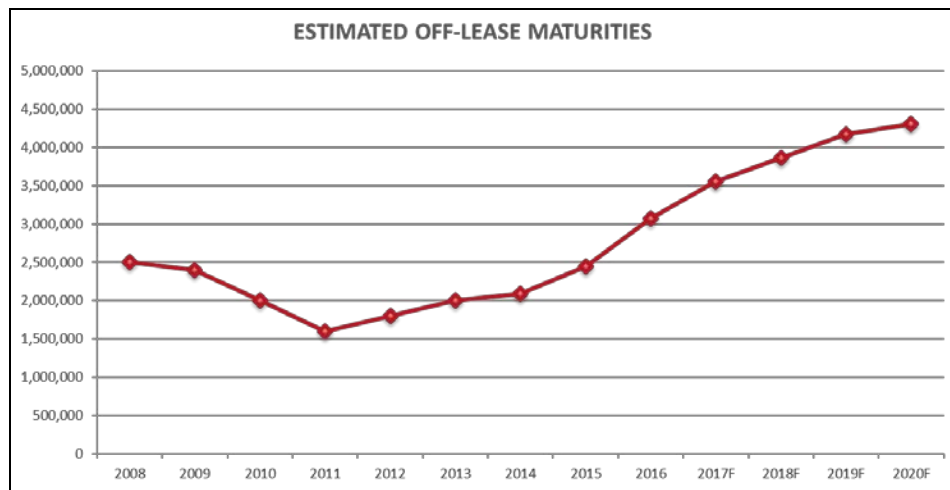
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## Learning Objectives

Upon completion of this workshop, you will be able to:

- 1) Identify economic indicators that will impact the automotive business in 2018
- 2) Examine the risks and the opportunities presented by a record influx of off-lease vehicles
- 3) Use economic data to make short- and long-term tactical and strategic operational decisions
- 4) Optimize a CPO program designed to take full advantage of increasing off-lease vehicle supply

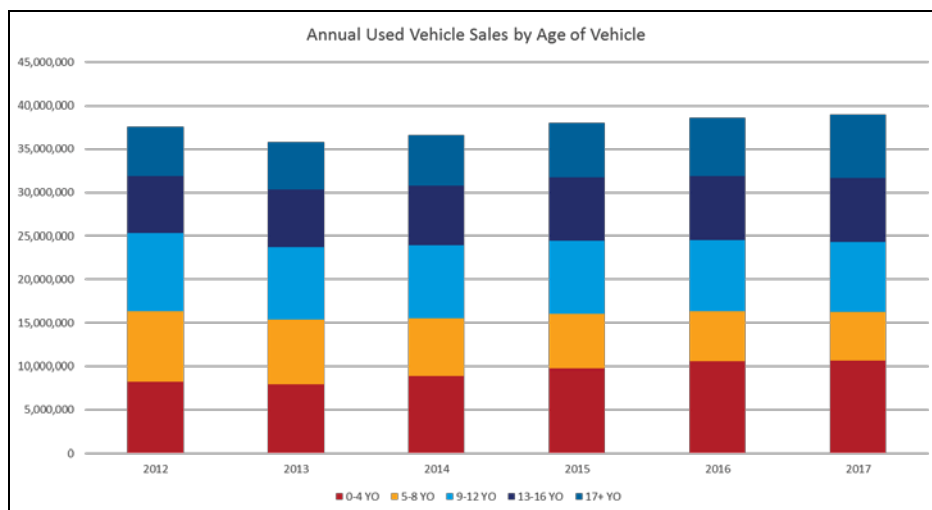
## The Challenge: The Off-lease “Tsunami” Was Feared for Overwhelming Supply



- Analysts predicted a surge in supply of off-leased vehicles and plunging used car values in 2017
- This was reinforced by estimates of growth in off lease maturities from 1.6 million in 2011 to 4.3 million by 2020
- **But in the right context, supply can create demand – and that’s what we’ve seen**

*Source: Cox Automotive estimates*

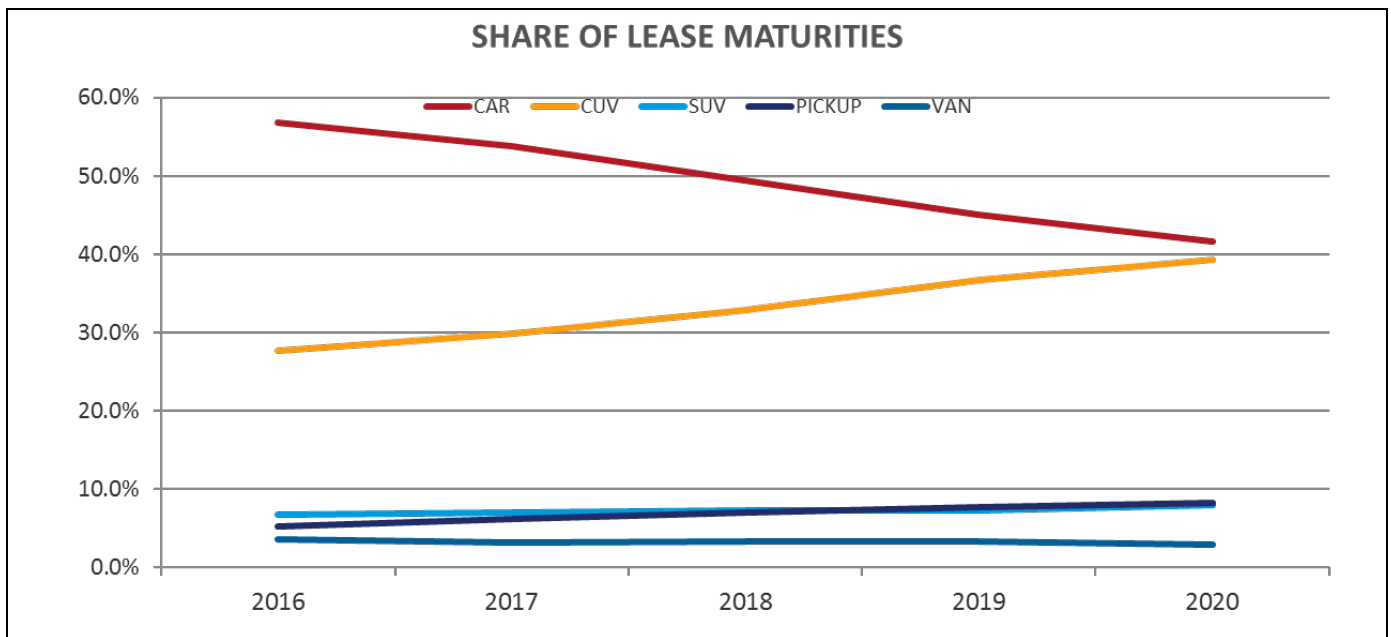
## Demand Grew to Match the Supply



- 2017 should be remembered as the year of the used car
- New vehicle sales declined 2% while used vehicle sales grew 1%, with most of that growth from sales of vehicles less than four years old
- The off-lease vehicles predicted to lead to destruction actually led to growth and success in 2017

*Source: Source: IHS Markit Polk Registrations, Cox Automotive estimates*

## Three More Years of Growth with Improving Mix



### Key Factors:

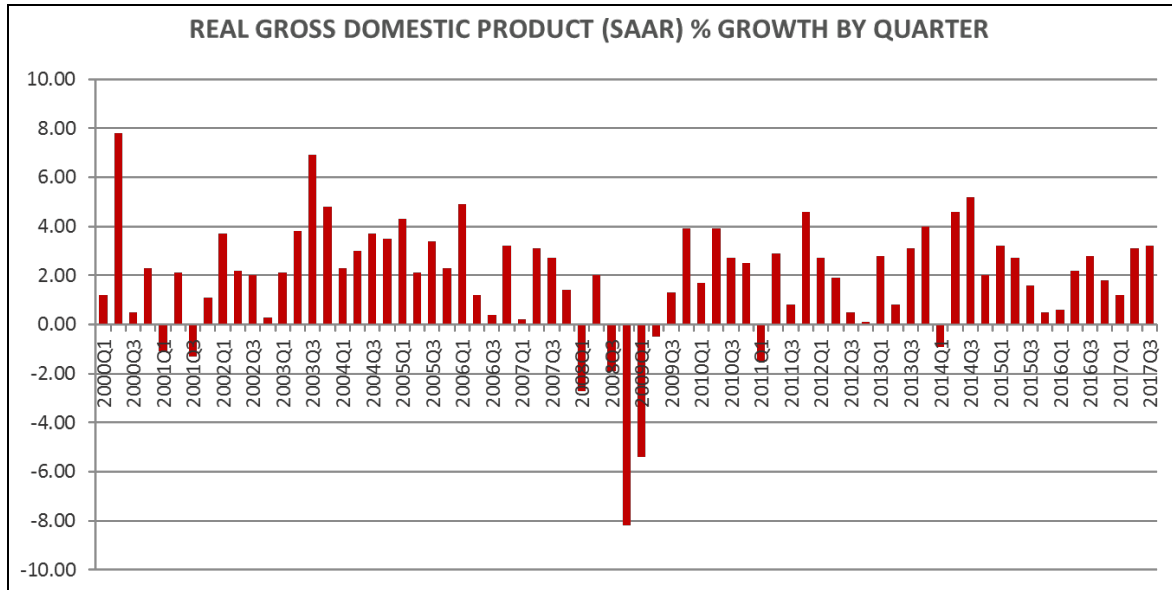
- Continued growth in off-lease supply
- Improving mix

- While the growth in off-lease supply won't be as large as we've seen the past two years, it will provide ample supply of vehicles less than four years old for several more years
- There also will be improving mix, with fewer cars (especially midsize sedans) and more CUVs, pickups and SUVs
- The vehicles that have grown in popularity in the new vehicle market will drive growth in used vehicle sales for the next several years

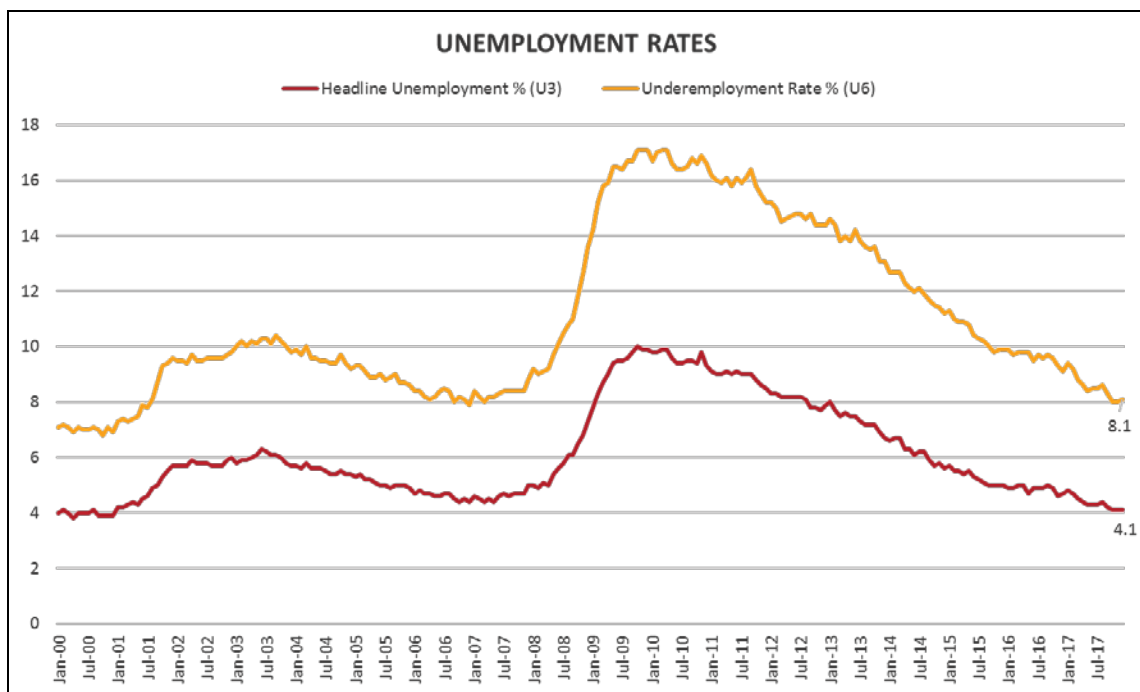
Source: Cox Automotive estimates

## Economic Backdrop

- Economic growth is accelerating
- Unemployment continues to fall

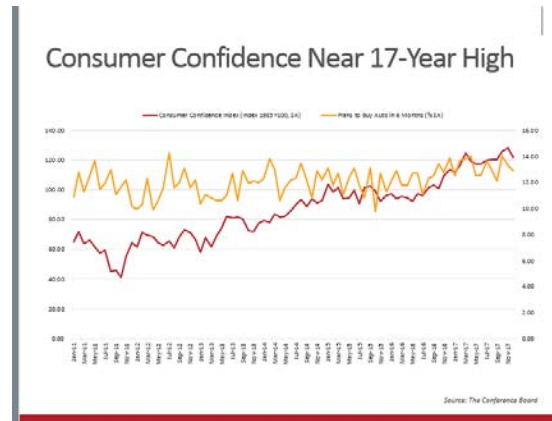


Source: United States Bureau of Economic Analysis



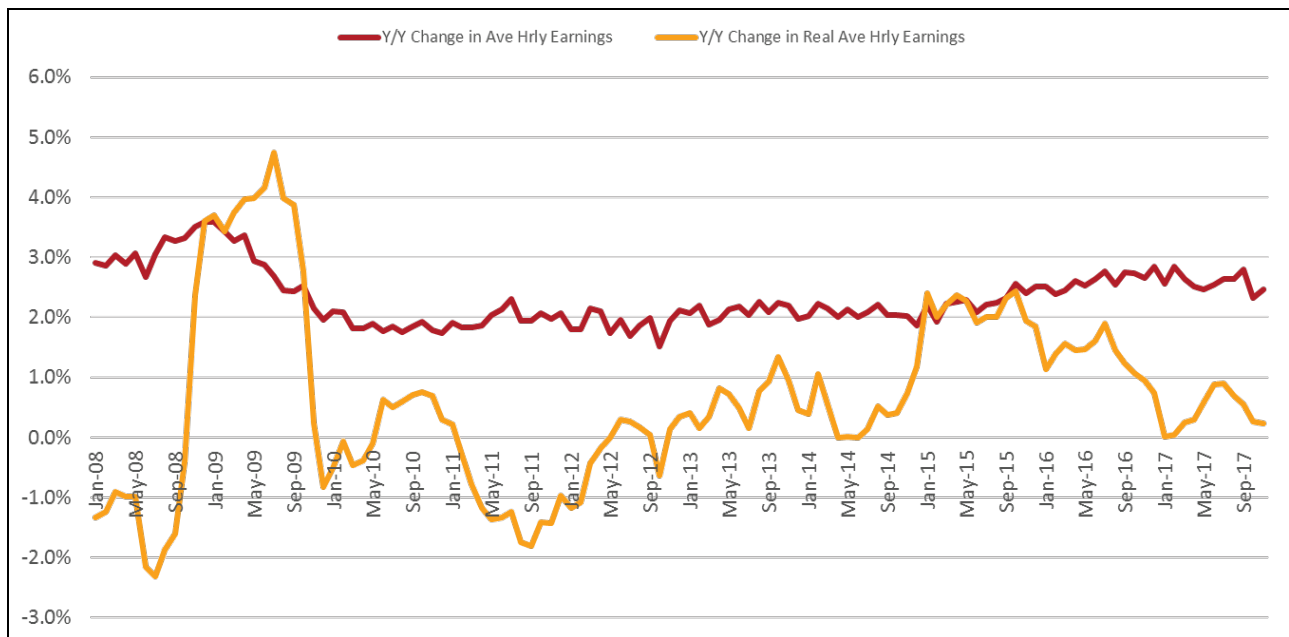
Source: United States Bureau of Labor Statistics

- Consumer confidence is at a 17-year high
- Earnings are consistently beating inflation
- Interest rates have been very favorable

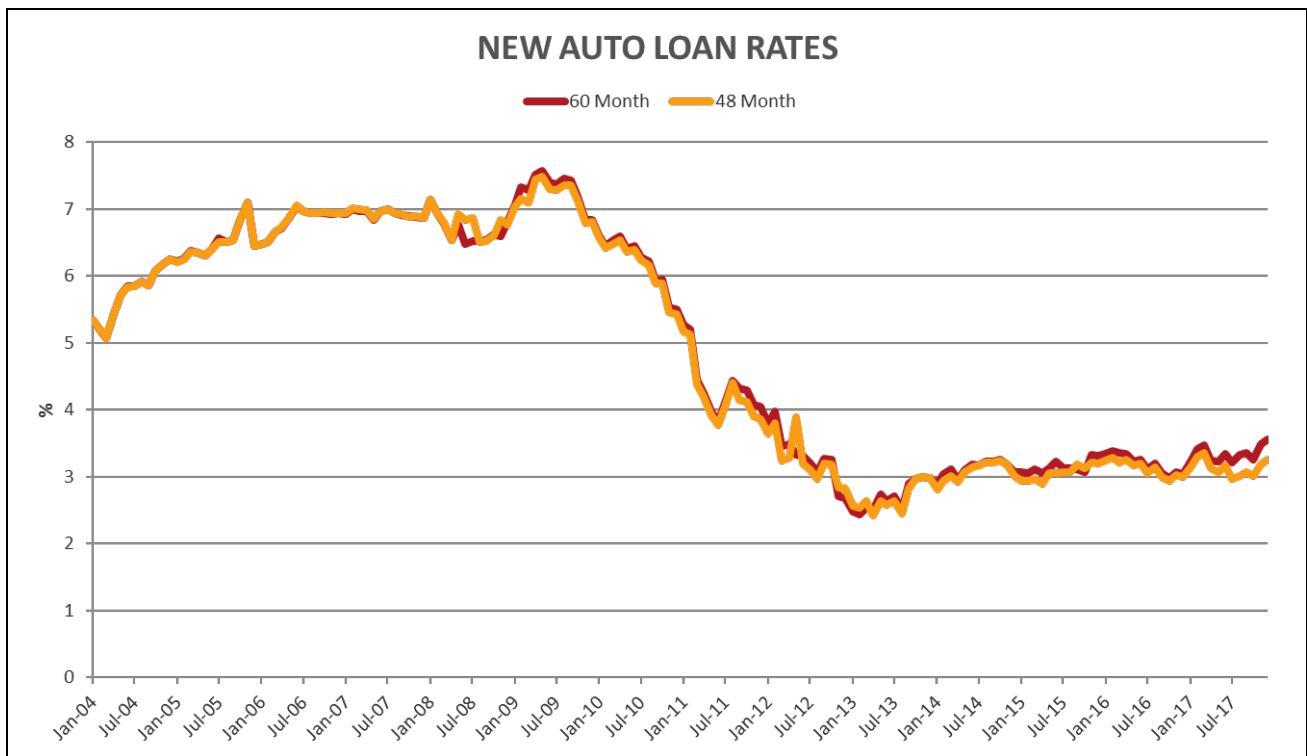


Source: The Conference Board

## EARNINGS CONSISTENTLY BEATING INFLATION

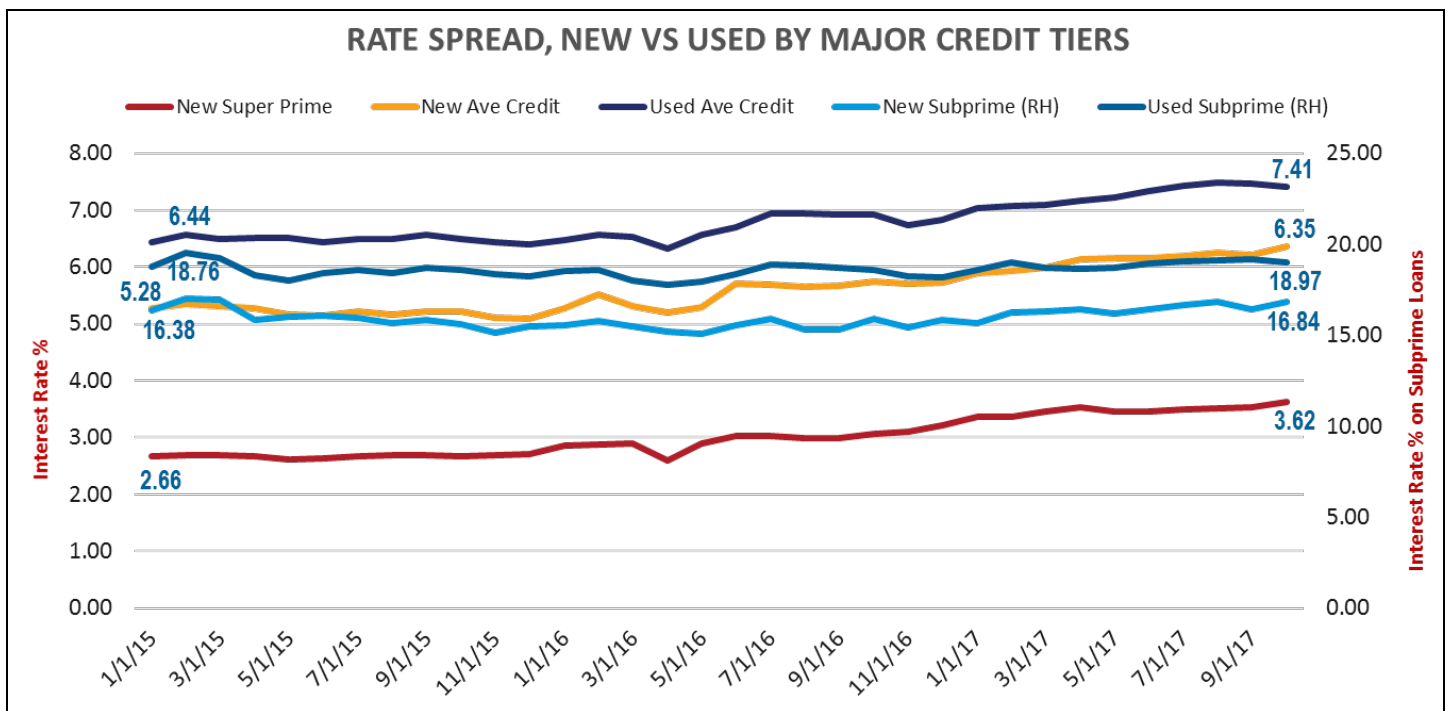


Source: United States Bureau of Labor Statistics



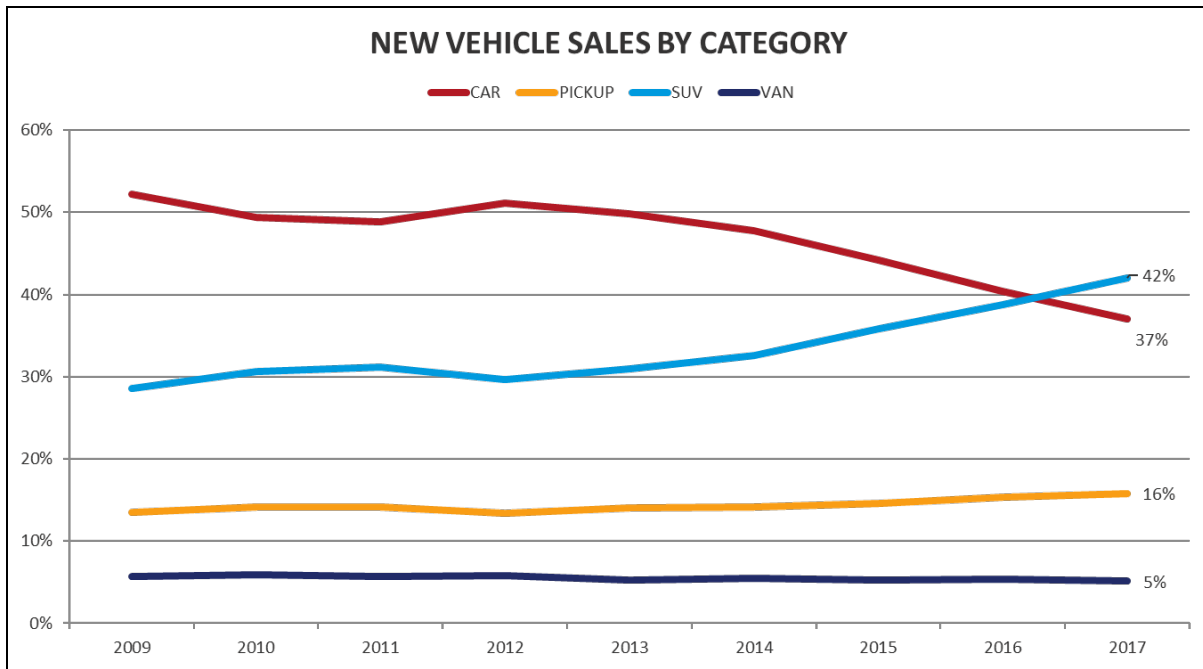
Source: Source: Bankrate.com Auto Loan Rates via Bloomberg

## But... Rates Vary



Source: Dealertrack Credit Applications, Cox Automotive calculations

## Consumer Preferences in New Vehicles Are Shifting



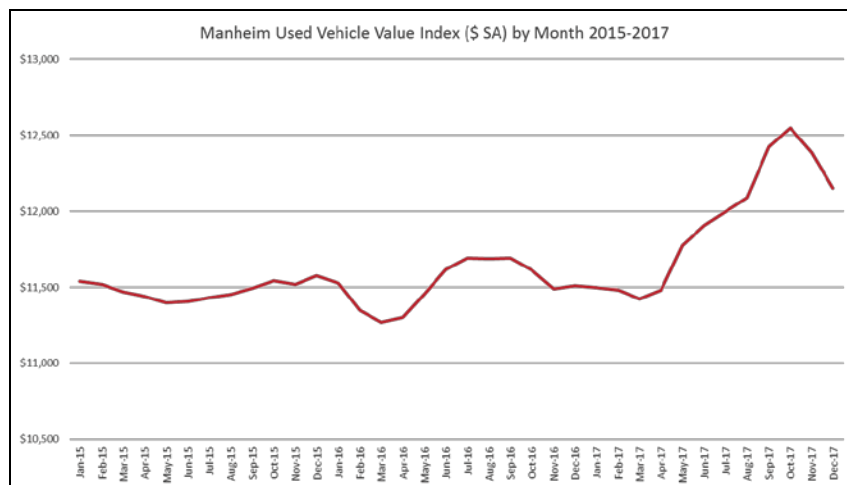
Source: Source: Autodata new vehicle sales by segment, Cox Automotive

**Key New Vehicle Sales Changes:**

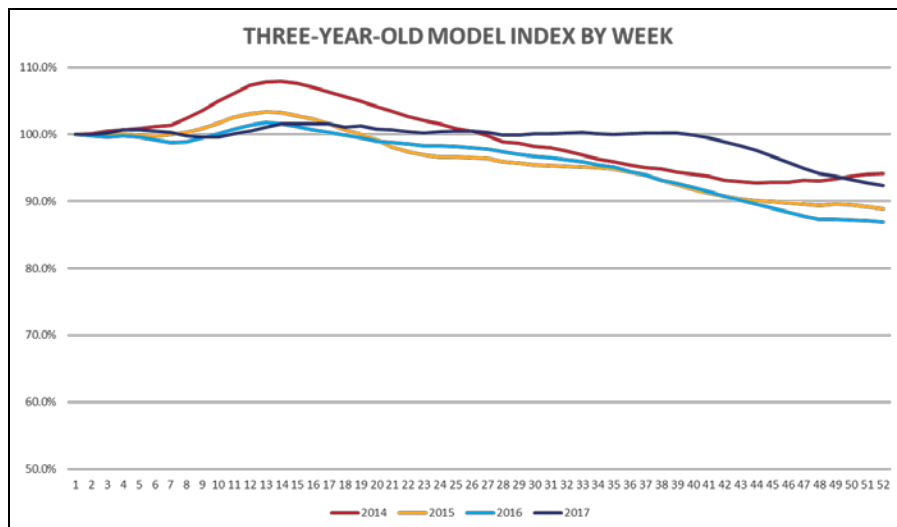
- SUV sales increased to 42% of vehicles sold
- Car sales declined to 37% of vehicles sold

### Additional Economic Trends in 2017

- Used prices had distinct cycles in 2016-2017
- Abnormal depreciation pattern in 2017



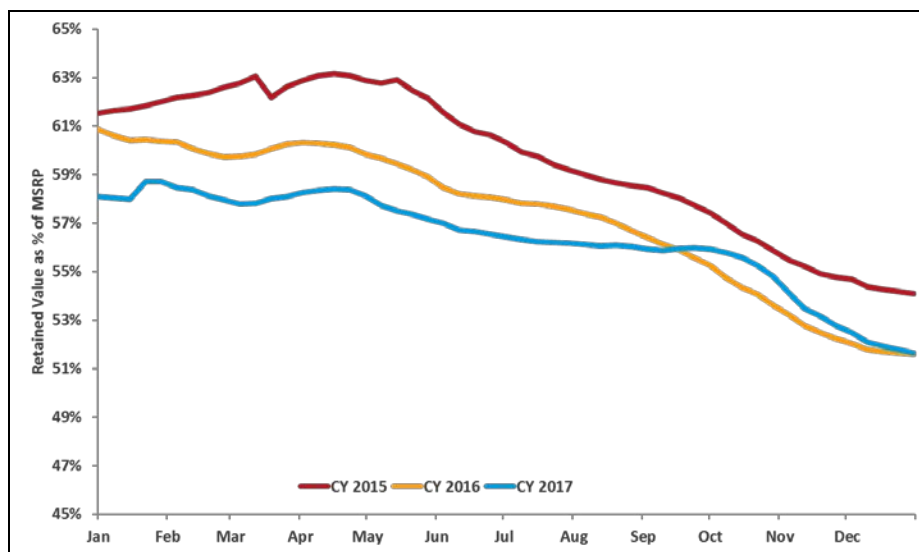
Source: Manheim Used Vehicle Value Index, Cox Automotive



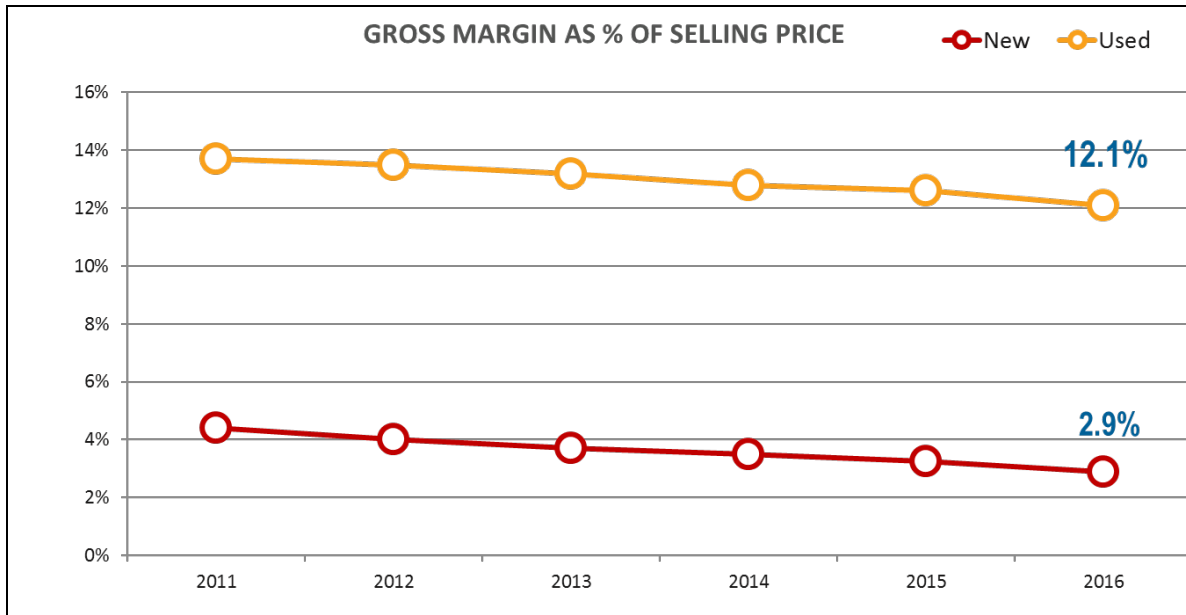
Source: Manheim, Cox Automotive

- Retention values also saw a shift in trend
- Margins continue to decline

## RETENTION VALUES (1 TO 3 YEAR OLD MODELS)



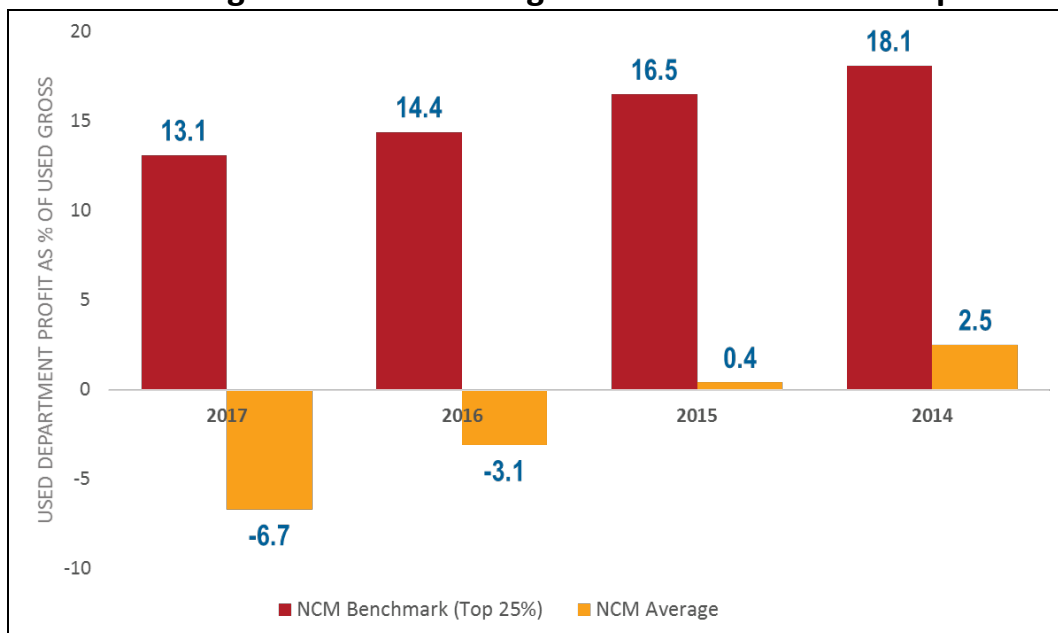
Source: Kelley Blue Book, Cox Automotive



Source: NADA

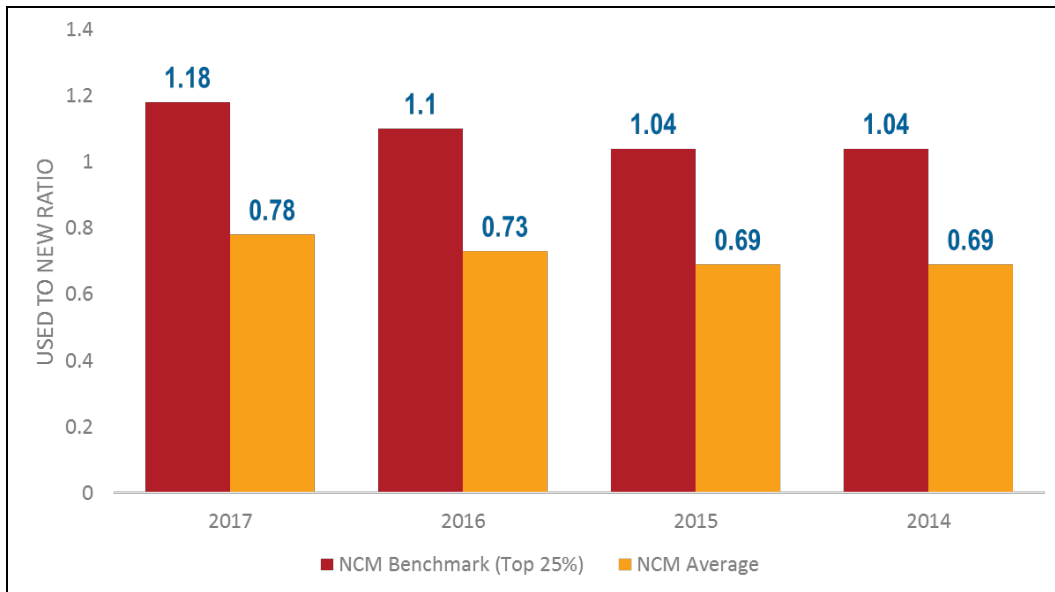
## Top Dealers Are Focusing More On – And Selling More – Used Vehicles

### Best Performing Dealers See Strong Profits from the Used Department



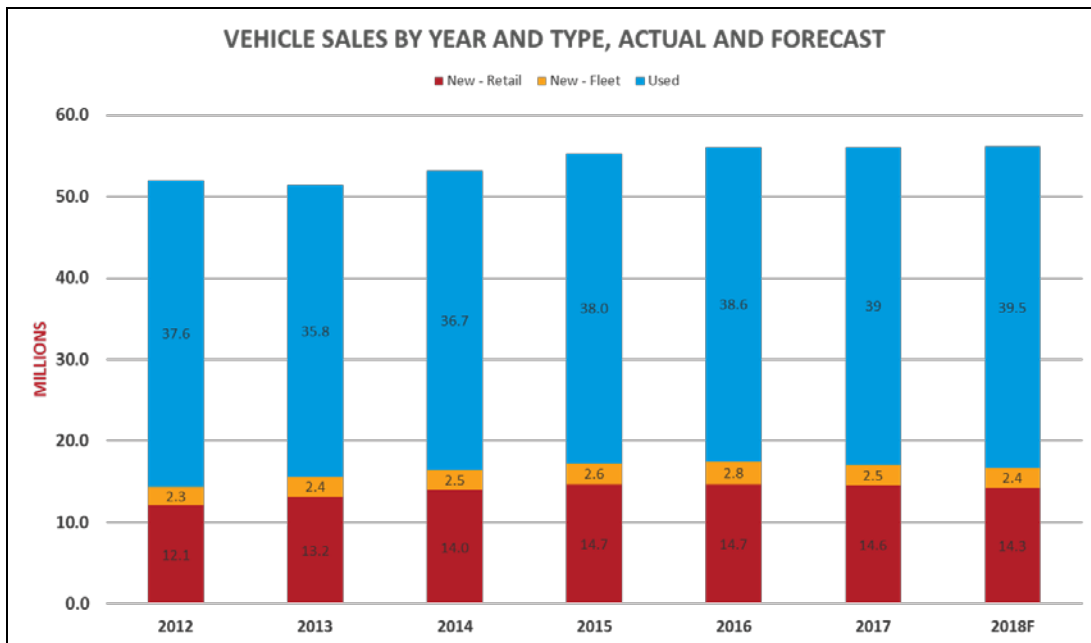
Source: NCM Associates Benchmarks, All NCM Dealers, 2017 = YTD November

## Best Performing Dealers Sell More Used Vehicles Relative to New



Source: NCM Associates Benchmarks, All NCM Dealers, 2017 = YTD November

## The Forecast Sees Growth in Used, Not New



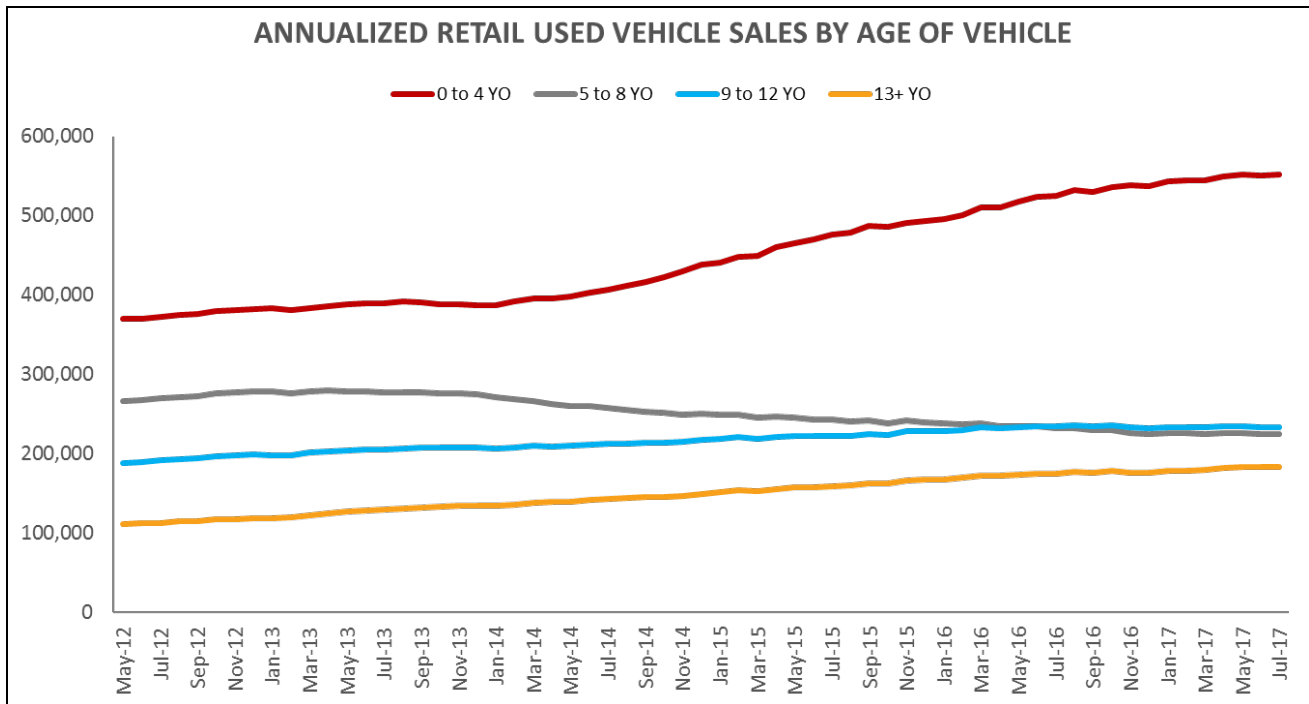
Source: BEA New Vehicle Sales, Bobit Fleet Sales, and IHS Markit Registrations (history); Cox Automotive forecast

Used Vehicle Sales Forecast for 2018:

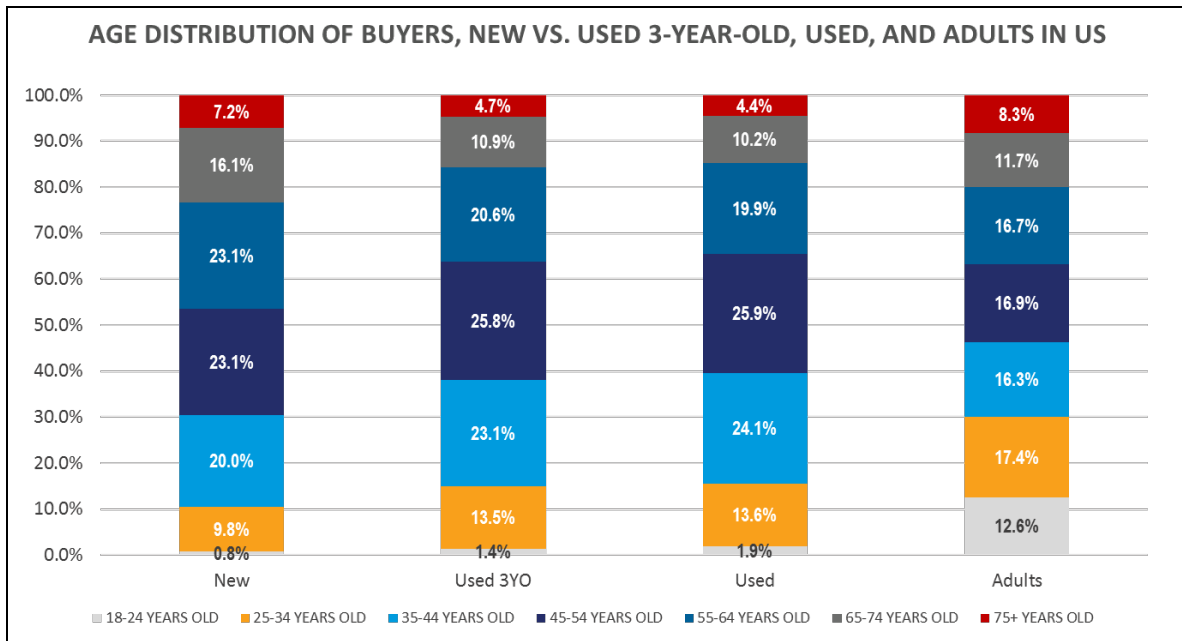
\$39.5 million

### Used Vehicle Sales Trends

- Vehicles less than four years old are the source of growth
- Buyers of used vehicles trend younger

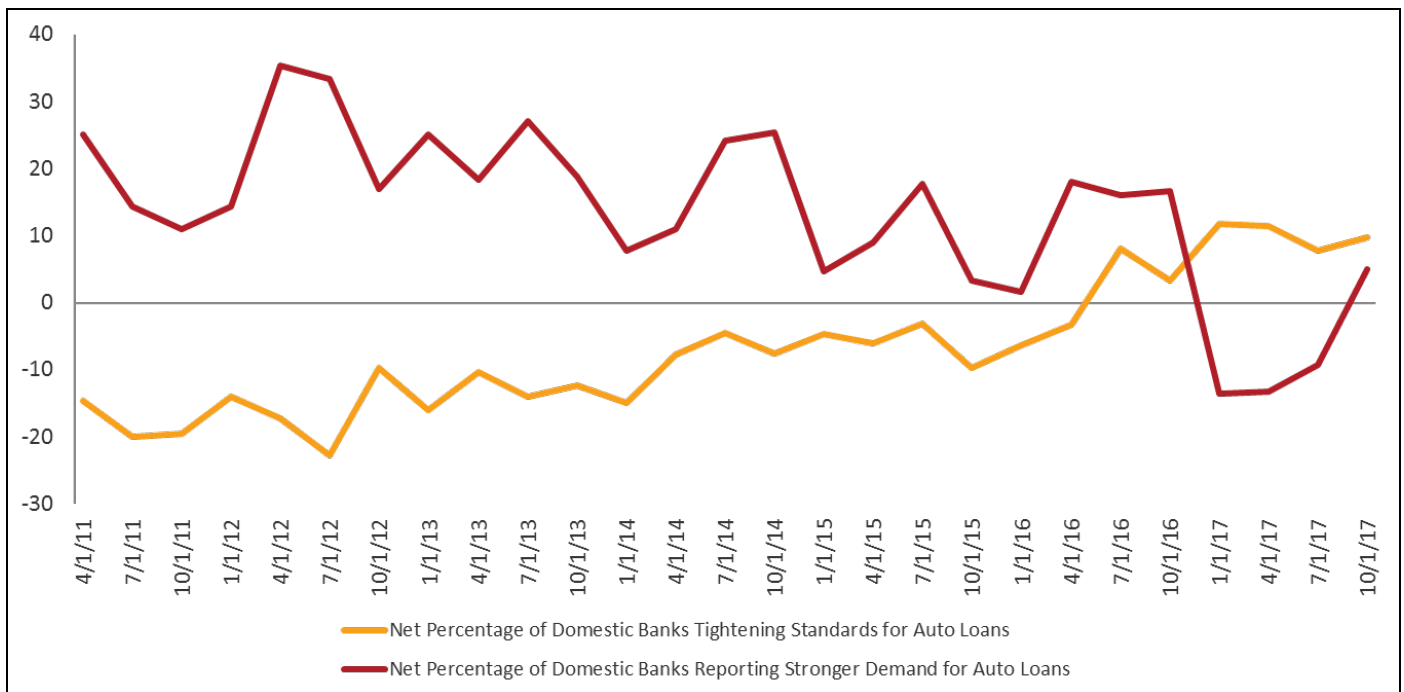


Source: IHS Markit Polk Registrations, Cox Automotive analysis



Source: IHS Markit Polk Registrations, Cox Automotive calculations, Claritas Pop-Demographics 2017

## **Credit Continues to Tighten**



Source: Federal Reserve Bank Sr. Loan Officer Survey

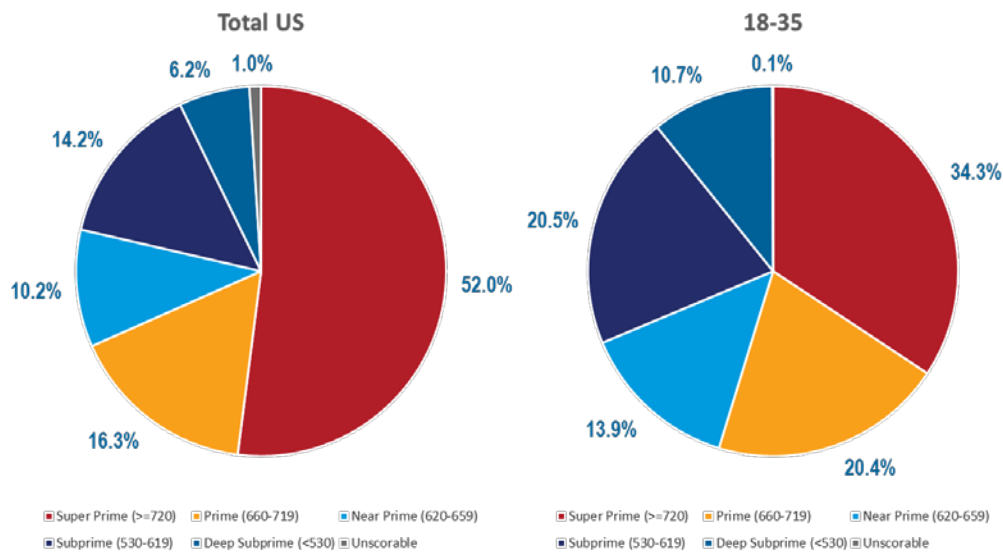
## So what can the consumer control if...

Prices are rising...  
And rates are rising...  
And credit is tightening?

## The consumer is left with...

The amount of the loan, or  
the vehicle price and down  
payment

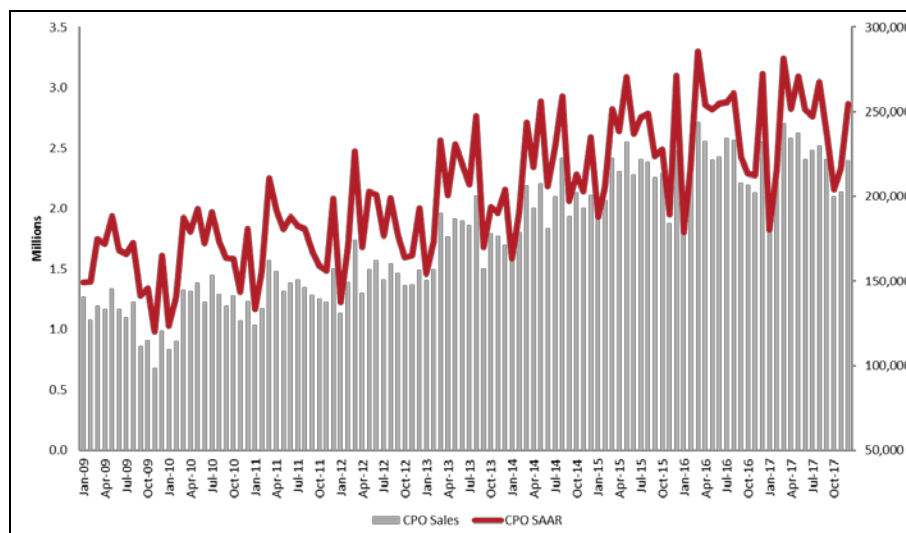
### Credit and Age are Related



Source: Equifax Vantage Score Distribution of Active Credit Consumers, December 2017

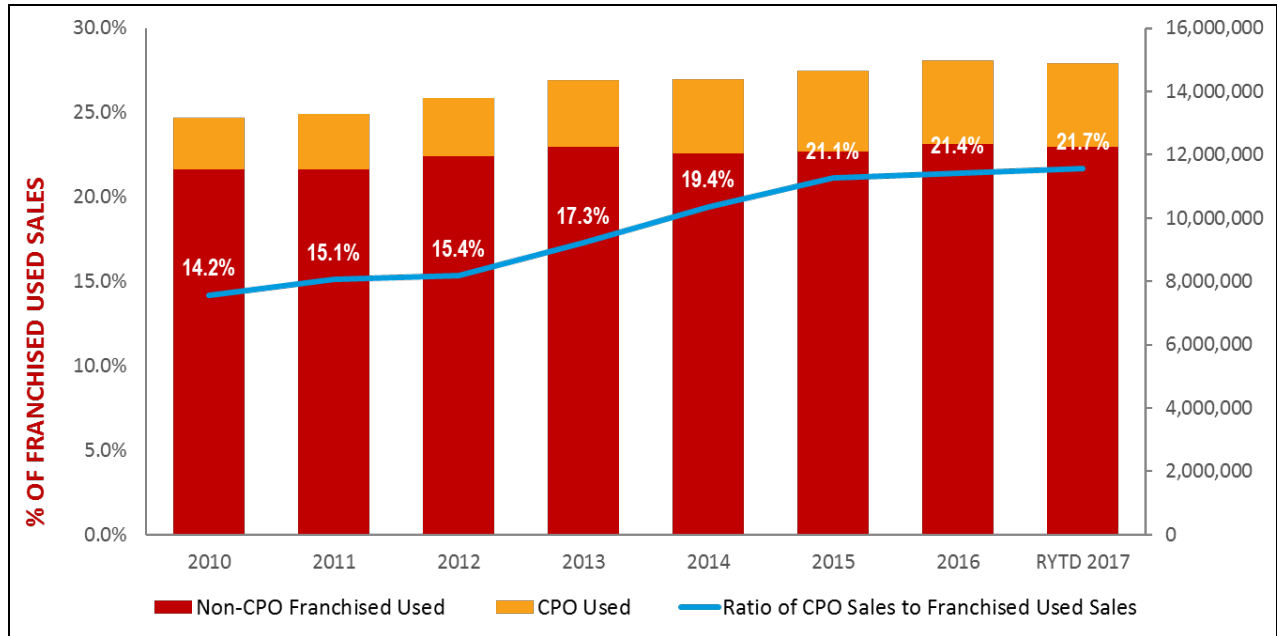
### CPO Sales

#### MONTHLY CPO SALES AND SAAR



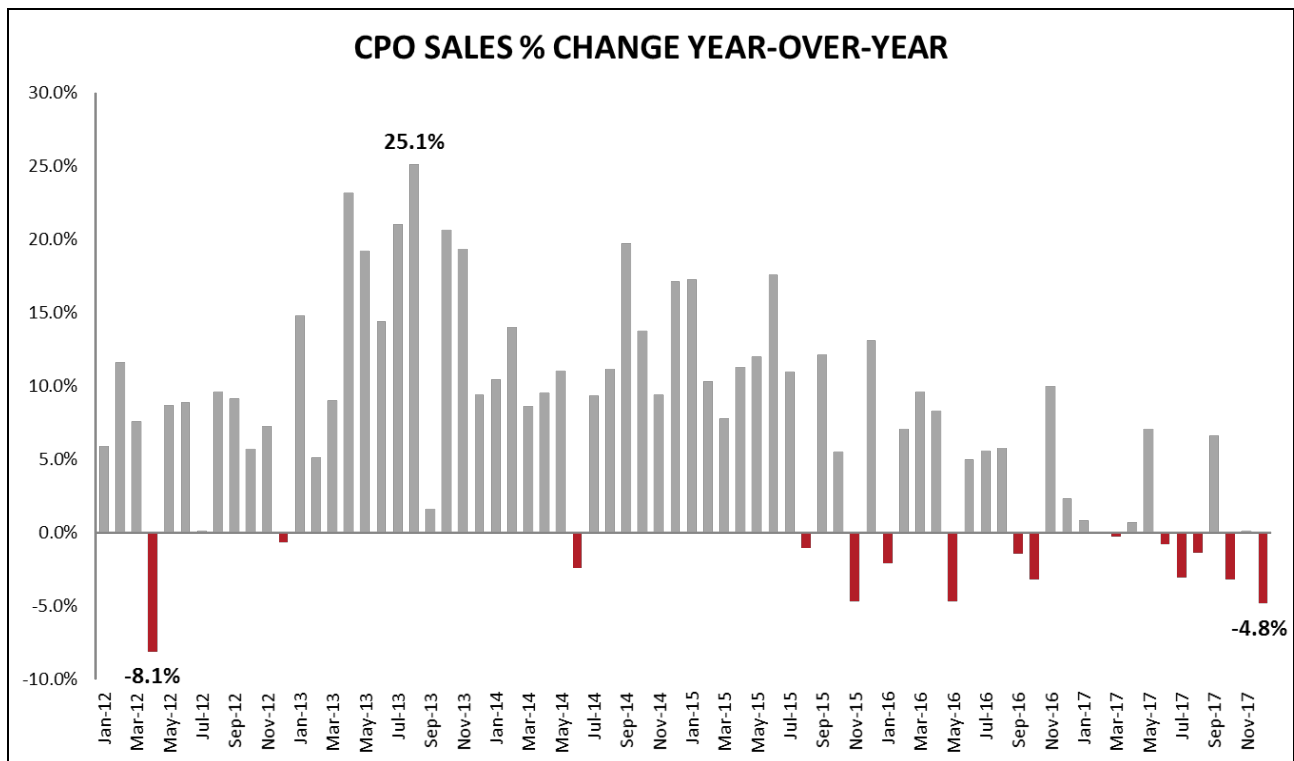
Source: Autodata (CPO sales), BEA (SAAR factors), Cox Automotive calculations

### GROWING SHARE OF CPO SALES



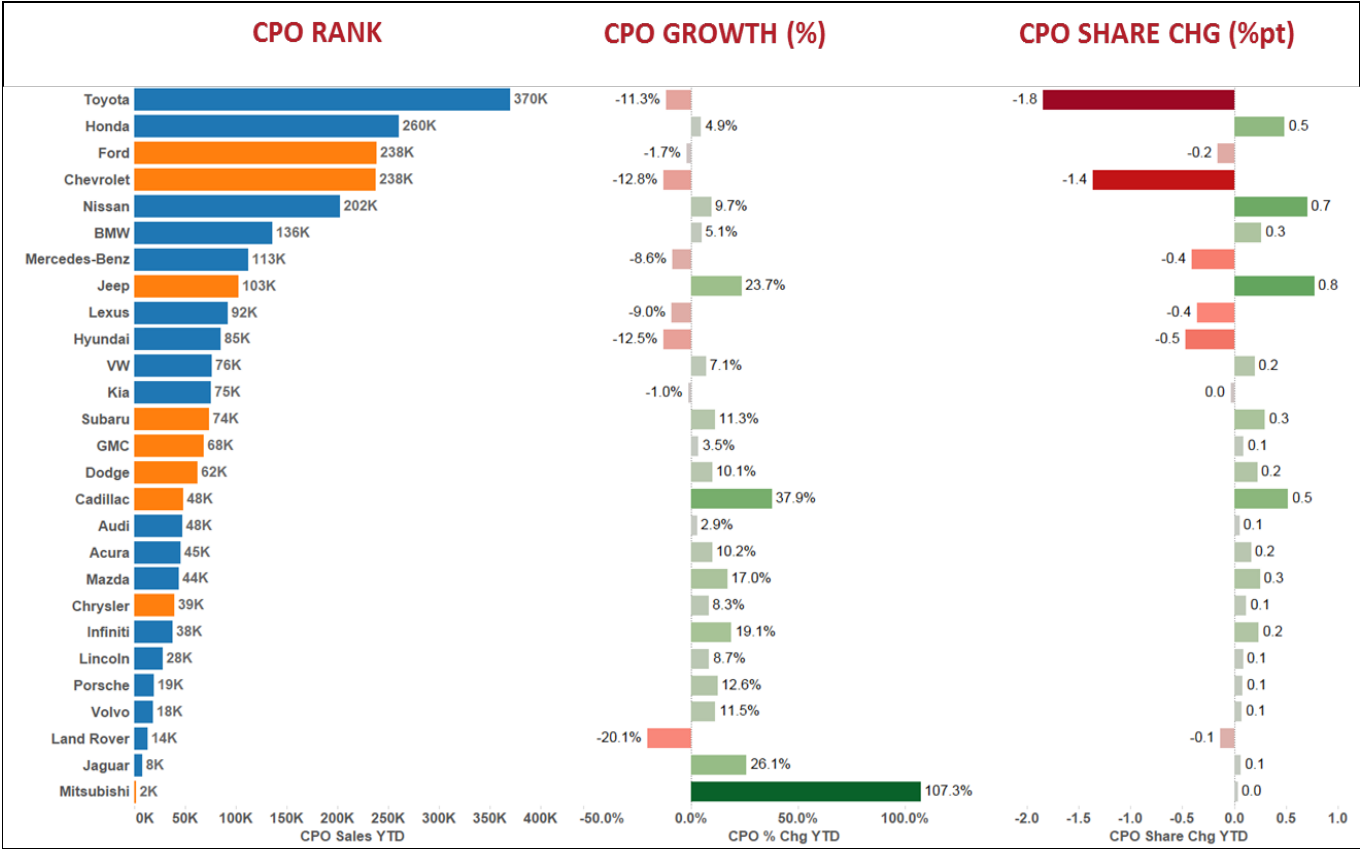
Source: NADA (YTD November Franchise Used Sales), Autodata (CPO Sales), Cox Automotive

### GROWTH IN CPO SALES FLATTENING OUT



Source: Autodata

**Declining Shares in Non-Luxury Brands**



Source: Autodata (CPO sales), Cox Automotive calculations

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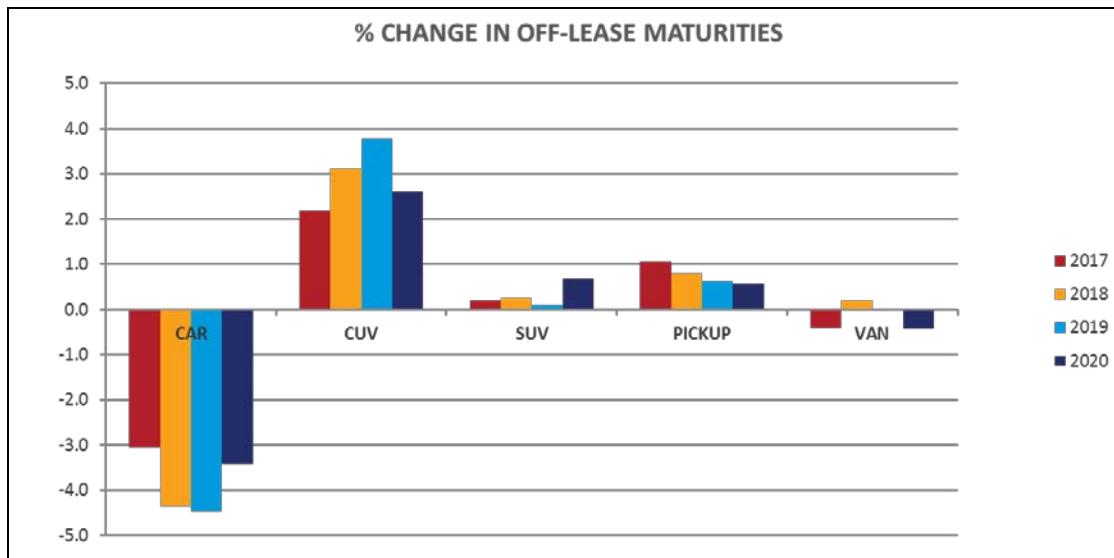
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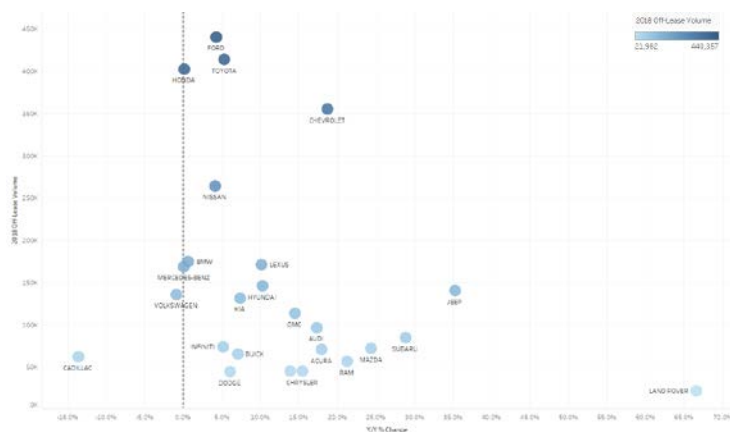
## Off-lease Mix

### OFF-LEASE MIX MOVES AWAY FROM CARS

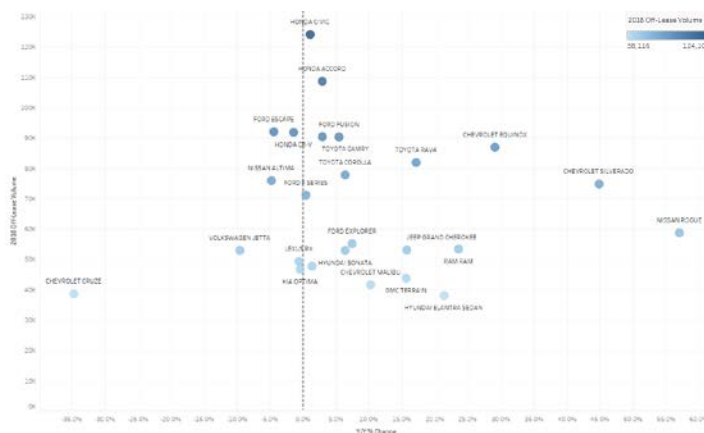


Source: Cox Automotive

**Top Growth Makes:**  
Land Rover  
Jeep  
Subaru



**Top Growth Models:**  
Nissan Rogue  
Chevy Silverado  
Chevy Equinox  
RAM RAM



Source: Cox Automotive